

# Building on our strengths...

Ceylon Investment PLC

ANNUAL REPORT 2011-12

# Ceylon Investment PLC

Ceylon Investment PLC is a listed investment company and a subsidiary of the largest listed investment company on the Colombo Stock Exchange, Ceylon Guardian Investment Trust PLC. The Company is part of the Carson Cumberbatch Group's Investment Sector and positioned as an equity vehicle to drive the group's investment business. The portfolio is managed by Guardian Fund Management Limited.

## Contents

Financial & Operational Highlights .....	1
Chairman's Statement.....	2
Managers' Review.....	4
Risk Management.....	14
Profiles of the Directors .....	20
Management Team Profiles.....	22
Annual Report of the Board of Directors on the affairs of the Company.....	24
Audit Committee Report.....	32
Financial Calendar.....	34
Independent Auditors' Report.....	35
Income Statement.....	36
Balance Sheet .....	37
Statement of Changes in Equity.....	38
Cash Flow Statement .....	39
Notes to the Financial Statements .....	40
Five Year Summary .....	60
Financial Summary.....	63
Income Statement - US\$.....	64
Balance Sheet - US\$.....	65
Five Year Summary - US\$.....	66
Information to Shareholders and Investors .....	67
Notice of Meeting .....	69
Form of Proxy .....	71

# Financial & Operational Highlights

(Amount expressed in Sri Lankan Rupees thousands)

<i>For the year ended/As at 31st March</i>	2012	2011 (Restated)	% Change
Revenue	<b>796,048</b>	623,388	28
Profit from operations	<b>443,416</b>	702,608	(37)
Share of associate company's profit net of taxation	<b>576,191</b>	645,203	(11)
Profit before taxation	<b>1,016,621</b>	1,341,057	(24)
Profit for the year	<b>1,010,492</b>	1,340,623	(25)
Shareholders' funds	<b>7,089,606</b>	7,668,116	(8)
Return on ordinary shareholders' funds (%)	<b>14.25</b>	17.48	(18)
Earnings per share (Rs.)	<b>10.26</b>	13.61	(25)
Dividend per share (Rs.)*	<b>1.25</b>	1.00	25
Net assets per share - book value (Rs.)	<b>71.96</b>	77.84	(8)
Net assets per share - market value (Rs.)	<b>138.51</b>	180.61	(23)
Ceylon Investments PLC - Fund value**	<b>13,643,849</b>	17,797,997	(23)
<b>Stock market data</b>			
All Share Price Index (ASPI)	<b>5,420</b>	7,226	(25)
Milanka Price Index (MPI)	<b>4,892</b>	6,875	(29)
Market capitalization	<b>7,713,715</b>	14,875,746	(48)
Share price (Rs.)			
Year end	<b>78.30</b>	151.00	(48)
High	<b>172.50</b>	660.00	(74)
Low	<b>78.00</b>	82.00	(5)

\* Based on proposed dividends and subject to approval at the Annual General meeting.

\*\* Based on market value of portfolio after adjusting for cash and cash equivalents.

# Chairman's Statement

I welcome you to the 66th Annual General Meeting of the Company and on behalf of the Board of Directors, take pleasure in presenting the Annual Report and Audited Accounts of the Company for the year ended 31st March 2012.

The year under review has been a challenging one given the vagaries of the stock market, both on the domestic and international front. The Colombo Stock Exchange has reflected this with negative returns being recorded for the year under review, against a backdrop of economic re-adjustment after two years of growth in post war Sri Lanka. Despite the realignment of economic variables (namely depreciation of the currency and a rise in interest rates) which led to some uncertainty on the macro front, steps taken to curb imports and moderate the rate of credit growth will help in stabilizing conditions in the months ahead. We at Ceylon Investment still remain confident of the long term potential of Sri Lanka and the sustainability of the economic development plans set in place after an end to a thirty year civil war.

We believe the long term development potential of Sri Lanka will flow through to its equity markets, which is likely to grow in stature since market capitalization to GDP is still a mere 33% when compared with more mature markets where it can exceed 100%. We believe that as long as strong country fundamentals play the pivotal role in economic resurgence, periodic turmoil in equity markets are not a cause for concern.

Against this backdrop, the Company too had a challenging year although risks were mitigated in handling the impacts of a volatile equity market. The company recorded a profit after tax of Rs. 1.0 bn. Our performance is attributed to booking profits on selected overvalued stocks when the market was at a high level, thus securing substantial capital gains. Our portfolio value declined to Rs. 13.6 bn, down from Rs. 17.8 bn a year earlier; recording a decline of 23.3% vis-à-vis a decline of 25.0% of the benchmark All Share Price Index and a decline of 28.8% of the Milanka Index during the period. In the medium term, five year compounded average portfolio growth was 28% on market value basis and 23% on market capitalization basis, vis-à-vis an All Share Price Index growth of 14.2%.

The experience of being in this business paid off with an acceptable performance being upheld in a market downturn, by switching to a more balanced portfolio where cash generated from sales were held back from re-investment, given the uncertainty in equity markets.

Keeping the anticipated developments in capital markets as the backbone of our strategy, the Guardian Group of which this company is a subsidiary, undertook several new initiatives aimed at widening its business model into managing investment products and portfolios aimed at all levels of investors, with preferences for different asset classes. We have initiated an action plan of segmenting the portfolios in terms of risk appetite into listed and private equity, thus sub grouping the investment companies to better represent these multiple asset classes. Your company, Ceylon Investment PLC would concentrate on listed equity investing, going forward. The total portfolio will be segmented into long term and trading to take cognizance of time horizons.

We are not clouded by the negative sentiment felt in the equity market after a superlative run experienced after the war, with the ASPI recording 125% growth in 2009, 96% in 2010 and settling to negative 8% in 2011, which still averages to a reasonable compound annual growth rate of 49% p.a over 3 years. We believe that Sri Lanka is only just beginning to see the benefits of post war economic growth trickling into the economy. The Government's priority in developing the country's infrastructure by way of airports, ports and highways is likely to lay the foundation for growth in the long term. In the short term the Government is looking to attract foreign direct investments to draw much needed capital for development. All these steps will lead us to our desired level of economic prosperity, although the reality remains that the path to progress will be filled with obstacles. The challenges to Sri Lanka's international standing will have to be a factor that needs to be carefully managed in the next few months, coupled with predictability in managing economic variables; to attract all important foreign capital & tourism, high quality foreign direct investments and gain access to export markets.

Following the trends in most successful Asian economic growth models, both the public and private sectors will be instrumental in driving the economy, the former playing the

role of infrastructure developer & facilitator, while the latter engages in more entrepreneurial activity. In this context, we must point out that where capital markets are concerned, it is most important for the large state owned enterprises which account for significant economic activity, also to be listed to enable the capital markets to better reflect the country's economic profile. This has the obvious benefit of deepening the capital markets and thus attracting foreign investments. A recent survey published in the Economist Magazine revealed that 80% and 62% of China's and Russia's market capitalization respectively are represented by national and state controlled companies.

During the year under review, the Company portfolios continued to be managed by Guardian Fund Management Limited (GFM), the fund management company within the Guardian Group. GFM is registered with the Securities and Exchange Commission of Sri Lanka as an Investment Manager while Ceylon Investments PLC and Ceylon Guardian Investment Trust PLC are registered as underwriters. GFM over the years has built an experienced team with a strong skill base, backed by a second level of management being developed to take over the new lines of businesses being mooted.

Despite the challenging year we have gone through, the Board is pleased to propose a first and final dividend of Rs.1.25 per share, an improvement over last year's Rs.1.00 per share; thus maintaining our policy of a regular payout.

In conclusion, I would like to thank the shareholders for the confidence and trust placed in the management over the years and the regulators for having supported our efforts to grow the business. I would also like to thank the members of our staff for their untiring contribution, the Audit Committee and the Remuneration Committee for their guidance and my colleagues on the Board for their input. We believe all our stakeholders will remain with us and grow, as we forge ahead on our chosen path.

(Sgd)

**Israel Paulraj**

*Chairman*

Colombo

24th May 2012

# Managers' Review

## Financial Review and Shareholder Returns

Ceylon Investment PLC reported a consolidated profit after tax of Rs.1,010.5 mn for the year ended 31st March 2012, on a consolidated revenue of Rs 796 mn. The consolidated profit after tax recorded a decline of 24.6%, whilst revenue increased by 27.7%.

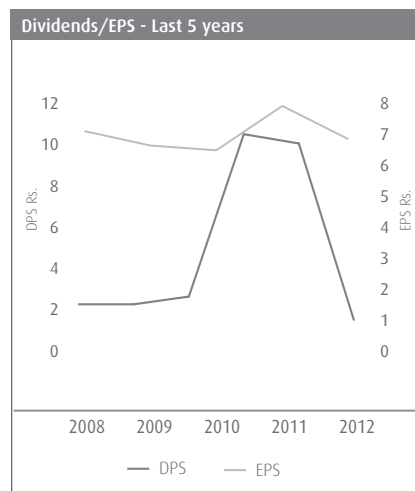
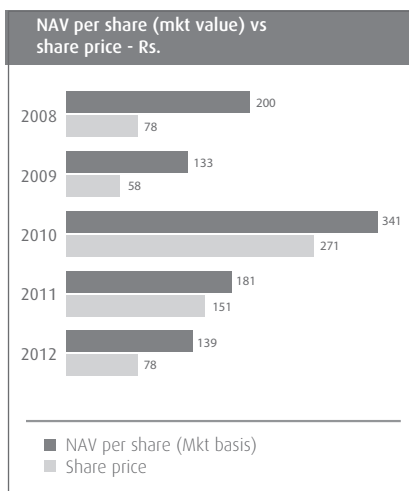
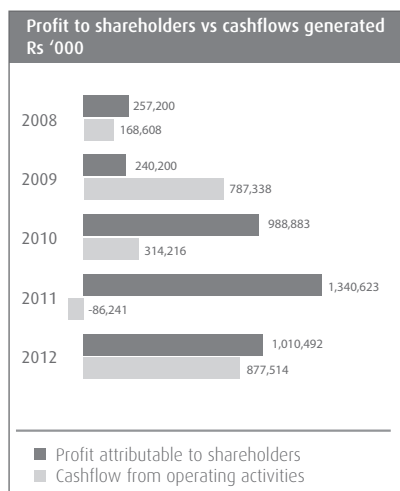
The investment related operations generated an after tax profit of Rs. 434 mn, accounting for 43% of group profit after tax, whilst the associate company Rubber Investment Trust Ltd accounted for the balance generating Rs. 576.2 mn. The group revenue is fully attributable to the investment operations.

Investment related profits declined by 37% during the financial year, primarily due to a provision of Rs 323 mn on account of certain portfolio holdings market value declining below the holding cost. These could get reversed with a recovery in the market. Revenue increase was driven by all three income sources, namely disposal profits, dividends and interest income increasing. A portion of the proceeds realized on sale were used to settle outstanding overdraft facilities resulting in a decrease in the interest cost. Share of associate company profits attributable to Rubber Investment Trust decreased from Rs.645 mn to Rs.576 mn during the year.

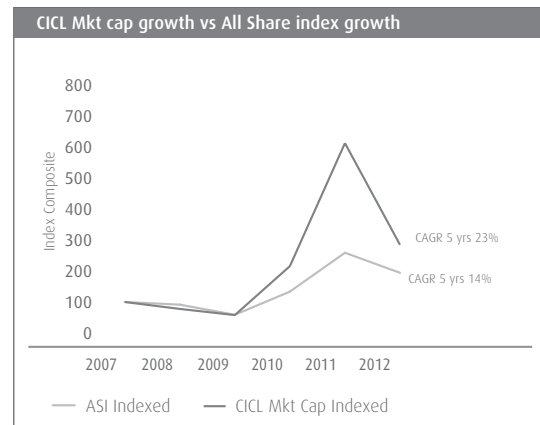
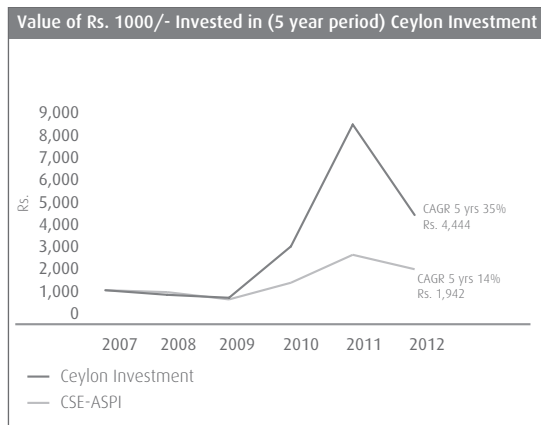
The company's EPS decreased to Rs.10.26 from Rs.13.61, a decline of 25%. The value per share of the company amounts to Rs.138.51 on a market price based net asset valuation. With the adoption of market value accounting for all portfolios the net worth of the balance sheet is now stated at market value. Thus the market price of the share should tend to move along with the net asset value, and it is presently trading at a discount of 43% to the intrinsic value on 31st March 2012.

The Company's portfolio was valued at Rs.13.6 bn as at 31st March 2012 down 23% from Rs.17.8 bn as at 31st March 2011.

The Company proposes a final dividend of Rs. 1.25 per share, an improvement on the dividend of Rs.1.00 paid in FY 2010/11. The Company has been maintaining a regular dividend payout in keeping with market movements. The dividend yield of the Company has increased to 1.6%, owing to the share price coming down. Shareholder wealth loss during the year was 47% due to share price depreciation but including the proposed dividend of Rs. 1.25 per share.



Shareholder Returns		31-3-2007	31-3-2008	31-3-2009	31-3-2010	31-3-2011	31-3-2012
ASPI		2,790	2,550	1,638	3,725	7,226	5,420
ASPI gain		23%	-8.6%	-35.8%	127.4%	14.2%	-25.0%
ASPI 5 year CAGR							14.2%
Start of the year	- Quantity	1,000	1,000	1,000	1,000	801	4,085
	- Market price per share	81.25	100.50	78.00	58.00	271.00	151.00
	- Wealth	81,250	100,500	78,000	58,000	217,071	616,835
Dividends	- %	15%	18%	70%	67%	10%	12.50%
	- Dividend per share	1.50	1.75	7.00	6.70	1.00	1.25
	- Value	1,500	1,750	7,000	42,978	801	5,106
End of the year	- Quantity	1,000	1,000	1,000	801	4,085	4,085
	- Market price per share	100.50	78.00	58.00	271.00	151.00	78.30
	- Wealth	102,000	79,750	65,000	260,049	617,636	324,962
Annual Shareholder wealth gain		25.5%	-20.6%	-16.7%	348.4%	184.5%	-47.3%
Shareholder wealth gain 5 year CAGR							34.8%



## Managers' Review

### Investment Performance and Strategy

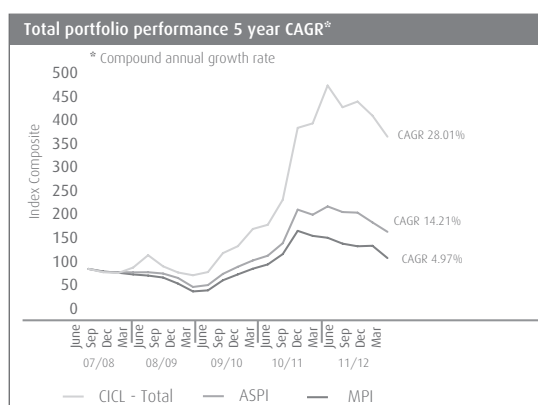
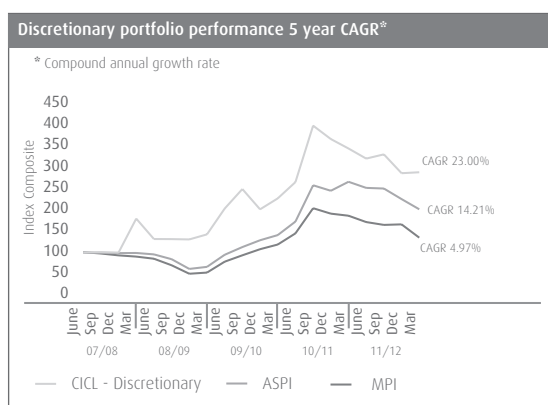
The total net asset value of the Ceylon Investment portfolio stood at Rs.13.6 billion as at the year end from Rs.17.8 billion as at 31st March 2011, a depreciation of 24% against the benchmark All Share Index depreciation of 24.99% and Milanka depreciation of 28.85% for the same period. Our portfolio is segmented into long-term, trading, private equity and strategic investments and from time to time allocations are shifted to optimize portfolio performance. A major component of the portfolio is its stake in Rubber Investment Trust Limited (unquoted) which accounts for 76% of the portfolio, which amounts to the non-discretionary component. The balance 24% of the portfolio is termed as the discretionary portfolio.

Our strategy of investing is driven by a fundamental bottom up approach where macro level analysis is done to determine the attractiveness of the environment for equity investments, followed by an industry analysis and then assessing the strength of the investee company's business model. Thereafter Company level valuations will determine the intrinsic value to ascertain whether the stock is fairly priced. Our investment framework is driven by research and our acquisitions and divestments decisions are based on a view of both short and long term value. We rebalance our existing portfolio regularly and transform from underperforming to performing sectors and stocks, maintaining our risk –return stance. The current sector exposure of the fund is illustrated in our charts

Our portfolio is overweight on the diversified sector which has indirect exposure to tourism, banking & finance sector and the food & beverage sector, all of which have potential to grow in multiples with country growth. Our indirect exposure to the construction boom in the country comes from the manufacturing sector. The palm oil sector continued to be a top exposure due to our strategic holding and will benefit from global commodity demand and the enhanced business model of the Carsons palm oil sector which now has a diverse exposure to both the upstream and downstream segments of the industry.

The style of managing funds has been maintained despite the under-performance in the short term, as we believe that market anomalies will smoothen in the long end. When selecting stocks the Company follows a bottom up approach taking into account financials, industry presence and management expertise. Such companies were built into the long term portfolio taking a medium term view of the companies' earnings and business growth. On the short end, the trading portfolio built positions to enhance shareholder returns in the short term and bought faster moving stocks substantiated with fundamentals.

During the year ended 31st March 2012, we made Rs. 1023.5 mn of new investments and Rs. 1,785.4 bn of divestments. Hence the Company has been a net seller in the market whereby a cash position of Rs. 589.7 bn was built highlighting in our view, a correct reading of the market since over-heating warranted a negative stance on adding equities in the short end.





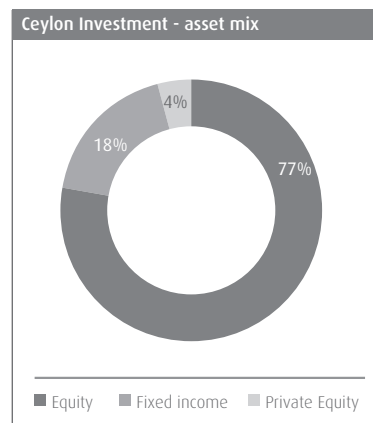
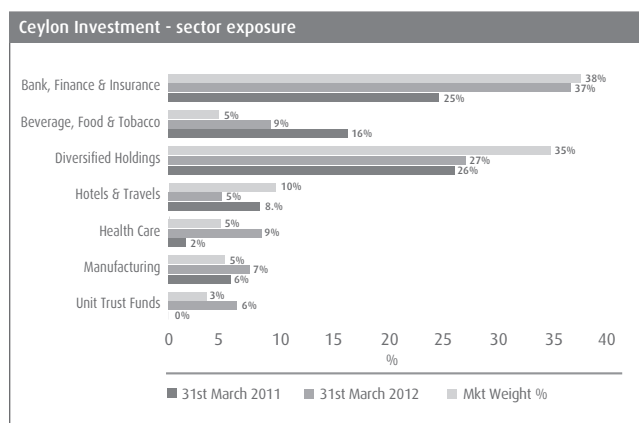
## THE MANAGERS – GUARDIAN FUND MANAGEMENT LIMITED

The funds are managed by Guardian Fund Management Ltd (GFM) which is registered with the Securities and Exchange Commission of Sri Lanka. At present, GFM manages the largest listed equity fund in Sri Lanka and has built up its competencies in the field of portfolio management, research and support services. It has an effective compliance process, and a code of ethics & standards of professional conduct for employees. Hence, the structure has been set in place as a top end fund management operation recognized in Sri Lanka as an expert outfit among the local participants in this business. Further GFM expanded its operations and extended its client management business further this year, growing the value of its outsourced portfolio to Rs1.4 bn managing a diverse set of clients ranging from pension funds and insurance funds to private companies. It also lent its expertise to its joint venture in the unit trust industry, partnering with some of the best known and trusted financial institutions in Sri Lanka, namely Acuity Partners (Private) Limited and its two parent companies, the Hatton National Bank and DFCC Bank, to manage retail funds.

The management company is also now actively pursuing fixed income investments which add value to the client and mutual fund segments of the business. Research capabilities in macro economic analysis and forecasting is being added on to support the Fixed Income side of the business.

### Top 5 Holdings - excluding related companies

Company Name	Mkt Value Rs.mn	% stake held
1 Commercial Bank of Ceylon PLC	666	0.9%
2 John Keells Holdings PLC	664	0.4%
3 Tokyo Cement (non voting) PLC	164	6.0%
4 Sampath Bank PLC	150	0.5%
5 Nestle Lanka PLC	132	0.3%



## Managers' Review

### **OUR INVESTMENT PHILOSOPHY**

The investment process adopted by us in driving the investments we do is based on the following guiding principles

#### **Investing for growth**

We invest into high growth industries and companies that are competitively placed to exploit that growth

#### **Investing for innovation and competitiveness**

We seek out entrepreneurially managed companies with sustainable, competitive & extendable business models

#### **Investing in financial strength**

We look for financially strong companies with healthy cashflows, that are re-invested for growth

#### **Investing to effectively manage risk**

We believe in diversifying our portfolio exposure and avoid investments that are subject to high risk and volatility.

#### **Investing for consistent above market returns**

We like companies that create value for all stakeholders and take significant positions in such companies to create above average returns

#### **Investing for shareholder value**

We believe in giving long term returns to our shareholders by re-investing for growth as well as maintaining a consistent distribution

## Economy and the Equity Market

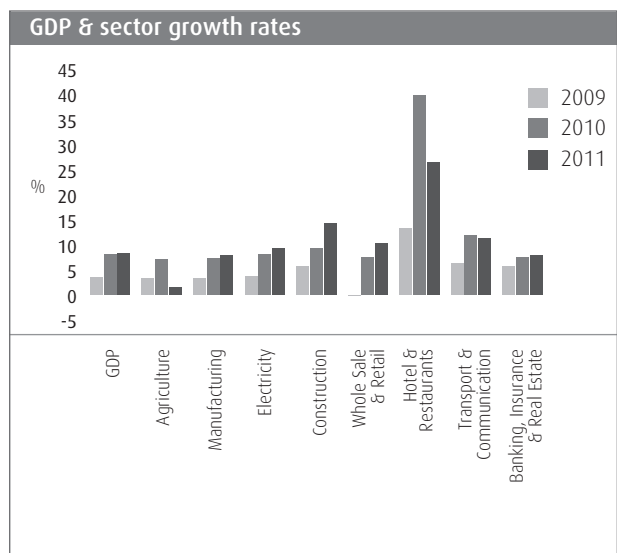
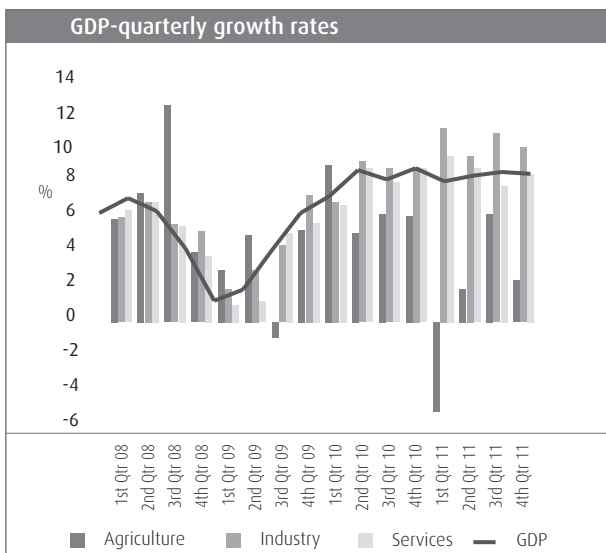
### Economy in perspective

The Sri Lankan economy maintained its growth momentum in 2011 recording a real growth of 8.3%, against an 8% GDP growth in 2010. Gross Domestic Product (GDP) at current market prices crossed the Rs. 6,500 bn mark. The country's GDP per capita at market prices improved to US\$ 2,836 in 2011 from US\$ 2,400 in 2010, on its way to achieving the Central Bank forecast of US\$ 4,000 per capita GDP in 2014. It has been driven by the industry and services sectors. Contribution to the growth has come from tourism, banking, construction, food & beverage and transportation sub sectors which have recorded above average GDP growth. However forecast GDP for 2012 has been revised down to 7.2% from 8.0% by the Central Bank, due to the impacts of the rupee devaluation, curb in credit growth and higher interest rates, coupled with increased energy costs. Contrary to the positive domestic scenario, the global economy experienced several shocks with the European Union debt crisis, the US economy forecast to head for a double dip and most developed economies having to take hard measures to deal with fiscal deficits. In the light of the above, international fund managers were seen seeking safe haven investment options and selling down on global equities across the board.

Sri Lanka posted a balance of trade deficit during January to December 2011 of US\$ 9,710 mn, with both exports and

imports expanding, although imports overall grew faster, fuelled by increased consumption and investment. Earnings from tourism, worker remittances and inflows to the capital and financial account failed to bridge the current account deficit, resulting in the overall balance of payments recording a deficit as at end December 2011 of US\$ 1,061 mn. Worker remittances amounted to US\$ 5,145 mn, a growth of 25%. Total external reserves which included gross official reserves and foreign assets of commercial banks stood at US\$ 8.1 bn as at end Oct 2011 amounting to 5.1 months of imports. However by end December this figure reduced to US\$ 7.2bn, Foreign direct investments during the year to date was US\$ 1,066 mn. The growing trade deficit exerted a pressure on the currency, which eventually was allowed to float in February 2012 resulting in the rupee depreciating to approximately Rs. 127 and above for the dollar, a depreciation of 10.6% (Jan-Mar 2012)

Broad money (M2) recorded a yoy growth of 20.1% in January, with credit obtained by both private sector and the public sector contributing to this growth. Year on year growth of credit obtained by the private sector was high at 34.5% in January 2012. The high level of credit growth went mostly towards consumer related imports, and as such led to tighter liquidity levels in the market resulting in interest rates getting pushed up. The Central Bank has directed commercial banks to cap lending this year at 18% yoy growth to avoid a liquidity



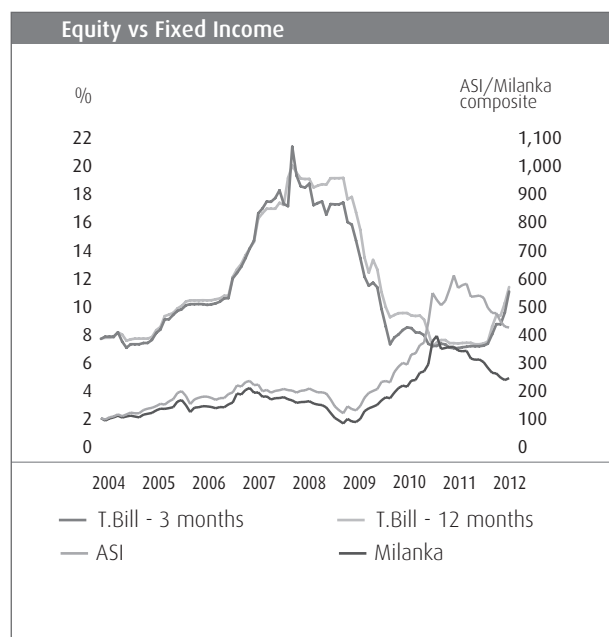
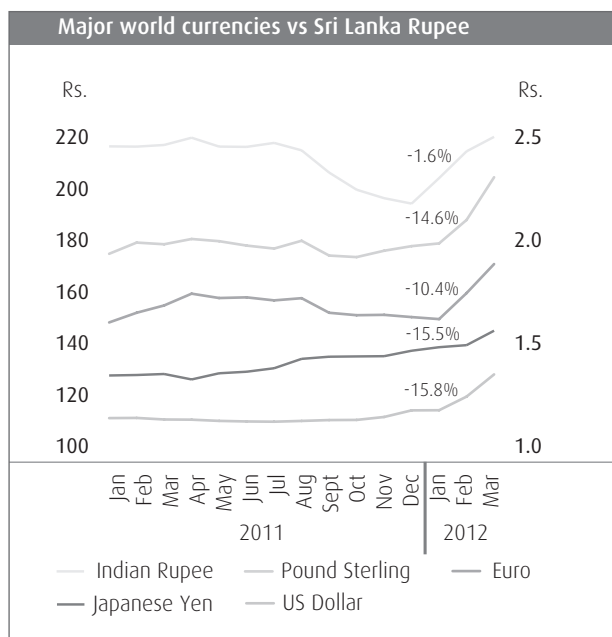
## Managers' Review

crunch and high interest rates. Banks can lend upto 23% yoy growth, if the extra 5% of funds is raised from overseas.

The Central Bank increased policy rates several times, whereby the repurchase rate is currently at 7.75% and the reverse repurchase rate at 9.75%. The statutory reserve ratio is at 8%. Interbank call money rates have been volatile, ranging from a low of 7.50% and a high of 9.50% during the period of review. The 3 month T-Bill rate increased 402 basis

points to 11% while the 12 month T-Bill rate increased 402 basis points to 11.32% as at Mar 2012. The government 2-4 year bonds are currently trading around 10.61% - 10.83% and 6 months to 1 year FD rates are in the region of 12%-13%.

Inflation as measured by the point-to-point change in the Colombo Consumers Price Index (CCPI) decreased from a high of 8.9% in April 2011 to 5.5% in March 2012. During the



	Mar 11	Jun 11	Sept 11	Dec 11	Mar 12
Treasury Bill 3M(%)	6.98	7.12	7.15	8.68	11.00
12M (%)	7.30	7.35	7.31	9.31	11.32
Call Money (%)	7.62	8.00	8.05	8.97	9.21
Prime Lending (%)	9.30	9.41	9.13	10.77	12.80

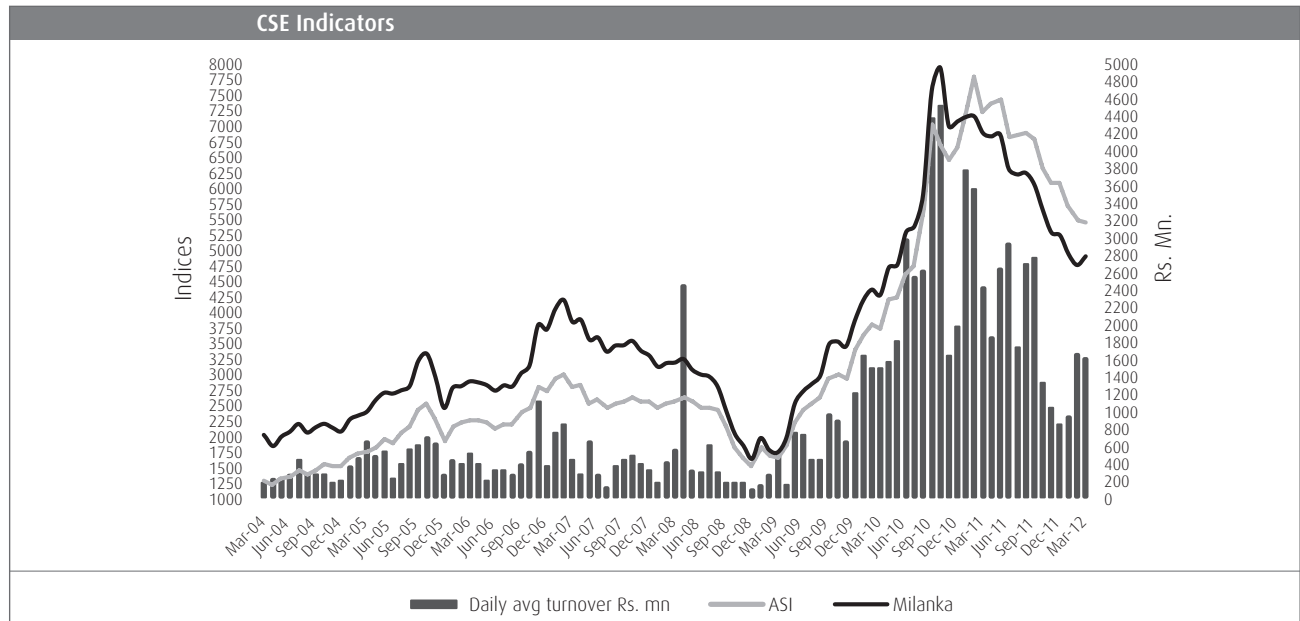
	SLRs.Per unit as at 31/12/10	SLRs.Per unit as at 31/03/11	SLRs.Per unit as at 30/06/11	SLRs.Per unit as at 30/09/11	SLRs.Per unit as at 31/12/11	SLRs.Per unit as at 31/03/12	App.//(Dep) for calendar Yr 2011	App. //(Dep.) for calendar Yr 2012
US \$	111.10	110.36	109.55	110.23	113.90	127.85	-2.52%	-12.25%
STG	173.40	178.34	175.72	171.99	177.60	204.33	-2.42%	-15.05%
Euro	146.86	154.60	158.74	149.37	150.09	170.66	-2.20%	-13.71%
Yen	1.33	1.35	1.36	1.44	1.46	1.56	-9.77%	-6.85%

period of review inflation was contained at single digit levels despite global commodity prices increasing, but domestic supply offsetting the pressure. Inflation year on year change for December 2011 slowed down to 4.9% and in February 2012 further reduced to 2.7% from a peak of 8.9% in April 2011. However, fluctuating world oil prices had a negative impact on inflation, which increased to 5.5.% in March 2012.

The Sri Lankan Rupee closed at LKR 127.85 against the US\$ as at end March 2012 (end March 2011 – LKR 110.46), amounting to a depreciation of 13.7% during the financial year. The depreciation of the currency was due to mounting pressure on the trade balance and the use of reserves to defend the currency. A surprise devaluation of 3% was announced in the budget presented in November, while the rupee peg was removed in Feb 2012, allowing the currency to float, which resulted in further weakening due to market

reactions to the move. The current volatility in economic variables is invariably causing concern among the business community, but it is expected to settle once the controls imposed on imports through tariff increases and the curb on credit, being expected to lead to greater stability in interest rates and exchange rates. Exchange rate stability is largely dependent on how well exports as well as capital flows pick up, post the currency depreciation now taking place, as well as any volatility in oil prices.

“Yes, growth will slow, inflation will rise, cost of living will rise, but the balance of payments should turn around, and diminution of reserves should slow down.” the IMF’s resident representative for Sri Lanka, observed. “Reserves will be safeguarded and there will be more sustainability of the growth we have seen so far”



	31st Mar 11	30th Jun 11	30th Sept 11	31st Dec 11	31st Mar 12	Movement for FY 11/12	Movement for 2011
ASPI	7,226.1	6,825.9	6,783.5	6,074.4	5,420.20	-25.0%	-8.5%
Milanka	6,874.7	6,301.0	6,045.1	5,229.2	4,891.58	-28.8%	-25.9%
Avg.T/O Rs.mn	2,401	2,913	2,763	853	1,578	-34.3%	-56.5%
Mkt Cap Rs. bn	2,425.05	2,351.75	2,435.50	2,213.90	2,012.87	-17.0%	-0.17%
Mkt P/E ratio	25.73	22.79	17.58	15.82	14.39	-44.1%	-37.3%

## Managers' Review

### Equity market in perspective

The momentum of the Colombo Stock Exchange reversed in 2011 with All Share Index depreciating 8.5% for the calendar year. During the year the market reached an all time high of 7811 All Share Index in February 2011, but thereafter the market dropped consistently quarter on quarter. Further weakening was seen in the current calendar year of 2012 where market hit lows of ASPI of 4,962 and MPI of 4,318, a drop of 37% & 45% from the market high. Hence for the financial year 2011/12 market has recorded a ASPI depreciation of 24.99% & MPI depreciation of 28.85% where indices closed at ASPI 5420 and MPI 4891 respectively as at 31st March 2012.

Nevertheless it is pertinent to note that for the last three years, the market has grown at a reasonable compound annual growth rate of 49% p.a, still demonstrating that periods of excessive growth have to also have periods of corrections.

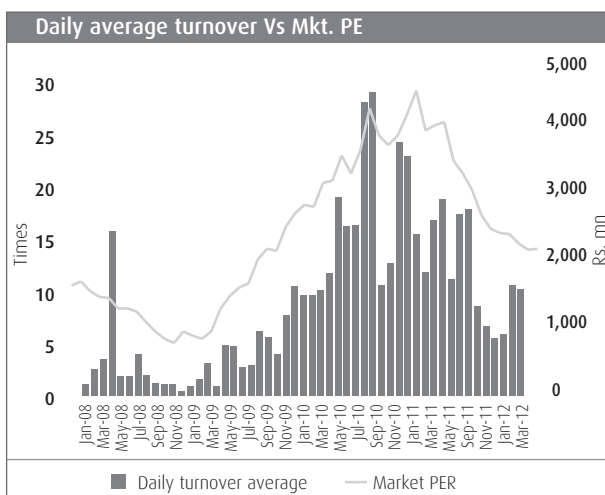
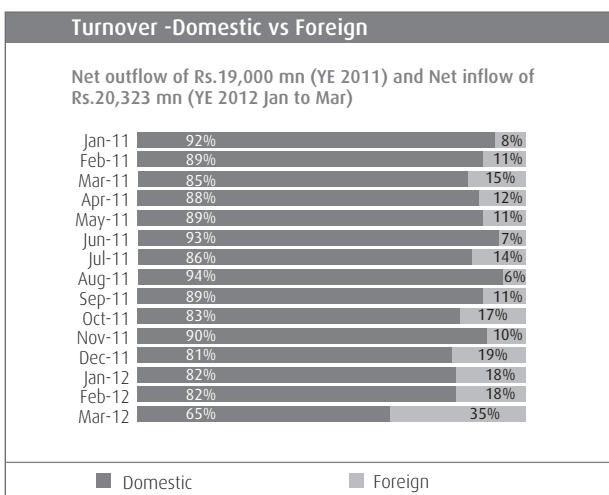
An anomaly continues to exist in the market, with the Milanka index which better represents the blue chips, lagging behind the All Share index attributed to heightened speculative trading in second tier stocks in recent times. This trend seems to be correcting in 2012, with blue chip shares now becoming the movers in the market.

Much of the market activity is observed to be arising from local institutional and retail investors while foreign investor

interest returned to the market in the last quarter of the financial year. A net foreign outflow of Rs 19,021 mn has been recorded for the 12 months of 2011. However in the new calendar year foreign participation increased with foreign buying on blue chips such as Ceylon Tobacco, JKH, Commercial Bank of Ceylon, Aitken Spence Holdings and Aitken Spence Hotel Holdings. For the calendar year 2012 to date Rs. 20 bn net foreign inflow is recorded.

The CSE is trading at a 14.4 times P/E ratio from a high of 25 times in Feb 2011, which in comparison to other markets still looks relatively expensive. However on a one year forward earnings, the P/E ratio of the market re-rates to 10.5 times. Average daily turnover is around Rs. 3.5 bn from the highs of Rs.4.5 bn with market capitalisation now well over Rs. 2.0 trillion as at end March 2012. The market cap to GDP ratio declined to 33% with the downturn in the market.

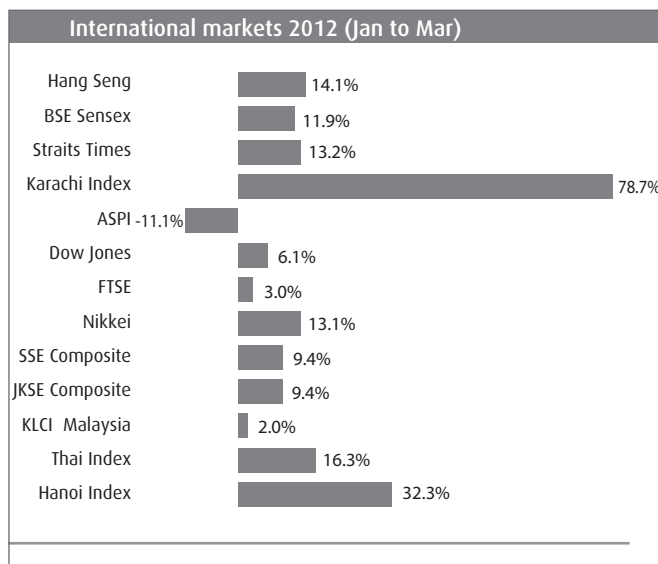
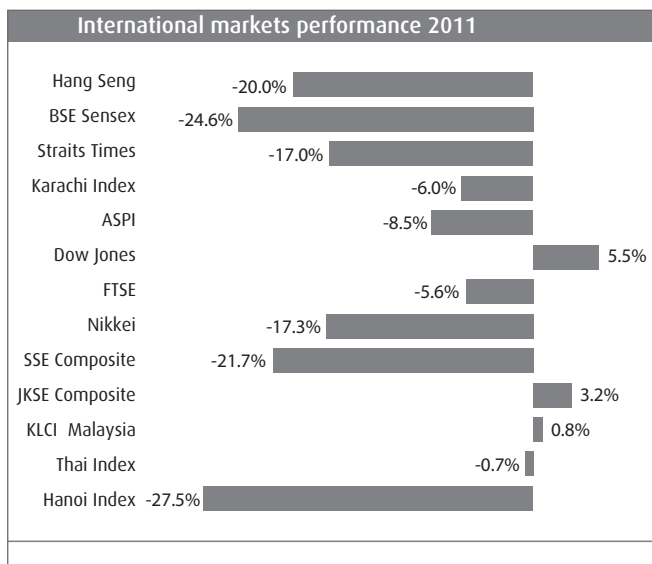
In the current year of review corporates raising capital via the IPO route was minimal given the dismal market conditions which didn't warrant much enthusiasm among investors, as was evident with IPOs being barely subscribed and performance after listing being very poor. However initial public offerings and rights issues raised Rs. 47 bn during the calendar year 2011 in contrast to Rs. 28.6 bn raised in 2010. Dividend yield of the market increased to 1.8% in 2011 from 1.2% in 2010.



The banking & finance sector which accounts for 21.8% of market cap has depreciated by 29.4% above market depreciation of 25%. The diversified holdings sector the largest, which accounts for 23.1% of the market capitalization of the CSE over-performed the CSE marginally by 24.8%. Other sectors that over-performed the benchmark for the period of review have been the small weight sectors.

Despite the gloomy picture, we remain confident that the Colombo Bourse will begin to recover from the upheavals it went through in the last year. Corporate earnings for the quarter ending December 31st 2011, recorded a 9% growth (2011/12-9 months earnings growth of 25.7%). While corporate profits will be challenged in the short term due to the realignment of the macro economic variables, we expect that the measures taken would bring the economy to a more predictable footing within the year. Corporate earnings would therefore take time to recover, but long term prospects remain good with benefits expected to accrue from the infrastructure development that is currently taking place.

	31st March 2011 Sector Movement	31st March 2012 2011 Mkt Weight
Banking & Finance	-29.4%	21.8%
Beverage Food & Tobacco	-0.3%	14.5%
Diversified	-24.8%	23.1%
Health Care	-18.7%	1.4%
Hotels & Travels	-27.7%	7.4%
Manufacturing	-33.9%	5.0%
Chemicals & Pharma	-31.9%	1.1%
Construction and Engineering	-21.2%	2.3%
Land & Property	1.4%	1.7%
Oil Palm	-19.0%	5.9%
Footwear & Textiles	-34.7%	0.4%
Trading	-27.9%	1.5%
Telecom	-24.9%	7.0%
Motors	-23.8%	1.4%
Power & Energy	-24.2%	1.6%
Plantations	-51.2%	1.2%
Investment Trust	-54.3%	2.0%
ASPI movement	-25.0%	
Milanka movement	-28.8%	



# Risk Management

Risk management is an integral part of our business, particularly since balancing risks against returns is a critical trade off decision we have to make everyday when it comes to making investment decisions. We recognise the importance of risk management and have built a comprehensive risk management process & structure that focuses on continuous identification and management of business risks. We have in place several measures to strengthen our risk management processes which are linked to our daily investment decisions. These include policies to mitigate business risks along with the upgrading of the support systems that enable easy monitoring and management of risks.

We believe that risk management is of paramount importance in safeguarding the interest of all stakeholders and have undertaken a comprehensive review to enhance the risk mitigating processes already set in place by the Guardian Fund Management Limited, the fund managers of the Company, who are responsible for these functions. We see risk management not as an effort to eliminate risk but as managing risk given certain risk tolerance levels set by the company.

## THE RISK MANAGEMENT STRUCTURE IN PLACE

Guardian Fund Management (GFM) has been set up as an independent fund management company and the management of the portfolios of the Ceylon Guardian Group have been delegated to this company. The Board of Directors have formulated and approved an investment framework and control limits for GFM's fund management operation. GFM's management team is responsible for the recommendation and execution of the investment decisions, during the course of which oversight and management of the business, financial and operational risks of the company come into play.

The Fund Manager (GFM) has been registered as an Investment Manager with the Securities and Exchange Commission of Sri Lanka since 2005 while Ceylon Guardian Investment Trust PLC and its subsidiary Ceylon Investment PLC have been registered as underwriters since 2009. GFM as well as the Company therefore, come under the purview of the capital market regulator and hence internal monitoring is done on a quarterly basis to ensure that the set regulations are adhered to. Audits by the Securities and Exchange

Commission may also be carried out as required. Furthermore, as a listed company Ceylon Investment PLC conforms to the listing rules and guidelines of the Colombo Stock Exchange.

The Board of Directors of the Company have ultimate responsibility for risk management and hence the Board is supported by an organization structure that covers the entire risk management framework through an independent Compliance Officer who functions within GFM as well as the internal audit function of the Carson Cumberbatch Group to which the Company belongs. The Audit Committee of the Company has oversight over the financial reporting function of the company, the system of internal controls; as well as the audit, compliance and risk management processes. Further, an Investment Committee drawn from across the Carsons Group directorate provide advice and insights to the fund management team to further sharpen and refine their decision making process. This organization structure determines the objectives and policies of our risk management framework and promotes a culture of risk awareness and balanced risk-taking within the company.

## Risk categories

The Company has identified and categorized its risks into 4 categories, namely macro environmental risks, portfolio risks, regulatory risks and operational risks and given below is its approach in managing these key risk areas.

## MACRO ENVIRONMENTAL RISKS

### Country risks

Country risk is applicable if an investment is made in a security issued by an entity subject to foreign laws or if transactions are entered into in markets in other jurisdictions, the sums invested and profits or returns accruing maybe subject to exchange control regulations, currency fluctuations, transaction costs & taxes and other actions that may be imposed by the government or policy making bodies of the said countries.

*This risk is not currently applicable to the Guardian Group as our exposure at present is only to Sri Lankan investments. Hence no risk mitigating systems are required to be in place. However, since the capital account has now been liberalised*



*to the extent of permitting approved overseas investments upto a certain value by listed companies, this is a new risk that we would have to build into our framework if a decision is made to invest in overseas markets.*

### **Currency risk**

Where investments are denominated in currencies other than our primary reference currency which is the Sri Lanka Rupee, and where the company is required to convert funds from one currency to another upon making investments, as well as in receiving the returns from those investments, the company is exposed to the risk of the foreign exchange parities moving against one's investment.

*This risk is not currently applicable to the Guardian Group as the current exposure of the Guardian group to investments denominated in foreign currencies is nil. Hence no risk mitigating processes are required; but looking ahead we need to prepare for this due to the gradual exchange control de-regulation that is now taking place. A detailed investment policy would be developed in the year ahead in gaining exposure to new markets.*

### **Market risk - domestic**

The broad definition of market risk is exposure to adverse movements in the securities markets for both equity and fixed income investments, which can result in value loss as well as variations in the anticipated returns from those securities. All financial institutions face market risks, created by changes in the macro environment related to political factors, national security, economic management and globalization influences which have an impact on systematic risk factors such as interest rates, currency parity, inflation, and availability of credit. Therefore, understanding market risks requires considering multiple dimensions and complexity in the macro environment.

*Market risks are inherent in every security and are thus collectively considered at the portfolio level to take into account the asset allocation decisions of the portfolio. Thus market risks affecting a particular class of security are mitigated by switching to asset classes that are assessed to be less risky in a particular scenario.*

*This risk cannot be eliminated. All market participants should ideally develop its business model taking into account exposure limits and parameters to sustain itself when faced with market risks that can affect portfolio values temporarily. The only mitigating process is to develop a sound research base to determine changing economic fundamentals of the country and determine its effect on equity vs fixed income investments and the prompt shifting of funds between asset classes. This is of vital importance in trading portfolio decisions where quick encashment of equities is carried out if macro indicators move adversely leading to a slow down in stock market activity.*

*The process of assessing market risks on investee companies also forms a vital part of our research process, where sensitivity of stock valuations to changes in economic indicators are monitored.*

### **Market risk – international and external macro economic risks**

These risks cannot be diversified or mitigated by the company. We as investors in the equity market in Sri Lanka have to live with the risk of international happenings affecting our market adversely. There is an indirect impact of risks of other markets to our domestic market as clearly seen in the past with the spiraling impacts of the global financial crisis spreading to other Western countries impacting Asian countries and in turn Sri Lanka. In the global world of cross border trade and cross border investment flow, the impact of changing economic indicators and policy will be high for the domestic economy, especially in a country such as ours which is import dependent for vital commodities.

*Hence in determining fund strategy we monitor key economic indicators such as interest rates, exchange rates, inflation, policies of key economic super powers, as well as global commodity prices since Sri Lanka is a net importer of essential commodities. This enables the fund team to get a feel of changing international market dynamics and in turn relate that to local developments. The entry and exit of foreign investor interest on the local market is also determined by the macro economic trends prevailing in foreign markets and relative valuations of our market vis-a-vis developed and other comparative Asian markets. Access*

## Risk Management

*to information to monitor and interpret global developments in capital markets is vital to assess and mitigate this risk.*

*We believe that building expertise in foreign markets is of paramount importance going forward, with possible further liberalisation on the cards. In mitigating the risk we are looking to tie up or collaborate with foreign entities that have expertise in such markets at such times when Guardian has the ability to invest overseas.*

### PORTFOLIO RISKS

#### General Securities risk

Any trading in securities carries inherent investment risks associated with the entity issuing those securities. In particular the price or value of any security can and does fluctuate and may even become valueless, resulting in possible loss not only of returns and profits, but even also of all or part of the principal sums invested in the case of a fixed income instrument. These risks arise as a result of the overall risks faced by the issuing entity which affects its ability to provide a return to the investors holding the securities issued by it. Particularly in the case of equities, past performance of any investment is not necessarily indicative of future performance. Our approach focuses on the fact that there is no substitute for fundamental individual security assessment. Our portfolio management and investment selection process is designed to maximize the risk/return tradeoff to our shareholders and we employ a bottom up investment selection process.

*Our risk mitigating methodology is based on our internal research process that has added value over time to our choice of investments. Prospective investments are selected from fundamental analysis and contact with corporate management of the issuing company through company and field visits. Once an investment is made, a continuous process of monitoring the performance of that investment is adopted.*

*We manage the concentration risk arising from over exposure to one security by monitoring sector exposure and single company exposure as mitigation strategies. Loss limits are set to monitor stocks performing below their cost of acquisition to determine whether temporary capital erosion is a concern. This helps us mitigate the downside risk of any security in the portfolio.*

#### Liquidity risk

Under certain market conditions, an investor may find it difficult or impossible to liquidate a position. This can occur when trading is suspended by the exchange on which a security is listed or when poor market sentiment dries up investor interest in an investment. In addition, there may not be a ready market for certain investments due to low levels of publicly traded quantities. Some investments will have to be held to maturity. Proper information for determining the value of certain investments may also not be available under such circumstances of low liquidity. However the strategy of holding big stakes might be a limiting factor when selling, if the stock is illiquid or in the case of a change in fundamentals.

*We mitigate this risk by investing in companies with a reasonable free float and where securities are heavily traded. Also by limiting the portfolio's buy list to highly traded blue chips, the risk of illiquidity can be mitigated. Good research will enable the fund team to identify changes in fundamentals and be proactive in investment decision making.*

*In instances where we are presented with a promising investment opportunity, being short of funds to pursue that opportunity is also an extension of liquidity risk. A shortage may arise due to the inability of exiting existing positions with inferior risk/return trade off or the need to commit more money than available on hand to fully exploit the opportunity. To guard against this risk we have arranged several overdraft facilities, which have not been utilized as yet. However close monitoring of interest rate movements and liquidation of positions to cover overdrafts after 3-6 months exposure would be the risk mitigation methods used to ensure low exposure to interest rate risks.*

#### Performance volatility risks

The composition of portfolio investments will determine the portfolio's ability to out perform the market. If more volatile stocks that respond more than proportionately to market movements are selected, there is a likelihood that the portfolio will outperform the benchmark All Share Price Index in a growing market, while in a downturn it can underperform the market. It is once again an attempt at balancing

good performance with a certain risk tolerance in a volatile environment.

*Measuring portfolio volatility through calculation of a portfolio beta is one method of keeping ourselves aware of the sensitivities of the portfolio. In the case of the long term portfolio, we would not attempt to handle market volatility by encashing stocks, but would rather attempt to hold into fundamentally strong stocks and ride out low performing cycles. For this, we ensure adequate cash generation by way of dividend and other income flows to keep our daily operations running smoothly while we ride out low market periods. On the other hand, in the case of the trading portfolio, it is necessary to keep an even closer tab on market volatility, since it needs to regularly encash its profitable positions to remain a high performing portfolio.*

## **INVESTMENT PERFORMANCE RISK**

This is the risk that the portfolio will not meet the investment objectives by over-performing the benchmark index the all Share Index. This can adversely affect the reputation of the company and have impact in the future in terms of proven track record and confidence when raising money on future capital calls etc.

*We mitigate this risk by setting a process which seeks to meet investment targets within stated risk parameters. Portfolio performance, is monitored by fund managers and managed on a regular basis through a team effect. Portfolio diversification and appropriate switching of asset classes also contributes to performance.*

## **REGULATORY RISKS**

### **Legal compliance**

The legal support services to Guardian Fund Management comes through the management services company of the Carson Cumberbatch Group, which ensures that the Guardian Group complies with all legal and regulatory provisions applicable to it. The legal function proactively identifies and advises GFM to set up appropriate systems and processes for legal and regulatory compliance in respect of all our investments. We also ensure legal and regulatory compliance in any foreign country that we operate, in in respect of the

Sri Lanka Fund, and in such instances through legal counsel retained in those environments.

*Proactive monitoring of the compliance process is followed and we see that our investments are made and trades are executed in keeping to the Companies Act, SEC regulations, tax regulations, exchange control regulations and other applicable guidelines. The legal advisors of the Company also carry out periodic awareness programmes to educate all staff members.*

## **Regulatory Compliance**

The operations of the Company come within the rules and regulations applicable to all market participants operating in the equity (listed and unlisted) and debt markets of Sri Lanka, as well as the regulatory provisions applicable to companies listed on the CSE and regulations applicable to securities trading set by the Securities and Exchange Commission of Sri Lanka.

Our systems and processes are structured to satisfy the criteria set by these regulations, and staff is constantly kept aware of the compliance needs imposed by these regulations. An independent compliance officer undertakes responsibility for maintaining a check on the overall compliance process and he is supported by the internal audit function of the Carsons Group. GFM, as an Investment Manager registered with the SEC, management company is also subject to further regulation by the capital markets regulator.

## **OPERATIONAL RISKS**

### **Professionalism in operational dealings**

Guardian emphasizes professionalism in the manner in which the staff interacts with clients as well as market intermediaries, since it is vital for maintaining the company's standing within the investment community. Our staff has signed a Code of Ethics at the time of recruitment by the company, which lays down professional standards of conduct and dealing that is expected of staff. Structures to avoid conflicts of interest and compromising of best practices are set up. Staff education covers these areas of practice, and annual declarations by the staff members on compliance in personal equity trading are mandatory.

## Risk Management

*Compliance with SEC trading rules on insider trading, front running, market manipulation etc are checked by comparing trading statistics between portfolios and pre-approved personal transaction of employees, by the Compliance Officer.*

*Compliance with the Company Code of Ethics ensures that the conduct of fund managers and other staff do not violate the code of ethics that have been brought in by the company and for which employees are signatories. Some of the areas that have been highlighted include avoiding conflict of interest between portfolios through coordination of trades between portfolio managers within the company, as well as internal controls and audits to ensure monitoring & compliance.*

### **Systems and process risks**

We manage operational risks by identifying areas of risk, formulating plans for their management, promoting best practices, implementing internal controls and systems, and monitoring compliance with these internal guidelines for managing operational risks. Operational risks mainly cover the areas of system failure, continuity of decision making, dealing with contingencies and ensuring efficiency in operations and correct application of recommended management practices. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

*In order to deal with unexpected contingencies, we have developed and implemented a business continuity plan, which looks after aspects such as staff deployment and systems backup in case of an unexpected disruption to the business. This business continuity plan forms a part of the Carsons Group's business continuity plan.*

*The internal audit function of the Carsons Group, ensures the safeguarding of company assets and recommends process improvements in areas where process control failures are noted. Compliance with the investment objectives of each portfolio involves checking whether fund managers have adhered to the investment guidelines for each portfolio operating within set limits as well as monitoring portfolio performance against the benchmarks set. Further compliance with the operating process manual involves checking the application of proper internal controls such as segregation of*

*duties, authority limits, approvals and that cash management processes are in order.*

*Systems support for the portfolio management software is made available through an annual maintenance agreement with the software vendor which ensures on line support for system issues and queries. At the same time the financial transaction processing and reporting system are based on an ERP system in use at Carsons Group level and as such back up support services for this system are available through the parent company's management services company.*

### **Staff risks**

A fund management operational unit requires qualified professionals with experience in the fund management industry. Knowledge of the operating mechanism of the market as well as its norms and ethics is of importance. We attempt to pass on this valuable local knowledge to our staff at all levels. Having diversity in the team, developing a strong second level, training and development opportunities, are standard practices of the industry, which we benchmark ourselves with. A performance related incentive scheme for the staff is in place and is being reviewed to fall in line with accepted practices in the industry and local markets. The networking ability of key staff to source deals is important in running a successful fund management operation by being shown both important buy side and sell side deals by brokers.

*The staff of GFM are all professionally qualified with a track record of experience in the industry. A strong research team has been developed in the last one year to complement the fund management operation and raise the standard of the investment decision making process. Staff training and development is identified as an important area of concern, while retention is managed through a comprehensive reward structure & incentive scheme, opportunities for career progression and a culture of being people oriented.*

### **Reputation risk**

As a company which carries out a role of trust between itself and a client, it is vital to safeguard the good name and reputation of the business.

*Employees are communicated the right values from the inception both by formal communication and by example. Our screening process at interviews, attempts to select people of the right caliber, while training them for higher responsibility is ongoing. The extensive compliance process also ensures that the company does not take the risk of process failure that will lead to reputation risk. Maintaining good relationships with all industry and government stakeholders further helps manage any crisis situations that can damage reputation.*

# Profiles of Directors

## Israel Paulraj

Chairman of Ceylon Guardian Investment Trust PLC, Ceylon Investment PLC, Guardian Capital Partners PLC and Rubber Investment Trust Limited. He serves as a Director of Carson Cumberbatch PLC and of several of the subsidiary companies within the Carsons Group. He is the Chairman of the Incorporated Trustees of the Church of Ceylon.

He served as Past Chairman of the Federation of Exporters Associations of Sri Lanka and The Coconut Products Traders Association. He was a member of the Executive Committee of the Ceylon Chamber of Commerce and National Chamber of Commerce of Sri Lanka Shippers Council. He served on the Board of Arbitrators of the Ceylon Chamber of Commerce. He has served as Hony. General Secretary of the Central Council of Social Services, Hony. Treasurer of The Christian Conference in Asia, President, Church of Ceylon Youth Movement and Hony. Treasurer of the National Christian Council of Sri Lanka.

He also served on the Presidential Task Force on Non-Traditional Export and Import Competitive Agriculture set up by President R.Premadasa. He also served as Chairman of the Ecumenical Loan Fund of Sri Lanka and on its International Board in Geneva. He was a member of the Commercial Law Reform Commission and has served on the Parliamentary Consultative Committee on Internal and International Trade. He holds a Bachelor of Law Degree and an Executive Diploma in Business Administration.

## Chandima Gunawardena

Director of Carson Cumberbatch PLC. He serves as a Director in most of the Carsons Group Companies in Sri Lanka and overseas. Since assuming Non-Executive status in the Group, he currently serves as an advisor to the Group's strategic planning and management forums and serves on Board Committees, including the Audit Committees 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 the Corporate, Mercantile and State Institutions. He was appointed to the Carsons Group Directorate in 1990.

He has served in 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.

## Ajith Weeratunge

Director of the Carson Cumberbatch Group's Management Company, Carsons Management Services (Private) Limited and holds the position of Head of Finance. He is also a Director of the Property Sector Companies of the Group, including Equity One PLC, Equity Two PLC and Equity Seven Limited. He is also a Director of the Group's Investment Holding sector - Rubber Investment Trust Limited. Accounts for more than 31 years of finance related experience in the mercantile sector and has held positions in Lanka Walltile Ltd., Union Apparels (Pvt) Ltd., John Keells Holdings PLC, Phoenix Industries (Pvt) Ltd and Ceylon Beverage Holdings PLC. He is a Fellow member of the Chartered Institute of Management Accountants of UK.

## Rose Cooray

Director of Ceylon Guardian Investment Trust PLC and Hatton National Bank PLC. Joined the Central Bank of Sri Lanka in 1974 and served the Central Bank in several capacities, covering a wide area of subjects, until retirement as a Deputy Governor in May 2009. During this period, also served the Ministry of Finance in the capacity of the Director General of Fiscal Policy and Economic Affairs Department and represented the Government on the Boards of Ceylon Electricity Board, Sri Lanka Telecom, Sri Lanka Export Development Board, DFCC Bank and DeLaRue Currency & Securities Print (Pvt) Limited.

She also held the position of Vice Chairperson of the Institute of Bankers of Sri Lanka and served as Secretary to the Monetary Board.

Has over 37 years experience in the financial sector formulating and implementing economic and fiscal policies. Holds a B.A (Hons.) in Economics from the University of Peradeniya and Masters Degree from the University of Strathclyde, UK.

### **Asoka Gunasekera**

Director of Ceylon Guardian Investment Trust PLC. Also serves as Alternate Director to Mr. I.W Senanayake (Chairman) of IWS Holdings (Pvt) Ltd and in most Group companies. Past Chairman of the National Chamber of Commerce of Sri Lanka and Past President of the Ceylon National Chamber of Industries. He is a Past International Director and a Board Appointee of Lions Clubs International and was also a Member of the National Police Commission of Sri Lanka. He served as Legal Advisor and Secretary to the Ministry of Posts and Telecommunications; Co-ordinating Secretary to the Ministry of Power and Energy and Ministry of Highways and was the Acting Secretary to the Ministry of Policy Planning. Attorney – at- Law & Notary Public.

### **Manilal Fernando**

Director of Ceylon Guardian Investment Trust PLC and is currently the Chairman of Holcim (Lanka) Ltd., Shipping Cargo Logistics (Pvt) Ltd., Hyundai Lanka (Pvt) Ltd., Stallion Plantations (Pvt) Ltd. and Dynamic AV Technologies (Pvt) Ltd. Director of Pirarus (Pvt) Ltd., Aitken Spence & Co. PLC and Sri Lankan Airlines Ltd. He is also a Trustee of Joseph Fraser Memorial Hospital.

He has been the Past President of the Football Federation of Sri Lanka from 1979 to 1999. He is a Member of the FIFA and AFC Executive Committees. Currently he is the Chairman of FIFA Futsal Committee, FIFA Stadium and Security Committee, Deputy Chairman of FIFA Player Status Committee, Chairman of sub Committee on Minors Transfers and a member of FIFA World Cup Organizing Committee for Brazil 2014. He is the Chairman of AFC Financial Assistance Programme Committee, Deputy Chairman of Asian Cup Organizing Committee at the AFC, as well as the Vice President of the National Olympic Committee of Sri Lanka from 1990 to date. Attorney-at-Law & Notary Public.

### **Krishna Selvanathan**

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.

# Management Team Profiles

## **Ruvini Fernando**

CEO of the fund management company of the Carsons Group and Director of The Sri Lanka Fund. Director of Guardian Acuity Asset Management Limited, which manages licensed unit trusts in Sri Lanka. She is an Associate Member of the Chartered Institute of Management Accountants, UK and a Fellow of 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. She counts over 20 years' experience in management accounting, finance, research analysis, strategic planning and investments. A former visiting faculty member of the MBA programme of the Postgraduate Institute of Management and a Member of the Regaining Sri Lanka Tourism Steering Committee, a key government policy making forum from January 2002 to January 2004. Represents the Carsons Group investment companies on the Board of Durdans Medical & Surgical Hospital, a leading private healthcare provider in Sri Lanka.

## **Niloo Jayatilake**

Director and Head of Portfolio Management, Guardian Fund Management Ltd. and Alternate Director in Guardian Acuity Asset Management Limited and Durdans Medical and Surgical Hospital. She has over 17 years experience in investment management. Prior to joining the Carson Cumberbatch Group she worked as a fund manager at The Unit Trust Management Company (Private) Limited (managers of the largest unit trust in Sri Lanka). Associate Member of the Chartered Institute of Management Accountants (UK) and an Associate Member of the Institute of Chartered Secretaries and Administrators (UK).

## **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 (Pvt) 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.

## **Sumith Perera**

Fund Manager, Guardian Fund Management Ltd. Has over 6 years experience in the field of Asset Management working as a Fund Manager for CAAM Saudi Fransi LLC (Kingdom of Saudi Arabia) and as an Investment Analyst for Eagle NDB Fund Management (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 Ford Rhodes, Thornton & Company. He joined the Carson Cumberbatch Group in 2004 as the Sector Accountant for its Real Estate, Leisure and Investment divisions. 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 Bachelors Degree in Commerce from the University of Kelaniya, Sri Lanka.



### **Pasan Abeygunawardane**

Head of Portfolio Operations, Guardian Fund Management Ltd. Has over 8 years experience in the field of Asset Management working as a Operations Manager for CAAM Saudi Fransi LLC (Kingdom of Saudi Arabia) and Eagle NDB Fund Management (Sri Lanka). He holds a Bsc (Gen) in Applied Science from Sri Jayawardenapura University and is an Associate Member of the Chartered Institute of Management Accountants.

### **Gayan Karunarithna**

Sector Accountant for the Investment, Real Estate and Leisure sectors. Commenced career at Ernst & Young, Chartered Accountants and progressed with PricewaterhouseCoopers, Chartered Accountants, prior to joining Carsons Group. Counts over six years of experience in auditing and consulting. An Associate Member of the Institute of Chartered Accountants of Sri Lanka. Holds a BBA (Finance) (Special) Degree from the University of Colombo, Sri Lanka.

### **Asanka Jayasekara**

Assistant Manager - Research, Guardian Fund Management Ltd. Has over 5 years of experience in investment research. Before joining the Carsons group, worked as a research analyst at JB Securities (Pvt) Ltd. Is an associate member of Chartered Institute of Management Accountants and holds a BSc Degree from the University of Sri Jayewardenepura specializing in Finance.

### **Lakmal Wickramaarachchi**

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

# Annual Report of the Board of Directors on the Affairs of the Company

The details set out herein provide the pertinent information required by the Companies Act, No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and recommended best accounting practices. The Annual Report was approved by the Board of Directors on 24th May 2012.

## 1. GENERAL

The Directors have pleasure in presenting to the shareholders their report together with the audited financial statements for the year ended 31st March 2012 of Ceylon Investment PLC (the "Company"), a public limited liability company incorporated in Sri Lanka in 1919.

## 2. THE PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activities of the Company and its associate company are to act as specialised investment vehicles focusing into listed equity investments, in order to better manage the risk profile of the portfolio to one specialized asset class.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

## 3. REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

The Chairman's Statement and Managers' Review on pages 2 to 13 provide an overall assessment of the business performance of the Company and its future developments. These reports together with the audited financial statements reflect the state of affairs of the Company.

## 4. FINANCIAL STATEMENTS

The financial statements which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and notes to the financial statements of the Company for the year ended 31st March 2012 are set out on pages 36 to 59. These financial statements do comply with the requirements of the Companies Act, No 7 of 2007.

## 4.1. Revenue

The Company generated a revenue of Rs. 796.0 mn (2011 – Rs. 623.4 mn). A detailed analysis of the revenue for the period is given in note 11 to the financial statements.

## 4.2. Financial results and appropriations

An abridgement of the financial performance of the Company is presented in the table below:

<i>(In Rupees thousands)</i>	<b>Company</b>	
<b>For the year ended 31st March</b>	<b>2012</b>	<b>2011</b>
		<i>(Restated)</i>
Profit for the year	<b>1,010,492</b>	1,340,623
Retained profit brought forward from previous year	<b>2,490,823</b>	1,489,520
Transfers	<b>127,231</b>	(42,443)
<b>Profit available for appropriations</b>	<b>3,628,546</b>	2,787,700
<b>from which the following appropriations / distributions have been made:</b>		
Dividend paid	<b>(98,515)</b>	(129,421)
Capitalization of reserves	-	(167,456)
<b>Retained profit carried forward</b>	<b>3,530,031</b>	2,490,823

The details of restatement are given in the note to the Statement of Changes in Equity on page 38 to the Financial Statements.

## 4.3. Significant accounting policies

The accounting policies adopted in the preparation of these financial statements are given on pages 40 to 46. There have been no changes in the accounting policies adopted by the Company during the year under review.

## 4.4 Reserves

As at 31st March 2012, the total reserves of the Company stood at Rs. 6,416.1 mn (2011 - Rs. 6,994.6 mn).

The movements are set out in the Statement of Changes in Equity and note 24 to the financial statements.

#### 4.5 Market value adjustment reserve - Short-term

During the year an amount of Rs. 127.2 mn was transferred from (2011 - Rs.42.4 mn was transferred to) the 'Market value adjustment reserve - Short-term', being the 'Mark to market value adjustment' of short-term investment portfolios of the Company as shown in the Statement of Changes in Equity on page 38.

Gains arising from the above adjustment will be transferred from retained earnings to 'Market value adjustment reserve - Short-term' at balance sheet date, and any losses arising will be transferred from 'Market value adjustment reserve - Short-term' to the extent that loss does not exceed the balance held in the said reserve as at that date.

#### 4.6 Long-term investment revaluation reserve

During the year, the net negative movement reflected in the 'Long-term investment revaluation reserve' amounted to Rs. 1,212.3 mn (2011 - a net positive movement of Rs. 982.9 mn) arising out of realized gain and adjustment on mark to market value of long-term investments.

### 5. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The responsibilities of the Directors, in relation to the financial statements are detailed in the following paragraphs, while the responsibilities of the Auditors are set out in the Independent Auditors' Report.

According to the Companies Act, No. 7 of 2007 and Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, Directors are required to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the Company as at the end of the financial year and of the performance for the said period.

The financial statements comprise of:

- a balance sheet, which presents a true and fair view of the state of affairs of the Company and its associate company as at the end of the financial year;
- an income statement of the Company and its associate company, which presents a true and fair view of the profit and loss of the Company and its associate company for the financial year.

In preparing these financial statements, the Directors are required to ensure that:

- appropriate accounting policies have been selected and applied consistently, while material departures, if any, have been disclosed and explained;
- all applicable accounting standards have been complied with;
- reasonable and prudent judgements and estimates have been made; and
- provides the information required by and otherwise comply with the Colombo Stock Exchange.

The Directors are responsible for ensuring that the Company maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company, for ensuring that the financial statements have been prepared and presented in accordance with Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 and meet with the requirements of the Companies Act, No. 7 of 2007.

They are also responsible for taking reasonable measures to safeguard the assets of the Company and in this regard to give proper consideration to the establishment and effective operation of appropriate systems of internal control with a view to prevent, detect and rectify fraud and other irregularities.

These financial statements have been prepared on a going concern basis, since the Directors are of the view that the Company has adequate resources to continue in operation, for the foreseeable future from the date of signing these financial statements.

The Directors are also of the view that they have discharged their responsibilities as set out in this statement.

### 6. INDEPENDENT AUDITORS' REPORT

The Independent Auditors' Report on the financial statements is given on page 35 of the Annual Report.

# Annual Report of the Board of Directors on the Affairs of the Company

## 7. INTERESTS REGISTER

The Company maintains an Interests Register conforming to the provisions of the Companies Act, No. 07 of 2007. All Directors have made declarations as provided for in Section 192(2) of the Companies Act aforesaid.

The relevant details as required by the Companies Act, No. 7 of 2007 have been entered in the Interests Register during the year under review.

The Interests Register is available for inspection as required under the Companies Act.

### 7.1. Remuneration of Directors

Directors' remuneration for the financial year ended 31st March 2012 is given in note 13 to the financial statements on page 47.

### 7.2 Directors' interest in contracts and shares

Directors' interests in transactions of the Company are disclosed in note 28 to these financial statements and have been declared at meetings of the Directors. The Directors have had no direct or indirect interest in contracts or proposed contracts in relation to the business of the Company, while they had the following interests in ordinary shares of the Company.

Directors	No. of shares as at 31st March 2012	No. of shares as at 1st April 2011
Mr. I. Paulraj (Chairman)	255	255
Mr. D.C.R. Gunawardena	255	255
Mr. A.P. Weeratunge	-	-
Mrs. M.A.R.C. Cooray	-	-
Mr. A. de Z. Gunasekera	-	-
Mr. V.M. Fernando	-	-
Mr. K. Selvanathan	-	-

## 8. DIRECTORS

The names of the Directors who served during the year are given under Corporate information provided in the back inner cover of the Annual Report.

### 8.1 Directors to retire by rotation

In terms of Articles 89 & 90 of the Articles of Association of the Company, Mr. A.P. Weeratunge retires by rotation and being eligible offers himself for re-election.

In terms of Articles 89 & 90 of the Articles of Association of the Company, Mr.V.M. Fernando retires by rotation and being eligible offers himself for re-election.

### 8.2 Appointment of Directors who are over 70 years of age

Upon the recommendation of the Nomination Committee and the Board, it is recommended that Mr. I. Paulraj and Mr.A. de Z. Gunasekera who are over 70 years of age be re-appointed as Directors of the Company for a further period of one year from the conclusion of the Annual General Meeting and that the age limit stipulated in Section 210 of the Companies Act, No. 7 of 2007 shall not be applicable.

## 9. AUDITORS

Company's Auditors during the year under review were Messrs. KPMG, Chartered Accountants.

A sum of Rs. 240,000/- was paid to them by the Company as audit fees for the year ended 31st March 2012 (2011 - Rs. 216,000/-). In addition to the above, the Auditors were paid Rs. 65,000/- (2011 - Rs. 51,000) as professional fees for non-audit services.

The retiring Auditors have expressed their willingness to continue in office. A resolution to re-appoint them as Auditors of the Company and authorizing the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

The Audit Committee reviewed the appointment of the Auditors, its effectiveness and their relationship with the Company, including the level of audit and non-audit fees paid to the Auditors.

## 9.1 AUDITORS' RELATIONSHIP OR ANY INTEREST WITH THE COMPANY

The Directors are satisfied that, based on written representations made by the independent Auditors to the Board, the Auditors do not have any interest with the Company that would impair their independence.

## 10. SIGNIFICANT EVENTS DURING THE YEAR

There were no significant events during the year.

## 11. RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS OF THE COMPANY

There were no transactions entered into by the Company and its associate company in their ordinary course of business, the value of which exceeded 10% of the shareholders' equity or 5% of the total assets of the respective companies during the year.

## 12. CORPORATE GOVERNANCE

Given below is the status of compliance of Corporate Governance Rules as per the Listing Rules of the Colombo Stock Exchange (CSE).

### 12.1 Board of Directors

The following Directors held office as at the balance sheet date and their brief profiles are given on pages 20 to 21 of the Annual Report.

Directors	Executive/Non executive/Independent
Mr.I. Paulraj (Chairman)	Non-Executive/ Independent*
Mr.D.C.R.Gunawardena	Non-Executive
Mr.A.P. Weeratunge	Executive
Mrs.M.A.R.C. Cooray	Non-Executive / Independent**
Mr.A. de Z. Gunasekera	Non-Executive / Independent***
Mr.V.M. Fernando	Non-Executive / Independent****
Mr. K. Selvanathan	Executive

\*The Board has determined that Mr.I. Paulraj is an Independent, Non-Executive Director in spite of being on the Board for more than 9 years and being a Director of Ceylon

Guardian Investment Trust PLC, in which majority of the other Directors of the Board are also Directors and which has a substantial shareholding in the Company, since he is not directly involved in the management of the Company.

\*\* The Board has determined that Mrs.M.A.R.C. Cooray is an Independent, Non-Executive Director in spite of being a Director of Ceylon Guardian Investment Trust PLC in which majority of the other Directors of the Board are also Directors and which has a substantial shareholding in the Company, since she is not directly involved in the management of the Company.

\*\*\*The Board has determined that Mr.A.de Z. Gunasekera is an Independent, Non-Executive Director in spite of being a Director of Ceylon Guardian Investment Trust PLC in which majority of the other Directors of the Board are also Directors and which has a substantial shareholding in the Company, since he is not directly involved in the management of the Company.

\*\*\*\*The Board has determined that Mr.V.M. Fernando is an Independent, Non-Executive Director in spite of being a Director of Ceylon Guardian Investment Trust PLC in which majority of the other Directors of the Board are also Directors and which has a substantial shareholding in the Company, since he is not directly involved in the management of the Company.

### 12.2 Remuneration Committee

As per the Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange, the Remuneration Committee of Carson Cumberbatch PLC (CCPLC), the ultimate Parent Company, functions as the Remuneration Committee of the Company and comprises of the following members :

Remuneration Committee Members	Executive/Non-Executive/Independent
Mr.I. Paulraj (Chairman)	Non-Executive/ Independent Director of CCPLC
Mr M. Moonesinghe	Non-Executive/ Independent Director of CCPLC
Mr.D.C.R. Gunawardena	Non-Executive Director of CCPLC

## Annual Report of the Board of Directors on the Affairs of the Company

The Committee has formulated a remuneration policy based on market and industry factors and individual performance for all Group companies.

Aggregated remuneration paid to the Non-Executive Directors of the Company is disclosed under note 13 on page 47 of this Annual Report.

Executive Directors are not compensated for their role on the Board.

### 12.3 Audit Committee

As per Rule 7.10.6 of the Listing Rules of the Colombo Stock Exchange, the Audit Committee of Carson Cumberbatch PLC (CCPLC), the ultimate Parent Company, functions as the Audit Committee of the Company and comprises of the following members :

Audit Committee Members	Executive/Non-Executive/Independent
Mr.Vijaya Malalasekera (Chairman)	Non-Executive/ Independent Director of CCPLC
Mr.Chandima Gunawardena	Non-Executive Director of CCPLC
Mr.Faiz Mohideen	Non-Executive/Independent Director of CCPLC

Additionally, Mr. Tennyson Rodrigo was the Expert Advisory Member for the Investment Sector.

In May 2012 , Mr.Tennyson Rodrigo, stepped down from the position of Expert Advisor to the Audit Committee in respect of the Investment Sector.

The Audit Committee Report is given on pages 32 to 33 of this Annual Report.

### 12.4 Directors meeting attendance

Four (04) Board Meetings were convened during the financial year and the attendance of the Directors was as follows:

Directors	Meetings attended (out of 4)
Mr.I. Paulraj (Chairman)	4
Mr.D.C.R.Gunawardena	3
Mr.A.P. Weeratunge	4
Mrs.M.A.R.C. Cooray	3
Mr.A. de Z. Gunasekera	3
Mr.V.M. Fernando	2
Mr.K. Selvanathan	4

### 13. NOMINATION COMMITTEE

The Nomination Committee of Ceylon Guardian Investment Trust PLC, the Parent Company's Nomination Committee functions as the Company's Nomination Committee with effect from 1st April 2012.

The Nomination Committee of Ceylon Guardian Investment Trust PLC (GUAR) comprises of the following members :

Nomination Committee members	Executive/Non-Executive/Independent
Mr.I. Paulraj (Chairman)	Non-Executive/Independent Director of GUAR
Mrs.M.A.R.C. Cooray	Non-Executive/Independent Director of GUAR
Mr.D.C.R. Gunawardena	Non-Executive Director of GUAR

The primary objective of the Nomination Committee is to lead the process for Board appointments of new Directors to the Board and the nominations of members to represent the Company in Group Companies/Investee Companies.

### 14. INTERNAL CONTROL AND RISK MANAGEMENT

The ultimate responsibility to establish, monitor and review a company-wide internal control system rests with the Board of Directors. The intensity, depth and the tolerance limits for each component of the internal control system would

be based on the weight of the element of risk imposed on the sustenance of the business by the respective area of operation. Whilst a strong internal control system would mitigate the crystallization of risk elements to a greater extent, employment of external support structures would also be necessary based on the risk assessments made thereon.

Effective maintenance of internal controls, risk identification and mitigation is handed down to the respective members of senior management within the guidelines of benchmark policies, procedures and authority limits clearly laid down.

Group Internal Audit, whose scope of scrutiny is entirely driven by the grading of the risk involved will be monitoring and providing the feedback to the management and the respective Audit Committee. Regular submission of compliance and internal solvency certificates vouched by the heads of the respective divisions as a mandatory agenda item keeps the Directors abreast of the health of the Company's resource base and governance requirements.

This allows the Board to have total control of the fulfillment of governance requirements by providing opportunity to take timely preventive action in case of potential deterioration of status quo. More detailed description of the risk management strategies of the Company is given on pages 14 to 19.

## **15. HUMAN RESOURCES**

The management of the Company's investments is undertaken by Guardian Fund Management Limited (GFM) and management support services are provided by Carsons Management Services (Private) Limited (CMSL).

GFM continued to invest in human capital development and implement effective human resource practices and policies to develop and build an efficient and effective workforce aligned around new business priorities of the Company and to ensure that its employees are developing the skills and knowledge required for the future success of the Company, centered around the core competencies required by an investment house.

## **16. EQUITABLE TREATMENT TO SHAREHOLDERS**

The Company endeavors at all times to ensure equitable treatment to all shareholders.

## **17. DIVIDENDS**

Subject to the approval of the shareholders at the Annual General Meeting, a first & final dividend of Rs. 1/25 per share is recommended by the Directors for the year ended 31st March 2012.

The dividend payable has not been accounted for until it is approved at the forthcoming Annual General Meeting.

The details of the dividends paid during the year are set out in note 18 to the financial statements.

## **18. SOLVENCY TEST**

Taking into account the said distribution, the Directors are satisfied that the Company would meet the Solvency Test requirement under Section 56(2) of the Companies Act, No.07 of 2007 immediately after the distribution. The Company's Auditors, Messrs. KPMG, Chartered Accountants have issued a Certificate of Solvency confirming same.

## **19. STATED CAPITAL**

The Stated Capital of the Company as at 31st March 2012 was Rs. 673,529,144/- comprising of 98,514,874 ordinary shares. The movement in Stated Capital of the Company is given in note 23 to the financial statements. There was no change in the Stated Capital of the Company during the year.

## **20. INVESTMENTS**

Investments represent, investments in associates, other long-term investments held for capital appreciation and short term investments held for trading.

- Investment in associate company is explained in detailed in note 19 in page 50.

## Annual Report of the Board of Directors on the Affairs of the Company

- Long-term investments at market value are disclosed in note 20, comprising those investments which are held for a longer tenure, usually over 3-5 years. The market value of long term investment portfolio of the Company stood at Rs. 2,165.7 mn (2011 – Rs. 3,550.3 mn) at the end of the financial year.
- The short-term portfolio engaged in active trading to realize the benefits of the movements in the stock market and is carried in the Balance Sheet at market value as explained in detailed in note 22 on page 54. The carrying value of the short-term portfolio of the company as at 31st March 2012 was Rs. 456.4 mn (2011 – Rs. 697.6 mn).

### **21. CAPITAL EXPENDITURE**

The Company has not incurred any capital nature expenditure on tangible assets during the year under review (2011- Nil).

### **22. STATUTORY PAYMENTS**

The Directors to the best of their knowledge and belief were satisfied that all statutory dues have been paid up to date or have been provided for in the financial statements.

### **23. GOING CONCERN**

The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared based on the going concern concept.

### **24. EVENTS AFTER THE BALANCE SHEET DATE**

Subsequent to the balance sheet date, no circumstances have arisen, which would require adjustments to or disclosures in the financial statements, other than those disclosed in note 26 to the financial statements.

### **25. CONTINGENT LIABILITIES AND CAPITAL COMMITMENT**

The contingent liabilities and commitments made on account of capital expenditure as at 31st March 2012 are given in note 27 to the financial statements.

### **26. CORPORATE DONATIONS**

There were no donations granted during the year.

### **27. SHARE INFORMATION**

The details relating to earnings, net assets, market value per share and information on share trading is given on pages 61 and 67 to 68 of the Annual Report.



## 28. TWENTY MAJOR SHAREHOLDERS

The Parent Company, Ceylon Guardian Investment Trust PLC, holds 64.36% of the total ordinary shares in issue of the Company.

Name of Shareholder	2012		2011	
	No. of shares	%	No. of shares	%
Ceylon Guardian Investment Trust PLC - A/c No. 3	63,407,518	64.36	63,407,518	64.36
Thurston Investments Limited	1,924,006	1.95	2,044,606	2.08
Mrs. M.L. De Silva	1,305,380	1.33	1,305,380	1.33
Miss. G.I.A. De Silva	1,277,422	1.30	1,277,422	1.30
Mr. K.C. Vignarajah	1,244,769	1.26	1,213,669	1.23
Employees Trust Fund Board	1,237,920	1.26	522,220	0.53
Waldock Mackenzie Ltd / Mr. H.M.S. Abdulhussein	1,187,756	1.21	1,120,656	1.14
Mr. G.J.W. De Silva	854,000	0.87	994,500	1.01
Oakley Investments Limited	795,600	0.81	795,600	0.81
J.B. Cocoshell (Pvt) Ltd	740,511	0.75	740,511	0.75
Mr. Y.H. Abdulhussein	699,091	0.71	582,295	0.59
DFCC Bank A/C 1	676,953	0.69	676,953	0.69
Miss. R.H. Abdulhussein	626,701	0.64	606,701	0.62
Waldock Mackenzie Ltd / Mr. M.A.N. Yoosufali	624,033	0.63	502,072	0.51
Commercial Bank of Ceylon Ltd / K.C. Vignarajah	496,122	0.50	496,122	0.50
Cocoshell Activated Carbon Company Limited	459,236	0.47	458,836	0.47
Bank Of Ceylon - No. 1 Account	442,000	0.45	417,000	0.42
Aitken Spence PLC - A/C No. 2	440,339	0.45	440,339	0.45
Mercantile Bank (Agency) Private Limited	409,045	0.42	409,045	0.42
Miss. G.N.A. De Silva	391,027	0.40	391,027	0.40

## 29. ANNUAL REPORT

The Board of Directors approved the financial statements, together with the reviews which forms part of the Annual Report on 24th May 2012. The appropriate number of copies of the Report would be submitted to the Colombo Stock Exchange, Sri Lanka Accounting and Auditing Standard Monitoring Board and the Registrar of Companies within the given time frames.

## 30. ANNUAL GENERAL MEETING

66th Annual General Meeting of the Company will be held on Wednesday, the 4th day of July 2012 at 2.00 p.m. at Taj Samudra Hotel, "Crystal Room Upper Floor", No. 25, Galle Face Centre Road, Colombo 3. The notice of the Annual General Meeting is on page 69 of the Annual Report.

Signed on behalf of the Board,

(Sgd.)  
**I. Paulraj**  
Chairman

(Sgd.)  
**D.C.R. Gunawardena**  
Director

Colombo.  
24th May 2012

# Audit Committee Report

As provided by the Colombo Stock Exchange Listing Rules, the Audit Committee of Carson Cumberbatch PLC (CCPLC), the ultimate Parent Company is the Audit Committee of the Company.

The members of the Audit Committee are as follows :

Audit Committee members	Executive/ Non-Executive/ Independent
Mr.Vijaya Malalasekera (Chairman)	Non-Executive, Independent (CCPLC)
Mr.Chandima Gunawardena	Non-Executive (CCPLC)
Mr. Faiz Mohideen	Non-Executive, Independent (CCPLC)

Mr.Vijaya Malalasekera is a Non-Executive, Independent Director of CCPLC and a former Director of Ceylon Tobacco Company PLC.

Mr.Chandima Gunawardena is a Non-Executive Director of CCPLC and in most of its Group Companies.

Mr.Faiz Mohideen, a Non-Executive, Independent Director of CCPLC, was the former Deputy Secretary to the Treasury and a former Director of Bank of Ceylon and Securities and Exchange Commission of Sri Lanka.

The audit aspects of Ceylon Investment PLC are conducted within the Agenda of CCPLC-Audit Committee and the Committee was advised by Mr.Tennyson Rodrigo as a member of the Panel of Expert Advisors to the Audit Committee of CCPLC, for the Investment Sector, Property Sector and the Leisure Sector of the Group. Mr.Rodrigo is a Director of Good Hope PLC and Indo-Malay PLC and was the former Managing Director and Chief Executive of Capital Development and Investment Company PLC and was the former Chairman of the Audit Committee of Eagle Insurance Company Limited.

In May 2012, Mr.Tennyson Rodrigo stepped down from the position of Expert Advisor to the Audit Committee.

CCPLC-Audit Committee held 04 Meetings during the financial year to discuss matters relating to the Company and the attendance of the Members of the Audit Committee was as follows :

Meetings attended (out of four)	
Mr.Vijaya Malalasekera (Chairman)	04
Mr.Chandima Gunawardena	02
Mr.Faiz Mohideen	04

Mr.Tennyson Rodrigo, the Expert Advisor attended 03 Audit Committee Meetings.

The Audit Committee Meetings were also attended by the internal auditors and senior management staff members.

The Committee met the external auditors twice during the year, i.e. to discuss the audit scope and to deliberate the draft Financial Report and Accounts. The Audit Committee also met the external auditors, Messrs.KPMG and discussed the draft Financial Report and Accounts, without the management being present.

In accordance with the audit plan formulated and approved by the Audit Committee for the financial year 2011/2012, the Group Internal Audit (GIA) carried out six detailed audits on the Investment Sector companies.

The findings and contents of the Group Internal Audit reports have been discussed with the management and subsequently the audit reports were circulated to the Audit Committee and to the management.

The objectives of the GIA work was to have an independent review of the system of internal controls as established by the management, its adequacy and integrity vis-à-vis objectives served and to determine the extent of adherence to the controls by staff responsible for the function and to take corrective/preventive action where necessary.

The interim financial statements of Ceylon Investment PLC have been reviewed by the Audit Committee Members at Audit Committee Meetings. The draft financial statements of Ceylon Investment PLC for the year ended 31st March 2012 were also reviewed at a Meeting of the Audit Committee,

together with the External Auditors, Messrs. KPMG, prior to release of same to the Regulatory Authorities and to the shareholders. The Audit Committee was provided with confirmations and declarations as required, by the Managers, Carsons Management Services (Private) Limited that the said financial statements were prepared in accordance with the Sri Lanka Accounting Standards and the information required by the Companies Act No. 7 of 2007 therein and presented a true and fair view of the Company's state of affairs as at that date and the Company's activities during the year under review.

The Audit Committee has determined that Messrs.KPMG, Auditors are independent on the basis that they do not carry out any management related functions of the Company.

The Audit Committee has concurred to recommend to the Board of Directors the re-appointment of Messrs. KPMG, as Auditors for the financial year ending 31st March 2013, subject to the approval of the shareholders of Ceylon Investment PLC at the Annual General Meeting.

The purpose of the Audit Committee of CCPLC is as follows :

To assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process and the Company's process for monitoring compliance with laws and regulations, Company policies and procedures and the code of conduct.

To ensure that the internal audit activity is well managed, so that it adds value to the organization by being objective in providing relevant assurance, contributing to the effectiveness and efficiency of governance, risk management and control processes.

(Sgd.)

**Vijaya Malalasekera**

*Chairman – Audit Committee*

Carson Cumberbatch PLC

24th May 2012

# Financial Calendar

Financial year end	31st March 2012
66th Annual General Meeting to be held on	4th July 2012

## **ANNOUNCEMENT OF RESULTS**

Interim Financial Statements published in terms of the Listing Rules of the Colombo Stock Exchange

1st Quarter ended 30th June 2011	12th August 2011
2nd Quarter ended 30th September 2011	14th November 2011
3rd Quarter ended 31st December 2011	14th February 2012

# Independent Auditors' Report



**KPMG**  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300,  
Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
+94 - 11 254 1249  
+94 - 11 230 7345  
Internet : [www.lk.kpmg.com](http://www.lk.kpmg.com)

## TO THE SHAREHOLDERS OF CEYLON INVESTMENT PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Ceylon Investment PLC ("Company"), which comprise the balance sheet as at March 31, 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 36 to 59.

### Management's Responsibility for the Financial Statements

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

### Scope of Audit and Basis of Opinion

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

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

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

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2012 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

**CHARTERED ACCOUNTANTS**

Colombo  
24 May 2012

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. M. P. Perera FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA  
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

# Income Statement

(Amounts expressed in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	2012	2011 (Restated)
<b>Revenue</b>	11	<b>796,048</b>	623,388
Unrealized gain/(loss) on mark to market value adjustment	12	<b>(322,893)</b>	112,410
<b>Profit on investment activities</b>		<b>473,155</b>	735,798
Other income		-	525
Administrative and other operating expenses		<b>(29,739)</b>	(33,715)
<b>Profit from operations</b>	13	<b>443,416</b>	702,608
Finance expenses	14	<b>(2,986)</b>	(6,754)
<b>Profit from operations after finance expenses</b>		<b>440,430</b>	695,854
Share of associate company's profit net of taxation	15	<b>576,191</b>	645,203
<b>Profit before taxation</b>		<b>1,016,621</b>	1,341,057
Income tax expense	16	<b>(6,129)</b>	(434)
<b>Profit for the year</b>		<b>1,010,492</b>	1,340,623
<b>Earnings per share (Rs.)</b>	17	<b>10.26</b>	13.61
<b>Dividend per share (Rs.)</b>	18	<b>1.25</b>	1.00

The notes from pages 40 to 59 form an integral part of these financial statements.

Figures in brackets indicate deductions.

\*Dividends per share is calculated based on the proposed dividend / interim dividend.

# Balance Sheet

(Amounts expressed in Sri Lankan Rupees thousands)

As at 31st March	Note	2012	2011 (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in associate	19	3,876,422	3,619,410
Long-term investments	20	2,165,694	3,550,313
<b>Total non-current assets</b>		<b>6,042,116</b>	<b>7,169,723</b>
<b>Current assets</b>			
Trade and other receivables	21	14,298	4,758
Current tax recoverable		4,763	2,069
Short-term investments	22	456,395	697,638
Short-term deposits		578,053	-
Cash at bank		11,632	9,132
<b>Total current assets</b>		<b>1,065,141</b>	<b>713,597</b>
<b>Total assets</b>		<b>7,107,257</b>	<b>7,883,320</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Stated capital	23	673,530	673,530
Capital reserves	24.1	2,133,911	2,412,120
Revenue reserves	24.2	4,282,165	4,582,466
<b>Total equity</b>		<b>7,089,606</b>	<b>7,668,116</b>
<b>Current liabilities</b>			
Trade and other payables	25	1,819	928
Unclaimed dividends		15,832	10,603
Bank overdraft		-	203,673
<b>Total current liabilities</b>		<b>17,651</b>	<b>215,204</b>
<b>Total equity and liabilities</b>		<b>7,107,257</b>	<b>7,883,320</b>
<b>Net assets per share - book value (Rs.)</b>		<b>71.96</b>	77.84
<b>Net assets per share - market value (Rs.)</b>		<b>138.51</b>	180.61

The notes from pages 40 to 59 form an integral part of these financial statements.

I certify that these financial statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.

(Sgd).

**V. R. Wijesinghe**

Financial Controller

**Carsons Management Services (Private) Limited**

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed on behalf of the Investment Managers,

Approved and signed on behalf of the Board,

(Sgd).

**W. Y. R. Fernando**

Director

(Sgd).

**I. Paulraj**

Chairman

(Sgd).

**D. C. R. Gunawardena**

Director

**Guardian Fund Management Limited.**

Colombo,

24th May 2012

# Statement of Changes in Equity

(Amounts expressed in Sri Lankan Rupees thousands)

	Capital reserves				Revenue reserves			Total equity	
	Stated capital	Investment reserve	Other capital reserve	Associate company's capital reserve	Market value adjustment reserve short-term	Long term investment revaluation reserve	General reserve		Retained earnings
				(Restated)				(Restated)	(Restated)
Balance as at 1st April 2010	506,074	8,401	178,740	1,499,474	84,788	954,303	27,217	1,489,520	4,748,517
Profit for the year *	-	-	-	-	-	-	-	1,340,623	1,340,623
Capitalization of reserves	167,456	-	-	-	-	-	-	(167,456)	-
Movement in associate company's reserves	-	-	-	725,505	-	-	-	-	725,505
Transfer of realised gains and adjustment on mark to market value of long term investments	-	-	-	-	-	982,892	-	-	982,892
Transfers	-	-	-	-	42,443	-	-	(42,443)	-
Dividend for 2010	-	-	-	-	-	-	-	(129,421)	(129,421)
Balance as at 31st March 2011	673,530	8,401	178,740	2,224,979	127,231	1,937,195	27,217	2,490,823	7,668,116
<b>Balance as at 1st April 2011</b>	<b>673,530</b>	<b>8,401</b>	<b>178,740</b>	<b>2,224,979</b>	<b>127,231</b>	<b>1,937,195</b>	<b>27,217</b>	<b>2,490,823</b>	<b>7,668,116</b>
<b>Profit for the year *</b>	-	-	-	-	-	-	-	<b>1,010,492</b>	<b>1,010,492</b>
<b>Movement in associate company's reserves</b>	-	-	-	(278,209)	-	-	-	-	(278,209)
<b>Transfer of realised gains and adjustment on mark to market value of long term investments</b>	-	-	-	-	-	(1,212,278)	-	-	(1,212,278)
<b>Transfers</b>	-	-	-	-	(127,231)	-	-	127,231	-
<b>Dividend for 2011</b>	-	-	-	-	-	-	-	(98,515)	(98,515)
<b>Balance as at 31st March 2012</b>	<b>673,530</b>	<b>8,401</b>	<b>178,740</b>	<b>1,946,770</b>	-	<b>724,917</b>	<b>27,217</b>	<b>3,530,031</b>	<b>7,089,606</b>

\* Profit for the year includes share of profit of the associate company which cannot be distributed.

## Restatement of comparative figures

During the last quarter of the financial year, the financial statements of the associate company, Rubber Investment Trust Limited (RITL) relevant to the corresponding year had been restated as a result of the restatement in the financial statements of Bukit Darah PLC, the associate company of RITL. Accordingly, the 'Share of associate company's profit' and the 'Investments in associate' of the Company were restated resulting in an increase of Rs.171.3mn for the year ended 31st March 2011 and Rs.540.1mn as at 31st March 2011 respectively.

This has been accounted for as a prior year adjustment in the financial statements of the Company, in accordance with Sri Lanka Accounting Standard 10 - "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly comparative figures have been restated.

The notes from pages 40 to 59 form an integral part of these financial statements.

Figures in brackets indicate deductions.



# Cash Flow Statement

(Amounts expressed in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	2012	2011 (Restated)
<b>Cash flows from operating activities</b>			
Profit before taxation		1,016,621	1,341,057
<b>Adjustments for:</b>			
Unrealized gain/(loss) on mark to market value adjustment	12	322,893	(112,410)
Finance expenses	14	2,986	6,754
Share of associate company's profit net of taxation	15	(576,191)	(645,203)
Dividend received from associate company		40,970	25,193
Interest income	11	(36,126)	(11,303)
<b>Operating profit before changes in working capital</b>		<b>771,153</b>	604,088
(Increase)/decrease in trade and other receivables		(7,831)	405
Net (Increase)/decrease in investments		90,691	(659,910)
Increase/(decrease) in trade and other payables		891	(25,860)
<b>Cash generated from/(used in) operations</b>		<b>854,904</b>	(81,277)
Finance expenses paid		(2,986)	(6,754)
Interest received		34,417	11,303
Income tax paid		(8,823)	(9,513)
<b>Net cash generated from/(used in) operating activities</b>		<b>877,512</b>	(86,241)
<b>Cash flows from financing activities</b>			
Dividend paid		(93,286)	(125,720)
<b>Net cash used in financing activities</b>		<b>(93,286)</b>	(125,720)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>784,226</b>	(211,961)
Cash and cash equivalents at the beginning of the year		(194,541)	17,420
<b>Cash and cash equivalents at the end of the year</b>		<b>589,685</b>	(194,541)
<b>Statement of cash and cash equivalents</b>			
Short-term deposits		578,053	-
Cash at bank		11,632	9,132
Bank overdraft		-	(203,673)
		<b>589,685</b>	(194,541)

The notes from pages 40 to 59 form an integral part of these financial statements.

Figures in brackets indicate deductions.

# Notes to the financial statements

## 1. REPORTING ENTITY

Ceylon Investment PLC (the “Company”) is a limited liability company which is incorporated and domiciled in Sri Lanka. The shares of the Company have a primary listing on the Colombo Stock Exchange.

The registered office and principal place of business of the Company is located at No. 61, Janadhipathi Mawatha, Colombo 1.

The financial statements for the year ended 31st March 2012 comprise the financial information of the Company and its interest in associate company.

The principal activity of the Company and its associate was to act as specialised investment vehicle within the investment business to undertake listed, private equity and fixed income investments.

There were no significant changes in the nature of principal activities of the Company and its associate during the financial year under review.

The Company had no employees of its own during the year (2011 – Nil).

## 2. STATEMENT OF COMPLIANCE

The financial statements of the Company and its associate comprise the Balance Sheet, Statements of Income, Changes in Equity and Cash Flows together with notes to the financial statements.

These statements are prepared in accordance with the accounting standards laid down by the Institute of Chartered Accountants of Sri Lanka and the requirements of Companies Act, No. 7 of 2007.

The financial statements for the year ended 31st March 2012 were authorized for issue by the Board of Directors on 24th May 2012.

## 3. BASIS OF PREPARATION

### 3.1. Basis of measurement

The financial statements have been prepared on historical cost basis and applied consistently, except for the market value adjustment of investment portfolios as stated in note 5.3.

### 3.2. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’), which is Sri Lankan Rupees.

The financial statements are presented in Sri Lankan Rupees thousands (Rs. ‘000) unless otherwise stated, which is the Company’s presentation currency.

Figures in brackets indicate deductions / negative changes.

### 3.3. Materiality and aggregation

Each material class of similar items is presented in aggregate in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

## 4. USES OF ESTIMATES AND JUDGMENTS

The preparation of financial statements require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation and uncertainty that have the most significant effect on the amounts recognised in the financial statements are described below.

## Estimates

### 4.1. Assessment of impairment

The Company assesses at each balance sheet date whether there is objective evidence that an asset or portfolio of assets is impaired. In determining whether an asset is impaired or not, the Company compares the carrying amount of such an asset against its recoverable amount; being the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that reflect the current market assessments of time value of money and risks specific to the asset.

Fair value less cost to sell will be based on available market information as at the date of assessment.

### 4.2. Current taxation

Current tax liabilities are provided for in the financial statements applying relevant tax statutes and regulations which the management believes reflect actual liability. There can be instances where the stand taken by the Company on transactions is contested by revenue authorities.

Any additional costs on account of these issues are accounted for as a tax expense at the point the liability is confirmed.

### 4.3. Value of unquoted investments

The carrying value of unquoted equity investments are determined based on Directors' valuations. Such valuations of Directors are based on expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. These valuations require the Company to make estimates about expected future cash flows and discount rates, and hence are subject to uncertainty.

However, unquoted investments are stated in the financial statements at cost or Directors valuation whichever is lower, on a more conservative basis.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods presented in these financial statements. The accounting policies of the Company have been consistently applied by its associate company where applicable, and deviations if any, have been disclosed.

### 5.1. Basis of consolidation

#### 5.1.1. Associates

Associates are those enterprises in which the Company has significant influence but not control, over financial and operational policies, generally accompanying a shareholding of between 20% and 50% of voting rights. Investment in associate is accounted for using equity method of accounting and are initially recognised at cost. The Company's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Company's share of its associate's post acquisition profits or losses is recognised in the Income Statement, and its share of post acquisition movements in reserves is recognized in equity.

The cumulative post-acquisition movements are adjusted against the carrying amount of investment.

When the Company's share of losses in an associate equals or exceeds its interest in associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates. The carrying amount of the Company's investment in such associate is reduced to extent of the dividend received from associate company.

## Notes to the Financial Statements

Unrealised gains on transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate. Unrealised losses are also eliminated.

In the Company's financial statements, investment in associate is carried at cost less accumulated impairment loss, if any.

### 5.1.2. Other investments

Investments in companies where the Company's holding is less than 20% and where the Company does not exercise significant influence and/or control over financial and operating decisions/policies, are accounted on the basis stated in note 5.3 below.

The income from these investments is recognised only to the extent of dividend / interest income, as appropriate.

### 5.1.3. Financial year end

The Company and its associate company have a common financial year which ends on 31st March.

### 5.2. Foreign Currency transactions and translations

All foreign currency transactions are converted into functional currency at rates of exchange prevailing at the time the transactions are effected.

At each balance sheet date, foreign currency monetary items are translated using closing rate, non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction and non-monetary items that are measured at fair value are translated using exchange rate at the date when the fair values were determined.

### Assets and bases of their valuation

Assets classified as current assets in the Balance Sheet are cash and those which are expected to realise in cash, during normal operating cycle of the Company's business, or within one year from the balance sheet date, whichever is shorter. Assets other than current assets are those which the Company intends to hold beyond a period of one year from the balance sheet date.

### 5.3. Investments

#### 5.3.1. Classification

- Investments held for yield or capital appreciation are classified as 'Long-term investments'.
- Investments those deriving from private placements of unlisted securities where the Company has participated in and held for yield or capital appreciation are classified as 'Private equity investments'. Such are initially categorized under non-current assets. Subsequently, upon obtaining the listing in the stock exchange, such investments will be classified in to 'Long-term investments' or 'Short-term investments', as appropriate.
- Investments that are intended to be held for trading purposes are classified as 'Short-term investments'.

#### 5.3.2. Cost

Cost of investments is the cost of acquisition including brokerage, commission and such other directly attributable costs of acquisition.

#### 5.3.3. Valuation

##### - Quoted investments

Quoted investments that are acquired principally for the purpose of selling or held as part of a portfolio that is managed for short term profit are classified as 'Short-term investments'. Those investments are initially recognised at cost and subsequently measured at market value. Gains and losses on mark to market valuation are dealt with through the Income Statement.

Those quoted investments that are acquired and held for capital growth in the medium/long term are classified as 'Long-term investments'. These are initially recognised at cost and subsequently measured at revalued amounts, based on published market prices at each quarterly intervals. Any gains are recognized in equity as revaluation surplus. A subsequent decline will be offset against a previous increase for the same investment which was credited to revaluation surplus. A further decline in the carrying amount in excess of the initial cost of such investment is recognized as an expense in the Income Statement.

An increase on revaluation relating to a previous decrease in carrying amount recognized as an expense, is credited to the Income Statement, to the extent it offsets previously recorded expense in the Income Statement.

On disposal, the amount of gains applicable to that investment previously credited to revaluation reserve is transferred from revaluation reserve to the Income Statement.

#### - **Unquoted investments**

All unquoted investments including private equity investments, are carried at lower of cost and Directors' valuation. Provision is made for any permanent diminution in value.

#### **5.3.4. Market value of the investment portfolio**

The market value of investment portfolio is based on the following:

- Marketable equity securities are stated at values published in official valuation list of the Colombo Stock Exchange, as of a given date. Where the official valuation is not available, market value is stated at the last transacted price.
- Units purchased from unit trusts are valued at net assets value published by the managers of respective trusts.

#### **5.4. Trade and other receivables**

Trade and other receivables are carried at original invoice amount less provision for impairment of trade receivables, when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

The carrying amount of asset is reduced and the amount of loss is recognised, if any, in the Income Statement under 'Administration and other operating expenses'. When a trade receivable is uncollectible, it is written off against the provision for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'Administration and other operating expenses' in the Income Statement.

#### **5.5. Cash and cash equivalents**

Cash and cash equivalents are defined as cash in hand and bank, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of change in value.

For the purpose of Cash Flow Statement, cash and cash equivalents comprise of cash in hand, bank deposits held in banks and investment in money market instruments, net of short term loans and bank overdraft.

#### **5.6. Impairment of assets**

The Company assesses assets or groups of assets for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an asset or a group of assets exceed its recoverable amount, the asset or the group of assets is considered to be impaired and is written down to its recoverable amount. The impairment loss is charged to the Income Statement.

## Notes to the Financial Statements

Assets with indefinite useful lives are not subject to amortisation and are tested on an annual basis for impairment and additionally whenever indications of impairment exists.

Previously recognised impairment losses are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying amount, which would have been determined, had no impairment losses were recognized previously.

### Liabilities and provisions

#### 5.7. Liabilities

Liabilities classified as current liabilities in the Balance Sheet are those obligations payable on demand or within one year from the balance sheet date. Items classified as non-current liabilities are those obligations which expire beyond a period of one year from the balance sheet date.

All known liabilities have been accounted for in preparing these financial statements. Liabilities are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### 5.8. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Where appropriate, future cash flow estimates are adjusted to reflect risks specific to the liability.

#### 5.9. Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably.

The Company does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognize contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

### Income statement

#### 5.10. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company, and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at fair value of the consideration received or receivable, net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue:

##### 5.10.1. Gains / (losses) from disposal of investments

On the date of the transaction

##### 5.10.2. Dividend income

At the point where the shareholders' right to receive dividend is established.

### 5.10.3. Interest income

On accrual basis.

### 5.10.4. Other income

On accrual basis.

## 5.11. Expenditure recognition

### 5.11.1. Operating expenses

All expenses incurred in day-to-day operations of the business has been charged to revenue in arriving at profit or loss for the year. Provision has also been made for bad and doubtful debts, and all known liabilities.

### 5.11.2. Finance expenses

Interest expenses are recognized on accrual basis.

### 5.11.3. Income tax expenses

The provision for current tax is based on elements of income and expenditure as reported in the financial statements and computed in accordance with provisions of the Inland Revenue Act.

Income tax expenses are recognized in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognized in the Statement of Changes in Equity.

The relevant details are disclosed in respective notes to the financial statements.

### 5.11.4. Economic Service Charge (ESC)

As per the provisions of Economic Service Charge Act, No. 13 of 2006 and amendments thereto, ESC is payable on "liable turnover" and is deductible from the income tax payments. Any unclaimed ESC can be carried forward and settle against the income tax payable in four subsequent years.

### 5.11.5. Social Responsibility Levy (SRL)

As per the provisions of Finance Act, No. 5 of 2005, and amendments thereto, SRL was introduced with effect from 1st January 2005 and was abolished with effect from 1st April 2011.

SRL was payable at the rate of 1.5% on all taxes and levies chargeable as specified in the first schedule of the Act, until the year 2011.

### Earnings per share

The Company presents basic earnings per share (EPS) data, considering ordinary shares in issue. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

### Cash flow

Interest paid, interest received and dividend received are classified as operating cash flows, while dividend paid is classified as financing cash flows for the purpose of Cash Flow Statement which has been prepared using the "indirect method".

### Related party transactions

Disclosure has been made in respect of transactions in which one party has the ability to control or exercise significant influence over financial and operating policies/decisions of the other, irrespective of whether a price is charged.

### Events after the balance sheet date

All material and significant events which occur after the balance sheet date have been considered and disclosed in note 26.

## Notes to the Financial Statements

### 6. DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Company.

### 7. PRESENTATION

#### 7.1. Offsetting income and expenses

Income and expenses are not offset unless required or permitted by accounting standards

#### 7.2. Offsetting assets and liabilities

Assets and liabilities are offset and the net amount reported in the Balance Sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### 8. COMPARATIVE FIGURES

Previous year figures and phrases have been rearranged wherever necessary to conform to the current year's presentation.

### 9. DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and presentation of the financial statements.

This is more fully described under the relevant clause in the Directors' Report.

### 10. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT BALANCE SHEET DATE

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1 January 2012. Accordingly, these Standards have not been applied in preparing these financial statements as they were not effective for the period ended 31 March 2012.

These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRSs.

The Company is currently in the process of evaluating the potential effects of these Standards on its financial statements, and based on the management's assessment the impact on the financial statements on the adoption of these Standards will not be material.



## 11 Revenue

<i>For the year ended 31st March</i>	2012	2011
Realized gain from disposal of short-term investments	73,800	180,321
Realized gain from disposal of long-term investments	597,329	94,666
Realized gain from disposal of strategic investments	-	281,897
Dividend income	129,763	80,394
Interest income	36,126	11,303
	<b>837,018</b>	648,581
Dividend received from associate company	<b>(40,970)</b>	(25,193)
	<b>796,048</b>	623,388

## 12 Unrealized gain/(loss) on mark to market value adjustment

On long-term investments	(268,724)	-
On short-term investments	(54,169)	112,410
	<b>(322,893)</b>	112,410

## 13 Profit from operations

Profit from operations is stated after charging all expenses including the following:

Directors' fees	1,785	1,440
Directors' emoluments	-	-
Management fees	18,885	21,252
Auditors' remuneration		
- Audit fees	240	216
- Audit related fees	65	51
- Non - audit services	-	342

## 14 Finance expenses

Interest cost - banking institutions	2,986	6,754
	<b>2,986</b>	6,754

## 15 Share of associate company's profit net of taxation

<i>For the year ended 31st March</i>	Revenue		Profit after tax		Group's share of profit after tax	
	2012	2011	2012	2011 (Restated)	2012	2011 (Restated)
Rubber Investment Trust Limited	82,909	564,757	1,153,550	1,291,791	576,191	645,203

The details of the restatement are given in the note to the statement of Changes in Equity on page 38 to the Financial Statements.

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 16 Income tax expense

#### (a) Income tax on current year's profits

For the year ended 31st March	2012	2011
Current tax expense for the year (Note 16 b)	6,186	869
Over provision for previous year	(57)	(435)
	6,129	434

#### (b) Reconciliation of accounting profit with taxable profit

Profit before taxation	1,016,621	1,341,057
Less: Share of associate company's profits	(576,191)	(645,203)
Accounting profit of the Company	440,430	695,854
Dividend income (net of associate company dividend)	(88,794)	(55,200)
Exempt gain on sale of quoted shares	(671,128)	(556,885)
Mark to market value adjustment - Unrealised	322,893	(112,410)
Aggregate allowable claims	-	(525)
Disallowed expenses	112	2,602
Expenses attributable to exempt profits	28,510	30,328
Tax adjusted profit	32,023	3,764
Less: Utilization of brought forward tax losses (Note 16 c)	(9,932)	(1,317)
<b>Taxable income</b>	<b>22,091</b>	<b>2,447</b>
<b>Income tax charged thereon</b>		
Income taxation (Note 16 d (i))	6,186	856
Social Responsibility Levy (Note 16 d (v))	-	13
<b>Current tax expense for the year</b>	<b>6,186</b>	<b>869</b>

#### (c) Analysis of tax losses

Tax losses brought forward	10,029	11,315
Adjustment on finalization of liability	(97)	31
Utilization of tax losses during the year (Note 16 d (iv))	(9,932)	(1,317)
<b>Tax losses carried forward</b>	<b>-</b>	<b>10,029</b>

#### (d) Taxation on profits

- i) Profits of the company other than such referred to in Note 16 (d) (ii) are liable to tax at the standard rate of 28%. (2011 - 35%).
- ii) In terms of Section 13 (t) of Inland Revenue Act, No. 10 of 2006 and amendments thereto, profits derived on sale of shares on which Share Transaction Levy (STL) has been paid is exempt from income tax.
- iii) During the year, the Company paid Economic Service Charge (ESC) amounting to Rs.5,530,384/- (2011 - Rs. 3,080,109/-). Payments made on ESC is available as income tax credit for a period of 5 years.
- iv) Utilization of tax loss is restricted to 35% of current year's Statutory Income. Unabsorbed tax losses can be carried forward indefinitely.
- v) Social Responsibility Levy (SRL) was abolished with effect from 1st April 2011 (2011 - 1.5% of income tax expenses).

## 17 Earnings per share

The earnings per share (EPS) is calculated by dividing the profit attributable to the shareholders of Ceylon Investment PLC by the weighted average number of ordinary shares in issue during the year, as required by SLAS 34 (Revised 2005) - "Earnings per share".

The weighted average number of ordinary shares for the previous year was adjusted for events that have changed the number of ordinary shares in issue without a corresponding change in the resources.

<i>For the year ended 31st March</i>	2012	2011 (Restated)
<b>Amount used as the numerator</b>		
Profit for the year	1,010,492	1,340,623
<b>Amount used as denominator</b>		
Number of ordinary shares as at the beginning of the year (in thousands)	98,515	19,317
Addition to the number of shares in issue due to;		
Sub-division of shares (Note 23.1.1 a) (in thousands)	-	77,266
Capitalization of reserves (Note 23.1.1. b) (in thousands)	-	1,932
Weighted average number of ordinary shares used for EPS calculation (in thousands)	98,515	98,515
<b>Earnings per share - Rs.</b>	10.26	13.61

The details of the restatement are given in the note to the statement of Changes in Equity on page 38 to the Financial Statements.

## 18 Dividend per share

<i>For the year ended 31st March</i>	2012	2011
Dividend paid - First and final dividend	98,515	129,421
Dividend proposed * - First and final dividend	123,144	98,515
Dividend per share (Rs.) ** - First and final dividend	1.25	1.00

\* The proposed dividend is subject to the approval by the shareholders at the forthcoming Annual General Meeting and according to the Sri Lanka Accounting Standard No.12 (Revised 2005) - "Events after the Balance Sheet Date", the liability has not been provided for in these Financial Statements.

\*\* Dividend per share is based on the proposed dividends.

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 19 Investment in associate Cost

	No. of Shares	Cost as at 31st March 2012	Directors' valuation as at 31st March 2012	No. of Shares	Cost as at 31st March 2011	Directors' valuation as at 31st March 2011
Rubber Investment Trust Limited	3,948,445	296	10,432,075	3,948,445	296	13,744,587
<b>Total investment in associate</b>		<b>296</b>	<b>10,432,075</b>		<b>296</b>	<b>13,744,587</b>

#### Movements in investment in associate

	% Holding	Carrying value as at 31st March 2012	Directors' valuation as at 31st March 2012	% Holding	Carrying value as at 31st March 2011 (Restated)	Directors' valuation as at 31st March 2011
Investors' share of net assets as at the beginning of the year	49.95	3,619,114		49.95	2,273,599	
Appreciation/(depreciation) of associate company's reserves		(278,209)			725,505	
Dividend received		(40,970)			(25,193)	
Share of profit for the year (net of taxation)		576,191			645,203	
<b>As at the end of the year</b>		<b>3,876,126</b>	<b>10,432,075</b>		<b>3,619,114</b>	<b>13,744,587</b>
<b>Investment in associate on equity method</b>		<b>3,876,422</b>	<b>10,432,075</b>		<b>3,619,410</b>	<b>13,744,587</b>

The details of the restatement are given in the note to the statement of Changes in Equity on page 38 to the Financial Statements.

Note: The Directors' valuation of Rubber Investment Trust Limited (RITL) is based on the net asset value of RITL after adjusting for the market value of its investment in Bukit Darah PLC.

#### 19.1 Summarized financial information of the associate company

As at 31st March	Total assets		Total liabilities	
	2012	2011 (Restated)	2012	2011
Rubber Investments Trust Limited	7,891,386	7,407,680	1,409	624
	<b>7,891,386</b>	<b>7,407,680</b>	<b>1,409</b>	<b>624</b>

## 20 Long-term investments

### Summary

	Note	Cost as at 31st March 2012	Market value/ Director's valuation as at 31st March 2012	Cost as at 31st March 2011	Market value/ Director's valuation as at 31st March 2011
<b>Investment in equity securities</b>					
Quoted	20.1	1,412,798	1,867,148	1,274,193	3,181,147
Unquoted	20.2	543	543	543	543
Private equity - Unlisted	20.3	133,877	133,877	226,097	226,097
Total investment in equity securities		1,547,218	2,001,568	1,500,833	3,407,787
<b>Investment in unit trusts</b>					
Unquoted	20.4	162,280	164,125	112,280	142,525
Total investment in unit trusts		162,280	164,125	112,280	142,525
<b>Investment in debentures</b>					
Unquoted	20.5	1	1	1	1
Total investment in debentures		1	1	1	1
<b>Total net carrying value of long-term investments</b>		<b>1,709,499</b>	<b>2,165,694</b>	1,613,114	3,550,313

### 20A Movement in long-term investments

	As at 1st April	Additions during the year	Transfers	Disposals/ write offs	Mark to market value adjustment	As at 31st March
<b>Year 2011/12</b>						
Investment in equity securities	3,407,787	681,608	(100,800)	(534,424)	(1,452,603)	2,001,568
Investment in unit trusts	142,525	50,000	-	-	(28,400)	164,125
Investment in debentures	1	-	-	-	-	1
	3,550,313	731,608	(100,800)	(534,424)	(1,481,003)	2,165,694
<b>Year 2010/11</b>						
Investment in equity securities	2,092,125	961,043	-	(598,028)	952,647	3,407,787
Investment in unit trusts	-	112,280	-	-	30,245	142,525
Investment in debentures	1	-	-	-	-	1
	2,092,126	1,073,323	-	(598,028)	982,892	3,550,313

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 20.1 Investment in equity securities - Quoted

	No. of shares	Cost as at 31st March 2012	Market value as at 31st March 2012	No. of shares	Cost as at 31st March 2011	Market value as at 31st March 2011
<b>Banks, Finance &amp; Insurance</b>						
Commercial Bank of Ceylon PLC	5,572,348	329,536	557,235	2,180,071	188,334	579,463
Hatton National Bank PLC	-	-	-	1,500,000	245,217	570,000
People's Leasing Company PLC	9,820,700	176,773	113,920	-	-	-
Sampath Bank PLC	837,023	248,997	150,497	799,600	240,882	230,525
		755,306	821,652		674,433	1,379,988
<b>Beverage, Food &amp; Tobacco</b>						
Nestle Lanka PLC	144,600	81,574	131,702	84,600	28,700	54,212
		81,574	131,702		28,700	54,212
<b>Diversified</b>						
Aitken Spence PLC	-	-	-	3,325,500	81,510	539,729
John Keells Holdings PLC	2,585,641	109,967	532,640	1,957,981	111,030	559,199
		109,967	532,640		192,540	1,098,928
<b>Health Care</b>						
Asiri Hospitals PLC	4,627,100	45,212	35,166	-	-	-
Ceylon Hospitals PLC	756,915	39,942	54,876	756,915	39,942	75,692
		85,154	90,042		39,942	75,692
<b>Manufacturing</b>						
Tokyo Cement PLC (Non Voting)	6,066,500	261,127	163,796	4,449,600	181,332	195,782
		261,127	163,796		181,332	195,782
<b>Hotels &amp; Travels</b>						
Aitken Spence Hotel Holdings PLC	1,818,800	119,670	127,316	3,842,300	157,246	376,545
		119,670	127,316		157,246	376,545
<b>Total investment in equity securities</b>						
- Quoted		1,412,798	1,867,148		1,274,193	3,181,147

The market value of the Company's investment portfolio has been obtained from the official valuation list as at 31st March, published by the Colombo Stock Exchange.

## 20.2 Investment in equity securities - Unquoted

	No. of shares	Cost as at 31st March 2012	Director's valuation as at 31st March 2012	No. of shares	Cost as at 31st March 2011	Director's valuation as at 31st March 2011
Guardian Fund Management Limited	3	-	-	3	-	-
Kandy Private Hospitals Limited	600	10	10	600	10	10
DFCC Vardhana Bank	42,975	533	533	42,975	533	533
<b>Total investment in equity securities - Unquoted</b>		<b>543</b>	<b>543</b>		<b>543</b>	<b>543</b>

## 20.3 Investment in equity securities - Private equity (unlisted)

	No. of shares	Cost as at 31st March 2012	Director's valuation as at 31st March 2012	No. of shares	Cost as at 31st March 2011	Director's valuation as at 31st March 2011
Durdans Medical & Surgical Hospital (Private) Limited	10,612,858	133,877	133,877	10,000,000	125,297	125,297
Softlogic Holdings (Private) Limited	-	-	-	14,000,000	100,800	100,800
<b>Total investment in equity securities - Private equity (unlisted)</b>		<b>133,877</b>	<b>133,877</b>		<b>226,097</b>	<b>226,097</b>

## 20.4 Investments in unit trusts - Unquoted

	No. of units	Cost as at 31st March 2012	Director's valuation as at 31st March 2012	No. of units	Cost as at 31st March 2011	Director's valuation as at 31st March 2011
Guardian Acuity Equity Fund	1,250,000	12,500	12,563	-	-	-
Guardian Acuity Fixed Income Fund	3,750,000	37,500	37,875	-	-	-
The Sri Lanka Fund	1,265,823	112,280	113,687	1,265,823	112,280	142,525
<b>Total investment in unit trusts - Unquoted</b>		<b>162,280</b>	<b>164,125</b>		<b>112,280</b>	<b>142,525</b>

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 20.5 Investment in debentures - Unquoted

	No. of debentures	Cost as at 31st March 2012	Director's valuation as at 31st March 2012	No. of debentures	Cost as at 31st March 2011	Director's valuation as at 31st March 2011
<b>Redeemable unsecured debentures</b>						
Ocean View Limited - 6%	120	1	1	120	1	1
<b>Total investment in debentures - Unquoted</b>		<b>1</b>	<b>1</b>		<b>1</b>	<b>1</b>

### 21 Trade and other receivables

As at 31st March	2012	2011
Trade receivable	-	122
Dividend receivable	12,183	4,207
Interest receivable	1,709	-
Pre-payments	406	429
	<b>14,298</b>	<b>4,758</b>

### 22 Short-term investments

	Note	Market value/ Directors valuation as at 31st March 2012	Market value/ Directors valuation as at 31st March 2011
Investment in equity securities - Quoted	22.1	456,395	697,638
Total investment in equity securities		456,395	697,638
<b>Total short-term investments</b>		<b>456,395</b>	<b>697,638</b>

### 22A Movement in short-term investments

	As at 1st April	Additions during the year	Transfers	Disposals/ write offs	Mark to market value adjustment	As at 31st March
<b>Year 2011/2012</b>						
<b>Short-term investments</b>	<b>697,638</b>	<b>291,939</b>	<b>100,800</b>	<b>(466,185)</b>	<b>(167,797)</b>	<b>456,395</b>
	697,638	291,939	100,800	(466,185)	(167,797)	456,395
<b>Year 2010/2011</b>						
Short-term investments	400,613	1,096,242	-	(857,704)	58,487	697,638
	400,613	1,096,242	-	(857,704)	58,487	697,638

Investments as at the balance sheet date, which are classified as "Short-term investments" and are intended to be held for trading purposes, includes investments in listed securities only.



## 22.1 Short-term investments

	No. of shares	Market value as at 31st March 2012	No. of shares	Market value as at 31st March 2011
<b>Banks, Finance &amp; Insurance</b>				
Commercial Bank of Ceylon PLC	1,094,571	109,457	35,224	9,363
Hatton National Bank PLC	-	-	100,000	38,000
LB Finance PLC	-	-	53,800	9,420
National Development Bank PLC	237,200	29,128	118,600	40,371
Sampath Bank PLC	-	-	402,484	116,036
		<b>138,585</b>		<b>213,190</b>
<b>Beverage, Food &amp; Tobacco</b>				
Distilleries Company of Sri Lanka PLC	772,000	111,940	772,000	138,960
		<b>111,940</b>		<b>138,960</b>
<b>Diversified</b>				
CT Holdings PLC	202,618	30,413	199,000	39,800
Expolanka Holdings PLC	2,099,300	13,016	-	-
John Keells Holdings PLC	643,401	132,541	742,600	212,087
Richard Peiris and Company PLC	-	-	2,000,000	27,200
		<b>175,970</b>		<b>279,087</b>
<b>Hotels &amp; Travels</b>				
Trans Asia Hotel PLC	-	-	187,600	36,732
				<b>36,732</b>
<b>Plantations</b>				
Namunukula Plantations PLC	-	-	50,000	5,730
				<b>5,730</b>
<b>Manufacturing</b>				
Lanka Floortiles PLC	-	-	182,600	23,939
Royal Ceramic Lanka PLC	260,000	29,900	-	-
		<b>29,900</b>		<b>23,939</b>
<b>Total market value of short-term investments</b>		<b>456,395</b>		<b>697,638</b>

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 23 Stated capital

<i>As at 31st March</i>	2012	2011
Balance as at the beginning of the year	673,530	506,074
Sub-division of shares (Note 23.1.1 a)	-	-
Capitalization of reserves (Note 23.1.1 b)	-	167,456
<b>Balance as at the end of the year</b>	<b>673,530</b>	<b>673,530</b>

#### 23.1 Movement in the number of shares

Balance as at the beginning of the year - issued and fully paid	98,514,874	19,316,642
Sub-division of shares (Note 23.1.1 a)	-	77,266,568
Capitalization of reserves (Note 23.1.1 b)	-	1,931,664
<b>Balance as at the end of the year - issued and fully paid</b>	<b>98,514,874</b>	<b>98,514,874</b>

#### 23.1.1 Sub-division of shares and capitalization of reserves during the financial year 2010/11

The Company made following changes to the Stated capital during the prior year after obtaining approval from the shareholders at an Extraordinary General Meeting held on 19th October 2010.

- a) Sub-division of each ordinary share in to 5 ordinary shares. This increased the existing number of ordinary shares as at that date from 19,316,642 to 96,583,210. The sub-division of shares did not result in an increase of the value of the stated capital of the Company
- b) Issue of 1,931,664 new ordinary shares by capitalizing revenue reserves amounting to Rs. 167,455,952/- in the proportion of 1:50 based on the number of ordinary shares after the above sub-division.

**23.2** The total stated capital of the Company is Rs. 673.5 mn which consists of 98,514,874 ordinary shares.

**23.3** The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled for one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

### 24 Capital and revenue reserves

#### 24.1 Capital reserves

<i>As at 31st March</i>	Note	2012	2011 (Restated)
Investment reserve	24.1.1	8,401	8,401
Associate company's capital reserve	24.1.2	1,946,770	2,224,979
Other capital reserves	24.1.3	178,740	178,740
		<b>2,133,911</b>	<b>2,412,120</b>

**24.1.1** These amounts have been reserved for use in future development of the Company.

**24.1.2** Share of associate company's capital reserve includes the investor's share of capital reserves of the associate company after the date of acquisition. It also recognises the investor's share arising due to changes in reserves that includes revaluation of property, plant and equipment and investments, foreign exchange differences and other changes in the associate company's equity that was not included in the Income Statement.

**24.1.3** Other capital reserves represents the amounts set aside by the Directors to meet any contingencies.

## 24.2 Revenue reserves

<i>As at 31st March</i>	Note	2012	2011 (Restated)
Market value adjustment reserve - Short-term	24.2.1	-	127,231
Long term investment revaluation reserve	24.2.2	<b>724,917</b>	1,937,195
General reserve	24.2.3	<b>27,217</b>	27,217
Retained earnings		<b>3,530,031</b>	2,490,823
		<b>4,282,165</b>	4,582,466

**24.2.1** “Market value adjustment reserve” consists of unrealized gains and losses arising from the mark to market value adjustment of the trading portfolio. Any unrealized gains arising from the above adjustment will be transferred from retained earnings to “Market value adjustment reserve”, and any losses arising will be transferred from “Market value adjustment reserve to retained earnings” to the extent that the loss does not exceed the balance held in the said reserve.

**24.2.2** “Long-term investments revaluation reserve” consists of unrealised surplus on revaluation of long-term investments.

**24.2.3** “General reserve” consists of such amounts that have been transferred from time to time out of the retained earnings.

The movements in the above reserves are given in the Statement of Changes in Equity.

The details of the restatement are given in the note to the statement of Changes in Equity on page 38 to the Financial Statements.

## 25 Trade and other payables

<i>As at 31st March</i>	2012	2011
Trade payables	-	99
Other payables	-	64
Provisions and accruals	<b>1,819</b>	765
	<b>1,819</b>	928

## 26 Events after the Balance Sheet date

After satisfying the solvency test in accordance with Section 57 of Companies Act No. 7 of 2007, the Directors recommend a final dividend of Rs. 1.25 per share (2011 – Rs. 1.00) on the ordinary shares for the year ended 31st March 2012 amounting to Rs. 123.14 mn (2011 – Rs. 98.51 mn), which is to be approved at the forthcoming Annual General Meeting. In accordance with Sri Lanka Accounting Standard No. 12 (Revised 2005) “Events After the Balance Sheet date” the proposed dividend has not been recognized as a liability as at 31st March 2012.

Subsequent to the balance sheet date, no circumstances have arisen which would require adjustments to or disclosure in the financial statements, other than the above.

## 27 Contingent liabilities and capital commitments

There were no material contingent liabilities and capital commitments as at the balance sheet date.

## 28 Related party transactions

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard 30 (Revised 2005) - “Related party disclosures”, the details of which are reported below.

### 28.1 Parent and ultimate controlling party

Ceylon Guardian Investment Trust PLC is the parent company of Ceylon Investment PLC.

In the opinion of the Directors, Carson Cumberbatch PLC is the ultimate parent company of Ceylon Investment PLC.

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 28.2 Transactions with Related Companies

Name of the related company	Nature of the relationship	Name/s of the common Director/s	Nature of transactions	Value of the transaction	
				2012	2011
<b>Ceylon Investment PLC</b>					
Carson Cumberbatch PLC	Ultimate Parent	I. Paulraj D.C.R. Gunawardena K. Selvanathan (Alternate to Mr. M Selvanathan)	Dividends paid	-	13,741
			Amounts received on disposal of shares in Lion Brewery (Ceylon) PLC and Ceylon Beverage Holdings PLC	-	349,971
Ceylon Guardian Investment Trust PLC	Parent	I. Paulraj D.C.R. Gunawardena Mrs. M.A.R.C. Cooray A. de Z. Gunasekera V.M. Fernando K. Selvanathan	Dividend paid	<b>62,854</b>	72,833
Guardian Capital Partners PLC	Affiliate	I. Paulraj D.C.R. Gunawardena	Amounts received on transfer of investment in Expolanka Holdings Limited	-	250,848
			Interest received on short-term advances provided	-	6
Rubber Investment Trust Limited (RITL)	Associate	I. Paulraj D.C.R. Gunawardena A.P. Weeratunge	Dividends received	<b>40,970</b>	25,193
Guardian Fund Management Limited (GFM)	Affiliate	I. Paulraj (resigned from GFM w.e.f 19/04/2011) D.C.R. Gunawardena (resigned from GFM w.e.f 15/04/2011) K. Selvanathan (Appointed to GFM w.e.f 19/04/2011) A.P. Weeratunge (Appointed to GFM w.e.f 19/04/2011)	Portfolio management fees paid	<b>12,813</b>	12,023
Carsons Management Services (Private) Limited (CMSL)	Affiliate	D.C.R.Gunawardena A.P.Weeratunge K. Selvanathan	Management fees paid	<b>6,072</b>	9,229
			Computer fees paid	<b>420</b>	420
			Secretarial fees paid	<b>300</b>	60
			Secretarial expenses paid	<b>58</b>	35
Durdans Medical & Surgical Hospital (Private) Limited		D.C.R.Gunawardena	Subscription to rights issue of shares	<b>8,580</b>	-
The Sri Lanka Fund		D.C.R.Gunawardena	Acquisition of units	-	112,280

Name of the related company	Nature of the relationship	Name/s of the common Director/s	Nature of transactions	Value of the transaction	
				2012	2011
<b>Rubber Investment Trust Limited</b>					
Ceylon Guardian Investment Trust PLC	Parent	I. Paulraj D.C.R. Gunawardena	Amounts received on disposal of shares in Guardian Fund Management Limited Dividend paid	- <b>41,043</b>	28,090 25,239
Bukit Darah PLC	Associate	I. Paulraj D.C.R. Gunawardena	Dividend received on ordinary shares Dividend received on 8% cumulative preference shares	<b>51,096</b> <b>636</b>	15,003 3,257
Ceylon Investment PLC	Affiliate	I. Paulraj D.C.R. Gunawardena A.P. Weeratunge	Dividend paid	<b>40,970</b>	25,193
Guardian Fund Management Limited (GFM)	Affiliate	I. Paulraj (resigned from GFM w.e.f 19/04/2011) D.C.R. Gunawardena (resigned from GFM w.e.f 15/04/2011) A.P. Weeratunge (Appointed to GFM w.e.f 19/04/2011)	Portfolio management fees	<b>10,294</b>	8,576
Carsons Management Services (Private) Limited (CMSL)	Affiliate	D.C.R. Gunawardena (resigned from CMSL w.e.f 15/04/2011) A.P. Weeratunge	Management fees paid Computer fees paid Secretarial fees paid Secretarial expenses paid	<b>5,891</b> <b>420</b> <b>90</b> <b>1</b>	7,369 420 60 3

\* Mr. D.C.R. Gunawardena relinquished his duties and responsibilities as a Director of CMSL, effective 15th April 2011.

### 28.3 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard 30 (Revised 2006) - "Related party disclosures", Key Management personnel (KMP) are those having authority and responsibility for planning and controlling the activities of the entity. Accordingly, the Directors of the Company and its parent company (including executive and non-executive directors) have been classified as Key Management Personnel of the Company.

Compensation for Key Management Personnel (Board of Directors) incurred over the period are disclosed in note 13 to the financial statements.

## 29 Directors Responsibility

The Board of Directors is responsible for the preparation and presentation of the financial statements.

This is morefully described under the relevant clause in the Directors' Report.

# Five Year Summary

(Amounts expressed in Sri Lankan Rupees thousands)

Year ended 31st March	2012	2011	2010	2009	2008
		(Restated)			
<b>Financial highlights</b>					
<b>Revenue</b>					
Net gain on sale of investments	671,129	556,884	830,849	475,286	63,150
Dividend income	129,763	80,394	129,052	81,266	70,423
Interest income	36,126	11,303	61,403	26,315	152
	<b>837,018</b>	648,581	1,021,304	582,867	133,725
Less:					
Dividend received from associate company	(40,970)	(25,193)	(92,460)	(30,194)	(2,786)
Sales proceeds on share re-purchase by the associate company	-	-	(348,392)	-	-
	<b>796,048</b>	623,388	580,452	552,673	130,939
Unrealised gain/(loss) on mark to market value adjustment	(322,893)	112,410	84,788	(127,706)	(22,191)
<b>Profit on investment activities</b>	<b>473,155</b>	735,798	665,240	424,967	108,748
<b>Profit before taxation</b>	<b>1,016,621</b>	1,341,057	1,002,992	245,847	257,200
Income tax expense	(6,129)	(434)	(14,109)	(5,647)	-
<b>Profit for the year</b>	<b>1,010,492</b>	1,340,623	988,883	240,200	257,200
Dividend paid	(98,515)	(129,421)	(169,020)	(42,255)	(36,219)
<b>Balance sheet</b>					
<b>Capital employed</b>					
Stated capital	673,530	673,530	506,074	506,074	506,074
Reserves	6,416,076	6,994,586	4,242,443	2,652,892	3,527,224
<b>Shareholders' funds</b>	<b>7,089,606</b>	7,668,116	4,748,517	3,158,966	4,033,298
<b>Assets employed</b>					
Investments	6,042,116	7,169,723	4,366,021	2,334,592	3,925,710
Current assets	1,065,141	713,597	424,201	890,490	116,624
	<b>7,107,257</b>	7,883,320	4,790,222	3,225,082	4,042,334
Current liabilities	(17,651)	(215,204)	(41,705)	(66,116)	(9,036)
<b>Net assets</b>	<b>7,089,606</b>	7,668,116	4,748,517	3,158,966	4,033,298
<b>Cash flow statements</b>					
Net cash inflows/(outflows) from operating activities	877,514	(86,241)	314,216	787,338	168,608
Net cash generated from/(used in) financing activities	(93,288)	(125,720)	(1,078,203)	(41,673)	(35,514)
<b>Net (decrease)/increase in cash &amp; cash equivalents</b>	<b>784,226</b>	(211,961)	(763,987)	745,665	133,094

## Five Year Summary

(Amounts expressed in Sri Lankan Rupees thousands)

Year ended 31st March	2012	2011 (Restated)	2010	2009	2008
<b>Ratios and statistics</b>					
<b>Operational ratio</b>					
Return on shareholders' funds (%)	<b>14.25</b>	17.48	20.83	7.60	6.38
<b>Liquidity ratio</b>					
Current ratio (times)	<b>60.34</b>	3.32	10.17	13.47	12.91
<b>Investor ratio</b>					
Earnings per share (Rs.)	<b>10.26</b>	13.61	9.72	9.95	10.65
Dividend per share (Rs.)	<b>1.25</b>	1.00	6.70	7.00	1.75
Dividend cover (times)	<b>8.21</b>	13.61	6.55	1.42	6.09
Dividends growth (%)	<b>25</b>	(85)	(4)	(77)	(41)
Dividend yield (%)	<b>1.60</b>	0.66	2.47	12.07	2.24
Dividend payout ratio (%)	<b>12.19</b>	7.35	15.27	70.35	16.43
Net assets per share - book value (Rs.)	<b>71.96</b>	77.84	245.83	130.83	167.04
Net assets per share - market value (Rs.)	<b>138.51</b>	180.61	340.86	132.52	200.18
Market value per share - CSE (Rs.)	<b>78.30</b>	151.00	271.00	58.00	78.00
Price earnings ratio (times)	<b>7.63</b>	11.10	6.18	5.83	7.32
Price to book value (times)	<b>1.09</b>	1.94	1.10	0.44	0.47
Market capitalization (Rs. '000)	<b>7,713,715</b>	14,875,746	5,234,810	1,400,457	1,883,373
Market value of investments (Rs. '000)	<b>13,643,849</b>	17,797,997	6,602,416	4,792,066	4,792,066
Milanka Price Index (points)	<b>4,892</b>	6,875	4,271	1,736	3,181
All Share Price Index (points)	<b>5,420</b>	7,226	3,725	1,638	2,550

Previous years ratios have not been adjusted for sub-division of shares and capitalisation of reserves during the year 2011

## US\$ Financials

# Preparation of US Dollar Financial Statements

The Financial Statements of the Company are stated in US Dollars. The translation of Sri Lankan Rupee amounts into US Dollar amounts is included solely for the convenience of Shareholders, Investors, Bankers and other users of Financial Statements. US Dollar Financials do not form part of the audited Financial Statements of the Company.



# Financial summary

(Amounts expressed in United State Dollars)

For the year ended 31st March	2012	2011 (Restated)	Change %
Revenue	<b>7,096,167</b>	5,650,213	26
Profit from operations	<b>3,926,101</b>	6,307,025	(38)
Share of associate company's profit net of taxation	<b>5,136,305</b>	5,847,938	(12)
Profit before taxation	<b>9,062,406</b>	12,154,963	(25)
Profit for the year	<b>9,007,771</b>	12,151,029	(26)
Shareholders' funds	<b>55,344,307</b>	69,457,572	(20)
Total assets	<b>55,482,099</b>	71,406,875	(22)
Return on ordinary shareholders' funds (%)	<b>16.28</b>	17.49	(7)
Earnings per share (US\$)	<b>0.09</b>	0.12	(26)
Dividend per share (US\$) *	<b>0.01</b>	0.01	8
Net assets per share - book value (US\$)	<b>0.56</b>	0.66	(14)
Net assets per share - market value (US\$)	<b>1.08</b>	1.64	(34)
Ceylon Investments PLC - Fund value**	<b>106,509,359</b>	162,975,888	(35)
Market capitalization (US\$)	<b>60,216,352</b>	134,744,076	(55)

\* Based on proposed dividends and subject to approval at the Annual General Meeting.

\*\* Based on market value of portfolio after adjusting for cash and cash equivalents.

# Income Statement - US\$

(Amounts expressed in United State Dollars)

For the year ended 31st March	2012	2011 (Restated)
<b>Revenue</b>	<b>7,096,167</b>	5,650,213
Unrealized gain/(loss) on mark to market value adjustment	<b>(2,878,347)</b>	1,018,853
<b>Profit on investment activities</b>	<b>4,217,820</b>	6,669,066
Other Income	-	4,758
Administrative and other operating expenses	<b>(265,101)</b>	(305,583)
<b>Profit from operations</b>	<b>3,952,719</b>	6,368,241
Finance expenses	<b>(26,618)</b>	(61,216)
<b>Profit from operations after finance expenses</b>	<b>3,926,101</b>	6,307,025
Share of associate company's profit net of taxation	<b>5,136,305</b>	5,847,938
<b>Profit before taxation</b>	<b>9,062,406</b>	12,154,963
Income tax expense	<b>(54,635)</b>	(3,934)
<b>Profit for the year</b>	<b>9,007,771</b>	12,151,029
<b>Earnings per share (US\$)</b>	<b>0.09</b>	0.12
<b>Dividend per share (US\$)</b>	<b>0.01</b>	0.01

Figures in brackets indicate deductions.

*\*Dividend per share is calculated based on proposed dividend/interim dividend*

# Balance Sheet - US\$

(Amounts expressed in United State Dollars)

As at 31st March	2012	2011 (Restated)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment in associate	30,260,906	32,784,502
Long-term investments	16,906,275	32,158,632
<b>Total non-current assets</b>	<b>47,167,181</b>	<b>64,943,134</b>
<b>Current assets</b>		
Trade and other receivables	111,616	43,098
Current tax recoverable	37,182	18,741
Short-term investments	3,562,802	6,319,185
Short-term deposits	4,512,514	-
Cash at bank	90,804	82,717
<b>Total current assets</b>	<b>8,314,918</b>	<b>6,463,741</b>
<b>Total assets</b>	<b>55,482,099</b>	<b>71,406,875</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Stated capital	5,868,428	5,868,428
Capital reserves	16,658,165	21,848,913
Revenue reserves	33,428,296	41,507,844
Foreign currency equalization reserve	(610,582)	232,387
<b>Total equity</b>	<b>55,344,307</b>	<b>69,457,572</b>
<b>Current liabilities</b>		
Trade and other payables	14,201	8,397
Unclaimed dividends	123,591	96,042
Bank overdraft	-	1,844,864
<b>Total current liabilities</b>	<b>137,792</b>	<b>1,949,303</b>
<b>Total equity and liabilities</b>	<b>55,482,099</b>	<b>71,406,875</b>
Net assets per share - book value (US\$)	0.56	0.71
Net assets per share - market value (US\$)	1.08	1.64

## 1 Basis of conversion

The translation of Sri Lankan Rupee amounts in to US Dollar amounts is solely for the convenience of the shareholder, investor, banker and other users of financial statements.

The translation of the financial statements in to US Dollar were effected based on the following exchange rates.

		2012	2011
Income statement	Average rate	112.18	112.13
Monetary assets and liabilities	Closing rate	128.10	110.40
Non-monetary assets and liabilities	Closing rate	128.10	110.40
Ordinary share capital	Historical rate		

Gains or losses on conversion are accounted for in the revenue reserve.

Figures in brackets indicate deductions.

# Five Year Summary

(All figures in US\$ unless otherwise stated)

For the year ended 31st March	2012	2011 (Restated)	2010	2009	2008	
<b>Financial highlights</b>						
<b>Operating results</b>						
<b>Revenue</b>						
Dividend income	1,156,739	699,748	1,123,266	707,584	638,179	
Interest income	322,036	98,381	534,450	229,125	1,377	
Net gain on sale of investments	5,982,599	5,071,372	7,231,691	4,138,320	572,270	
Less:	7,461,375	5,869,501	8,889,407	5,075,028	1,211,826	
Sales proceeds on share re-purchase by the associate company	-	-	(3,032,396)	-	-	
Dividend received from associate company	(365,208)	(219,288)	(804,770)	(262,899)	(25,247)	
	7,096,167	5,650,213	5,052,241	4,812,129	1,186,579	
<b>Profit before taxation</b>	<b>9,062,406</b>	12,154,963	10,490,302	2,140,592	2,966,877	
Income tax expenses	(54,635)	(3,934)	(3,934)	(49,168)	(701,994)	
<b>Profit for the year</b>	<b>9,007,771</b>	12,151,029	10,486,368	2,091,424	2,264,883	
Dividends proposed	961,308	892,911	1,126,482	1,471,664	391,795	
<b>Balance Sheet</b>						
<b>Capital employed</b>						
Stated capital	5,868,428	5,868,428	4,374,019	4,374,019	4,854,053	
Reserves	50,086,461	63,356,757	37,188,315	22,929,058	21,780,992	
Foreign currency equalization. reserve	(610,582)	232,387	62,114.00	-	(161,665)	
<b>Shareholders' funds</b>	<b>55,344,307</b>	69,457,572	41,624,448	27,303,077	26,473,380	
Non-current liabilities	-	-	-	-	-	
	55,344,307	69,457,572	41,624,448	27,303,077	26,473,380	
<b>Assets employed</b>						
Investments	47,167,181	64,943,134	38,271,573	20,177,978	25,475,772	
Current assets	8,314,918	6,463,741	3,749,790	7,696,532	1,081,400	
	55,482,099	71,406,875	42,021,363	27,874,510	26,557,172	
Current liabilities	(137,792)	(1,949,303)	(396,915)	(571,433)	(83,792)	
<b>Net assets</b>	<b>55,344,307</b>	69,457,572	41,624,448	27,303,077	26,473,380	
<b>Cash flow statements</b>						
Net cash inflows/(outflows) from operating activities	7,822,376	(755,969)	2,734,929	6,855,359	1,563,356	
Net cash generated from/(used in) financing activities	(831,592)	(1,102,034)	(9,384,655)	(362,847)	(329,290)	
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>6,990,784</b>	(1,858,003)	(6,649,726)	6,492,512	1,234,066	
<b>Ratios and statistics</b>						
<b>Operating ratio</b>						
Return on shareholders' funds	(%)	16.28	17.49	25.19	7.67	8.56
<b>Liquidity ratio</b>						
Current ratio	(times)	60.34	3.32	9.45	13.40	12.91
<b>Investor ratio</b>						
Earnings per share	(US\$.)	0.09	0.12	0.38	0.09	0.00
Net assets per share - book value	(US\$.)	0.56	0.71	2.15	1.13	1.10
Net assets per share - market value	(US\$.)	1.08	1.64	2.99	1.33	1.86
Market capitalization	(US\$.)	60,216,352	134,744,076	45,887,184	12,104,219	17,384,978
Market value of investments	(US\$.)	106,509,359	162,975,888	57,876,275	27,757,450	18,332,564

# Information to shareholders and investors

## 1 Stock Exchange Listing

Ceylon Investment PLC, is a public quoted company, the ordinary shares of which are listed on the main board of the Colombo Stock Exchange of Sri Lanka.

Stock exchange code for Ceylon Investment PLC shares is "CINV".

## 2 Share valuation

The market price of the Company's shares as at 31st March 2012 was Rs.78/30 per share (2011 - Rs. 151/-).

## 3 Ordinary shareholders

<i>As at 31st March</i>	<b>2012</b>	2011
Number of shareholders	<b>2,602</b>	2,740

The number of shares held by non-residents as at 31st March, 2012 was 3,972,978 which amounts to 4.03% (2011 - 4,244,679 / 4.31%).

Distribution of Shares	Residents			Non-Residents			Total		
	No. of shareholders	No. of Shares	%	No. of shareholders	No. of Shares	%	No. of shareholders	No. of Shares	%
1-1,000	1,616	462,180	0.47	11	3,651	0.00	1,627	465,831	0.47
1001-10,000	676	2,268,249	2.30	23	99,635	0.10	699	2,367,884	2.40
10,001-100,000	185	5,735,584	5.82	27	765,800	0.78	212	6,501,384	6.60
100,001-1,000,000	51	16,415,118	16.66	06	1,179,886	1.20	57	17,595,004	17.86
Above 1,000,000	06	69,660,765	70.71	01	1,924,006	1.95	07	71,584,771	72.66
<b>Total</b>	<b>2,534</b>	<b>94,541,896</b>	<b>95.96</b>	<b>68</b>	<b>3,972,978</b>	<b>4.03</b>	<b>2,602</b>	<b>98,514,874</b>	<b>100</b>

Categories of shareholders	No. of shareholders	No. of shares	%
Individuals	2,393	20,132,357	20.44
Institutions	209	78,382,517	79.56
<b>Total</b>	<b>2,602</b>	<b>98,514,874</b>	<b>100</b>

## 4 Market performance - ordinary shares

For the year	<b>2012</b>	2011
Share price as at 31st March	<b>78.30</b>	151.00
Highest price (Rs.)	<b>172.50</b>	660.00
Lowest price (Rs.)	<b>78.00</b>	82.00
Value of shares traded (Rs.)	<b>428,516,812</b>	1,346,200,030
No. of shares traded	<b>3,221,062</b>	8,866,600
Volume of transactions (Nos.)	<b>4,289</b>	6,955

## Information to shareholders and investors

### 5 Market capitalisation

Market capitalisation of the Company which is the number of ordinary shares in issue multiplied by the market value of an ordinary share was Rs.7,713,714,634/- as at 31st March 2012 (as at 31st March 2011 - Rs.14,875,745,974/-).

### 6 Record of Bonus Issues, Rights Issues, Repurchase and Subdivision of shares

The undermentioned share issues/repurchase have been made by the Company to date, in relation to its ordinary shares:

Year ended 31st March	Issue	Basis	No. of Shares	Cumulative No. of shares
1919	Initial Capital	-	547,343	547,343
1954	Bonus	1:10	54,734	602,077
1956	Bonus	1:10	60,208	662,285
1988	Bonus	1:1	662,285	1,324,570
1991	Bonus	1:5	264,914	1,589,484
1999	Bonus	1:4	397,371	1,986,855
2000	Bonus	1:4	496,714	2,483,569
2002	April Rights	1:4	620,892	3,104,461
	May Bonus	1:4	776,115	3,880,576
2003	June Rights	1:3	1,293,525	5,174,101
	August Bonus	1:6	862,350	6,036,451
2004	July Rights	1:2	3,018,225	9,054,676
	September Bonus	1:2	4,527,338	13,582,014
2005	March Rights	1:3	4,527,338	18,109,352
	June Bonus	1:3	6,036,451	24,145,803
2009	October Repurchase	1:5	(4,829,161)	19,316,642
2010	October Subdivision	5:1	77,266,568	96,583,210
	Capitalization of reserves	1:50	1,931,664	98,514,874

### 7 Dividends

The Directors have proposed a first and final dividend of Rs.1/25 per share (2011 - Rs. 1/-) amounting to Rs.123,143,592/50 (2011 - Rs. 98,514,874/-).

### 8 Public holding

The total percentage of shares held by public as at 31st March 2012 was 35.63% (2011 - 35.64%).

### 9 Major Shareholders

A list of major shareholders of the Company as at the balance sheet date is provided in the Annual Report of the Board of Directors on page 31.

# Notice of Meeting

**NOTICE IS HEREBY GIVEN** that the Sixty Sixth Annual General Meeting of Ceylon Investment PLC will be held on Wednesday, the 4th day of July 2012 at 2.00 p.m. at Taj Samudra Hotel, "Crystal Room Upper Floor" No. 25, Galle Face Centre Road, Colombo 03 for the following purposes :

1. To receive and adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2012 together with the Independent Auditors' Report thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr.A.P. Weeratunge who retires by rotation in terms of Articles 89 & 90 of the Articles of Association of the Company.
4. To re-elect Mr.V.M. Fernando who retires by rotation in terms of Articles 89 & 90 of the Articles of Association of the Company.
5. To re-appoint Mr.I. Paulraj as a Director of the Company who is over Seventy years of age and to consider and if deemed fit to pass the following resolution:  
  
**"IT IS HEREBY RESOLVED** that the age limit stipulated in Section 210 of the Companies Act No. 7 of 2007 shall not be applicable to Mr.I. Paulraj who is 75 years of age and that he be re-appointed a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year".
6. To re-appoint Mr.A de Z. Gunasekera as a Director of the Company who is over Seventy years of age and to consider and if deemed fit to pass the following resolution:

**"IT IS HEREBY RESOLVED** that the age limit stipulated in Section 210 of the Companies Act No. 7 of 2007 shall not be applicable to Mr.A. de Z. Gunasekera who is 71 years of age and that he be re-appointed a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year".

7. To re-appoint Messrs. KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154(1) of the Companies Act No. 07 of 2007 and to authorize the Directors to determine their remuneration.

By Order of the Board

**CARSONS MANAGEMENT SERVICES (PRIVATE) LIMITED**  
*Secretaries*

Colombo,  
24th May 2012

**Notes:**

1. A member is entitled to appoint a proxy to attend and vote instead of him/herself. A proxy need not be a member of the Company. A Form of Proxy accompanies this Notice.
2. The completed Form of Proxy must be deposited at the Registered Office, No.61, Janadhipathi Mawatha, Colombo 1, not later than 2.00 p.m. on 2nd July 2012.
3. A person representing a Corporation is required to carry a certified copy of the resolution authorizing him/her to act as the representative of the Corporation. A representative need not be a member.
4. The transfer books of the Company will remain open.
5. Security Check -  
We shall be obliged if the shareholders/proxies attending the Annual General Meeting, produce their National Identity Card to the security personnel stationed at the entrance lobby.





# Form of Proxy

\*I/ We .....  
of .....  
being \*a Member/Members of **CEYLON INVESTMENT PLC** hereby appoint .....

.....  
of .....  
bearing NIC No./ Passport No .....or failing him/her

Israel Paulraj	or failing him,
Don Chandima Rajakaruna Gunawardena	or failing him,
Ajith Prashantha Weeratunge	or failing him,
Mirihana Arachchige Rose Chandralatha Cooray	or failing her,
Asoka de Z. Gunasekera	or failing him,
Vernon Manilal Fernando	or failing him,
Krishna Selvanathan	

as \*my/our proxy to attend at the 66th Annual General Meeting of the Company to be held on Wednesday, the 4th day of July 2012 at 2.00 p.m., at Taj Samudra Hotel, "Crystal Room Upper Floor", No. 25, Galle Face Centre Road, Colombo 3 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
(1) To adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2012, together with the Independent Auditors' Report thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(2) To declare Rs.1/25 per share as a First & Final dividend for the financial year ended 31st March 2012 as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
(3) To re-elect Mr.A.P. Weeratunge who retires in terms of Articles 89 & 90 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(4) To re-elect Mr.V.M. Fernando who retires in terms of Articles 89 & 90 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(5) To re-appoint Mr.I. Paulraj who is over Seventy years of age as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(6) To re-appoint Mr.A. de Z. Gunasekera who is over Seventy years of age as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(7) To re-appoint Messrs. KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act. No. 07 of 2007 and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this.....day of ..... Two Thousand and Twelve.

.....  
*Signature /s*

**Note:**

- (a) \* Please delete the inappropriate words.
- (b) A shareholder entitled to attend and vote at a General meeting of the Company, is entitled to appoint a proxy to attend and vote instead of him/her and the proxy need not be a shareholder of the Company. A proxy so appointed shall have the right to vote on a show of hands or on a poll and to speak at the general meeting of the shareholders.
- (c) A shareholder is not entitled to appoint more than one proxy to attend on the same occasion.
- (d) Instructions are noted on the reverse hereof.

## INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy after filling in legibly your full name and address, by signing in the space provided. Please fill in the date of signature.
2. If you wish to appoint a person other than the Directors as your proxy, please insert the relevant details in the space provided overleaf.

3. In terms of Article 71 of the Articles of Association of the Company:

The instrument appointing a proxy shall be in writing and :

- (i) in the case of an individual shall be signed by the appointor or by his attorney; and
- (ii) in the case of a corporation shall be either under its common seal or signed by its attorney or by an officer on behalf of the corporation.

The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer.

A proxy need not be a member of the Company.

4. In terms of Article 66 of the Articles of Association of the Company:

In the case of joint-holders of a share, the senior who tenders a vote, whether in person or by proxy or by attorney or by representative, shall be accepted to the exclusion of the votes of the other joint-holders and for this purpose seniority shall be determined by the order in which the names stands in the Register of members in respect of the joint holding.

5. To be valid the completed form of proxy should be deposited at the Registered Office of the Company situated at No. 61, Janadhipathi Mawatha, Colombo 1 not later than 2.00 p.m. on 2nd July 2012.

Please fill in the following details

Name : .....

Address : .....

Jointly with : .....

Share Folio No. : .....

# Corporate Information

## Name of the Company

Ceylon Investment PLC  
(A Carson Cumberbatch Company)

## Company Registration No.

PQ 68

## Domicile and Legal Form

Ceylon Investment PLC is a Public Quoted Company with limited liability domiciled in Sri Lanka.

The Company was incorporated in Sri Lanka in 1919.

## Principal Activity and Nature of Operations

During the year, the principal activity of the Company was holding and managing of an investment portfolio.

## Directors

Mr. I. Paulraj (Chairman)  
Mr. D. C. R. Gunawardena  
Mr. A.P. Weeratunge  
Mrs. M.A.R.C. Cooray  
Mr. A. de Z. Gunasekara  
Mr. V.M. Fernando  
Mr. K. Selvanathan

## Bankers

Standard Chartered Bank  
HSBC  
Commercial Bank of Ceylon PLC  
Deutsche Bank AG  
Hatton National Bank PLC

## Auditors

Messrs. KPMG  
Chartered Accountants  
No 32A, Sir Mohamed Macan Marker Mawatha  
Colombo 03  
Sri Lanka.

## Managers & Secretaries

Carsons Management Services (Private) Limited  
No. 61, Janadhipathi Mawatha  
Colombo 01  
Sri Lanka.

Telephone No: +94-11-4739200

Fax No: +94-11-4739300

## Fund Manager

Guardian Fund Management Limited  
No. 61, Janadhipathi Mawatha  
Colombo 01  
Sri Lanka.

Telephone No: +94-11-4739200

Fax No: +94-11-4739385

## Registered Office & Principal Place of Business

No. 61, Janadhipathi Mawatha  
Colombo 01  
Sri Lanka.

Telephone No: +94-11-4739200

Fax No: +94-11-4739300

## Corporate Website

[www.carsoncumberbatch.com](http://www.carsoncumberbatch.com)

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CEYLON INVESTMENT PLC - PQ 68

ADDITIONAL INFORMATION TO SHAREHOLDERS

We are herewith circulating the portfolio of the Company's associate company, Rubber Investment Trust Limited. The investment in associate company is accounted in "Equity Method" of accounting in the Company's published financial statement as required by the Sri Lanka Accounting Standard SLAS 27 (Revised 2005) - "Investments in Associates".

INVESTMENT PORTFOLIO OF RUBBER INVESTMENT TRUST LIMITED

(Amounts expressed in Sri Lankan Rupee thousands)

	Note	2012		2011	
		Cost as at 31st March	Directors valuation/ market value as at 31st March	Cost as at 31st March	Directors valuation/ market value as at 31st March
Investment in associate	1	1,927	17,531,931	1,927	23,982,243
Other long-term investments	2	422,297	2,893,649	422,297	3,008,812
Short-term investments	3	-	176,948	-	417,277
		<b>424,224</b>	<b>20,602,528</b>	<b>424,224</b>	<b>27,408,333</b>

1 Investment in associate

	% Holding	2012		2011	
		Cost as at 31st March 2012	Market Value as at 31st March 2012	Cost as at 31st March 2011	Market Value as at 31st March 2011
<b>Quoted Investments</b>					
Bukit Darah PLC	20.04%	1,927	17,531,931	20.04%	23,982,243
		<b>1,927</b>	<b>17,531,931</b>	<b>1,927</b>	<b>23,982,243</b>

2 Other long-term Investments

	No. of shares/ debentures	2012		2011	
		Cost as at 31st March	Market value as at 31st March	Cost as at 31st March	Market value as at 31st March
<b>(A) Quoted</b>					
<b>Diversified</b>					
John Keells Holdings PLC	14,044,237	421,760	2,893,113	10,533,178	3,008,276
		<b>421,760</b>	<b>2,893,113</b>	<b>421,760</b>	<b>3,008,276</b>
<b>Total long-term investments - Quoted</b>		<b>421,760</b>	<b>2,893,113</b>	<b>421,760</b>	<b>3,008,276</b>
<b>(B) Unquoted</b>					
DFCC Vardhana Bank	42,975	533	533	42,975	533
		<b>533</b>	<b>533</b>	<b>533</b>	<b>533</b>
<b>Total long-term investments - Unquoted</b>		<b>533</b>	<b>533</b>	<b>533</b>	<b>533</b>
<b>(C) Investments in debentures</b>					
<b>Redeemable unsecured debentures</b>					
Riverina Hotels Limited	56	1	1	56	1
Ocean View Limited - 6%	120	1	1	120	1
<b>Total investment in debentures</b>		<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>(D) Preference shares in associate</b>					
Bukit Darah PLC - 8%	31,875	1	1	31,875	1
<b>Total investment in preference shares</b>		<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Total other long-term investments</b>		<b>422,297</b>	<b>2,893,649</b>	<b>422,297</b>	<b>3,008,812</b>

### 3 Short-term investments

	No. of shares	Market value as at 31st March 2012	No. of shares	Market value as at 31st March 2011
<b>Banks, Finance &amp; Insurance</b>				
Central Finance PLC	-	-	40,000	50,948
Commercial Bank of Ceylon PLC	258,777	25,878	118,657	31,539
Merchant Bank of Sri Lanka PLC	-	-	250,000	11,550
Sampath Bank PLC	-	-	78,400	22,603
National Development Bank PLC	150,000	18,420	75,000	25,530
Lanka Orix Leasing Company PLC	-	-	100,000	11,960
	<b>408,777</b>	<b>44,298</b>	<b>662,057</b>	<b>154,130</b>
<b>Beverage, Food &amp; Tobacco</b>				
Distilleries Company of Sri Lanka PLC	130,000	18,850	80,000	14,400
	<b>130,000</b>	<b>18,850</b>	<b>80,000</b>	<b>14,400</b>
<b>Diversified</b>				
John Keells Holdings PLC	281,866	58,064	269,000	76,826
Vallibel One PLC	-	-	2,090,000	52,250
CT Holdings PLC	218,094	32,736	214,200	42,840
	<b>499,960</b>	<b>90,800</b>	<b>2,573,200</b>	<b>171,916</b>
<b>Manufacturing</b>				
Royal Ceramic Lanka PLC	200,000	23,000	200,000	31,400
Lanka Floortiles PLC	-	-	179,300	23,506
Piramal Glass Ceylon PLC	-	-	1,400,000	15,540
	<b>200,000</b>	<b>23,000</b>	<b>1,779,300</b>	<b>70,446</b>
<b>Plantations</b>				
Kegalle Plantations PLC	-	-	20,000	4,150
Namunukula Plantations PLC	-	-	19,500	2,235
	-	-	<b>39,500</b>	<b>6,385</b>
<b>Total short-term investments</b>		<b>176,948</b>		<b>417,277</b>