

# CEYLON INVESTMENT PLC

Annual Report 2010/11

## Consolidating our **investment** portfolio to **deliver better** shareholder value.

<b>Contents</b>	Financial & Operational Highlights..... 1	Audit Committee Report ..... 28	USD Financial Summary..... 56
	Chairman's Statement..... 2	Independent Auditor's Report ..... 31	USD Income Statement ..... 57
	Managers' Review ..... 4	Income Statement..... 32	USD Balance Sheet ..... 58
	Risk Management ..... 13	Balance Sheet..... 33	USD Five Year Summary..... 59
	Profiles of the Directors..... 19	Statement of Changes in Equity ..... 34	Information to Shareholders and Investors ..... 60
	Management Team Profiles..... 21	Cash Flow Statement..... 35	Glossary of Financial Terms..... 62
	Annual Report of the Board of Directors on the affairs of the Company..... 22	Notes to the Financial Statements ..... 36	Notice of Meeting..... 64
		Five Year Summary..... 54	Form of Proxy ..... Enclosed

**R<sub>s.</sub> 17.80 bn**  
**Total Portfolio**

**R<sub>s.</sub> 3.6 bn**  
**Long-Term Portfolio**

**R<sub>s.</sub> 698 mn**  
**Trading Portfolio**

**R<sub>s.</sub> 1.00**  
**Dividend per Share**

**R<sub>s.</sub> 151.00**  
**Market Price per Share**

**R<sub>s.</sub> 14.88 bn**  
**Market Capitalisation**

(All figures in Sri Lankan Rupees thousands unless otherwise stated).

For the year ended/As at 31st March In Rs. '000	2011	2010	% Change
Revenue	<b>1,430,972</b>	1,068,615	34
Profit from operations	<b>702,608</b>	645,465	9
Share of associate company's profit net of tax	<b>473,858</b>	357,630	32
Profit before taxation	<b>1,169,712</b>	1,002,992	17
Profit for the year	<b>1,169,278</b>	988,883	18
Shareholders' funds/Total equity	<b>7,128,010</b>	4,748,517	50
Return on ordinary shareholders' funds (%)	<b>16.40</b>	20.83	(21)
Earnings per share (Rs.)	<b>11.87</b>	9.72	22
Dividend per share (Rs.)*	<b>1.00</b>	6.70	(85)
Net assets per share - book value (Rs.)*	<b>72.35</b>	245.83	(71)
Net assets per share - market value (Rs.)*	<b>180.61</b>	340.86	(47)
Ceylon Investments Fund value**	<b>17,797,997</b>	6,613,895	169

#### Stock market data

All Share Price Index	<b>7,226</b>	3,725	94
Milanka Price Index	<b>6,875</b>	4,271	61
Market capitalization (Rs.'000)	<b>14,875,746</b>	5,234,810	184
Share price (Rs.)			
Year end	<b>151.00</b>	271.00	(44)
High***	<b>660.00</b>	335.00	97
Low*	<b>82.00</b>	57.50	43

#### Five Year Growth Rates

For the year ended/As at 31st March In Rs. '000	2011	2006	CAGR %
Revenue	<b>1,430,972</b>	142,585	59
Profit Before Taxation	<b>1,169,712</b>	198,202	43
Profit After Taxation	<b>1,169,278</b>	172,574	47
Shareholders' Funds	<b>7,128,010</b>	2,008,208	29
Value of Portfolio**	<b>17,797,997</b>	3,978,255	35

#### Stock Market Data

All Share Price Index	<b>7,226</b>	2,264	26
Milanka Price Index	<b>6,875</b>	2,877	19
Market Capitalization	<b>14,875,746</b>	1,961,864	50

\* 2011 figures are after sub-division of shares and capitalisation of reserves

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

\*\*\* Before the sub-division of shares

## Dear Shareholders,

I welcome you to the 65th 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 2011.

The last two years have been eventful for Sri Lanka with a resurgence of economic activity following the end to a long drawn period of conflict in the North East. With the dawn of a new era, every citizen and corporate has benefited from the feeling of positivism and opportunity that now pervades the nation. The Colombo Stock Exchange (CSE) has reflected the sentiment attached to this economic resurgence which has shown up in the form of new listings, strong corporate earnings growth and hitherto unseen levels of investor interest. The market has once again surpassed many significant benchmarks, amongst them its continued status as the second best performing market in the world for the second successive year in 2010 and the achievement of Rs.2 trillion in market capitalisation, amounting to 40% of GDP, an important milestone that marks the CSE's gradual march towards maturity. We at Ceylon Investment believe that these are the fore runners to many years of sustained long term growth of the market supported by strong country fundamentals.

Against this backdrop, the Company too recorded enhanced earnings in the year under review, recording a consolidated profit after tax of Rs. 1.2 bn. It is pertinent to state that our performance today is attributed to years of building strong portfolio positions and holding them during

challenging as well as good times, testimony to many years of experience in the investment business. A strong foundation has been built at Ceylon Investment by successive Boards of Directors and management teams, and I would like to express my appreciation to everyone who made this Company stronger over the years.

Our portfolio, on market value grew to Rs. 17.80 bn, up from Rs. 6.61 bn a year earlier, recording a growth of 169% representing an appreciation of Rs 11.19 bn. The benchmark All Share Index grew by 94% during the period of review. Shareholder value as represented by the growth in market capitalization grew 184%, which represents largely the income earned and capital gains realized over the year. In the medium term, five year compound annual growth was robust at 35% on market value of the portfolio, and 50% on market capitalization, vis-a vis an All Share Index growth of 26%.

In the coming years, it is envisaged that our parent company Ceylon Guardian Investment Trust PLC will leverage its resource base and management strengths to create new lines of business to position itself as an investment house with capabilities in asset management involving multiple asset classes and distribution reach. Business growth would encompass re-deployment of

our Parent Company's resources into profitable portfolio mixes such as listed equities via Ceylon Investment PLC and private equity via Guardian Capital Partners PLC to achieve differing objectives; thereby offering investors the choice of investing in whatever entity that best suits their risk appetite. Thus in aligning our corporate structure towards this business strategy, Ceylon Investments PLC would be positioned as a company that specializes in managing a portfolio of investments in listed public equities in different markets.

The rationale for this business re-organisation is twofold - firstly, Ceylon Guardian as the main flagship parent entity would take up the multiple risks associated with diverse activities within the investment business since it has the strength to balance varied risk profiles. Its subsidiary entities would not be exposed to such diverse risks but would focus on a narrower asset class with more manageable risks. Secondly, we have observed that even internationally as capital markets become more complex, different funds/entities specialise in specific asset classes to clearly differentiate their risk profiles, thereby giving investors the choice of investing according to their risk tolerance. We are attempting to create a similar model in Ceylon Guardian Group and hence the shareholders of

Ceylon Investment PLC too, we believe, would benefit in the process, as they can select one of the specialized companies within the Group to invest in, based on their risk appetite. This would also create avenues for us to strategically partner with global entities who are similarly specialized, when the time is appropriate.

In diversifying portfolio reach, it is also noted that the local capital account has now been liberalised to the extent of permitting overseas investments by a listed corporate upto USD 500,000. Ceylon Investment would be seeking suitable opportunities to take up overseas investments into its portfolio within these limits, thus expanding our investment capabilities into the wider arena, while staying within the broad scope of listed equity investments.

Ceylon Investment booked record profits in the backdrop of a buoyant year. We achieved a consolidated profit after tax of Rs. 1.2 bn as against the Rs.989 mn achieved in the previous year, an increase of 18% that best reflects the performance of equity market flowing through to our results. The mainstream investment business performance was reflected in the total portfolio appreciation of 169% for the year and appreciation of the market capitalisation by 184%.

On the macro front, the government has re-iterated its commitment to taking Sri Lanka to double digit growth in the next decade. The country rating has been upgraded to Standard & Poor B+ stable outlook and Fitch B+ positive outlook due to risk premiums coming down. The depth of the equity market is also seen

improving with Market Capitalisation of the Colombo Stock Exchange crossing the Rs. 1 trillion mark in 2009 and the Rs. 2 trillion mark in 2010 achieving milestones year on year.

We believe that Sri Lanka is only just beginning to see the benefits of post war economic growth trickling in to the economy. The opening up of the Northern and Eastern markets is a positive factor for local corporates due to the envisaged construction boom, opening up of new retail markets and agricultural sources. The Government's priority of investing into infrastructure by way of highways and ports is likely to lay the foundation for inclusive growth in the long term.

The Central Bank of Sri Lanka has indicated it will stay focused in consolidating the strong growth momentum witnessed in 2010 through committed policies of managing inflation, reduction in debt to GDP ratio and channeling investment into infrastructure. The Central Bank has set high growth expectations for 2011 supported by a pro-development budget, a tourism boom and foreign reserves being maintained at around US\$ 7bn, with a GDP growth forecast of 8.5%. Going forward we believe the Sri Lankan economy can achieve an 8.0% sustained growth over the medium term.

During the year under review, the Company portfolio continued to be managed by Guardian Fund Management Limited (GFM), the fund management company within the Carson Cumberbatch Group. Guardian Fund Management is registered with Securities Exchange

Commission of Sri Lanka as an Investment Manager. GFM manages a fund size of Rs. 14 bn. It has built an expert fund management team centered on research, compliance and systems which we propose to improve over time to internationally benchmarked best practices in each competency. Investment policies are set with the guidance of the Board of Directors and Investment Committee that carry a wealth of experience from different spheres adding valuable insights to the management effort.

In conclusion, I would like to thank the shareholders for the confidence and trust placed in the management over the years. We thank the regulators and our business associates for their continued support. I also like to thank the members of our staff for their contribution, the Audit Committee for their guidance and my colleagues on the Board for their input. We welcome Mr. Krishna Selvanathan, a director of several Carsons Group listed companies, to the Board this year. Given the positive economic growth trends anticipated in the coming years, we hope to evolve strong investment strategies to consistently create value for our shareholders in the coming years.

*(Sgd.)*

**Israel Paulraj**  
*Chairman*

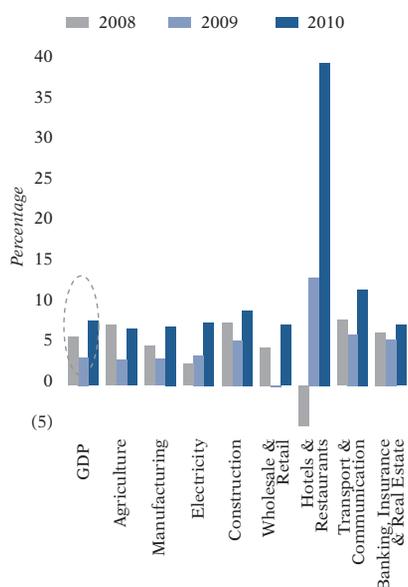
*Colombo*  
*26th May 2011*

## Economy and the Equity Market

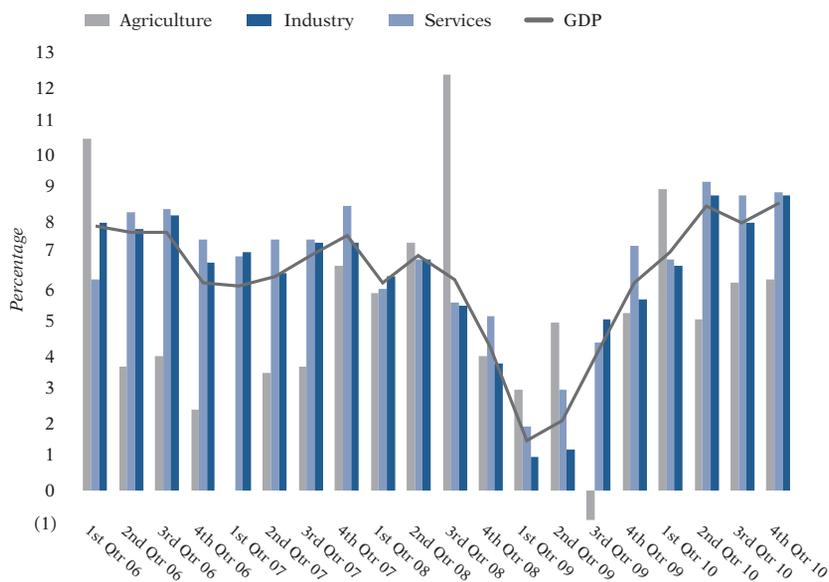
The economic turnaround was very much evident in the year under review. Sri Lanka in its first full post war year achieved an 8% GDP growth. Gross Domestic Product (GDP) at current market prices crossed the Rs. 5,602 bn mark. The country's GDP per capita at market prices improved to US\$ 2,399 in 2010 from US\$ 2,057 in 2009. The Central Bank forecasts indicate a movement towards US\$ 4,000 plus per capita GDP in 2014.

The upturn in the domestic economy has been represented by all three major sectors of the economy - Agriculture, Industry and Services which grew by 7.0%, 8.4% and 8.0% respectively in 2010. The sub sectors which registered significant growth were tea 13.1%, rubber 12.7%, minor export crops 37.6%, paddy 17.5%, construction 9.3% wholesale & retail

GDP & Sector Growth Rates



Quarterly Growth Rates



trade 7.5%, hotels & restaurant 39.8%, transport & communication 11.9%, banking, insurance & finance and real estate 7.5%.

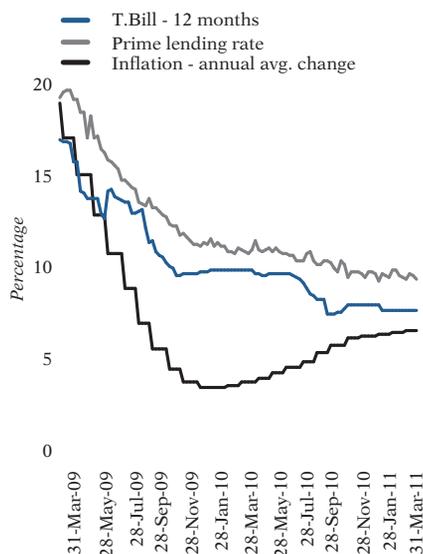
Sri Lanka posted a trade deficit of US\$ 5,205 mn but recorded a balance of payments surplus of US\$ 921 mn with remittances of US\$ 3,607 mn and net capital flows of US\$ 2,713 mn. A marked improvement in private capital flows resulted from positive economic fundamentals, demonstrating improved confidence among expat workers and investors. Gross official

reserves stood at US\$ 6.9 bn by end March 2011, which is equivalent to 5.7 months of imports.

Key economic indicators such as interest rates, inflation and exchange rates have been contained at low levels. The Central Bank during the year, reduced policy rates several times and thus reduced repurchase rates to 7% & Reverse Repurchase rate to 8.5% as at end 31st March 2011. Interbank call money rates have been stable at single digits, ranging from a low of 7.25% and a high of 7.95% during the period of

	Mar 10	Jun 10	Sept 10	Dec 10	Mar 11
Treasury Bill 3M (%)	8.45	8.07	7.13	7.24	6.98
12M (%)	9.47	9.29	7.10	7.55	7.30
Call Money (%)	9.17	9.10	8.18	8.12	7.60
Prime Lending (%)	10.74	10.38	9.91	9.29	9.30
CCPI point to point (%)	6.30	4.80	5.80	6.90	8.60

## Economic Indicators

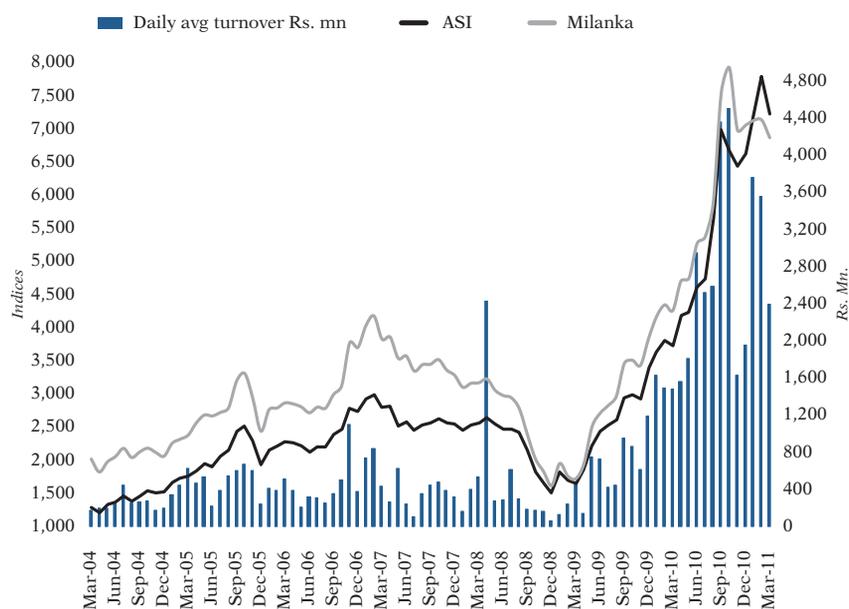


review. The 3 month T-Bill rate declined to 6.98% from 8.45% (down 147 basis points) and 12 month T-Bill rate declined from 9.47% to 7.30% (217 basis points) as at end Mar 2011. On the long end of the yield curve, the government 2-3 year bonds reduced from a high of 10.00% - 11.00% to 7.65% - 8.00% during the period of review. Policy makers have committed themselves to a low interest rate regime to spur domestic investment and this should augur well for the development of the capital markets.

Inflation as measured by the point-to-point change in the Colombo Consumers' Price Index (CCPI) increased from 6.3% as at end March 2010 to 8.6% in March 11, with

	31st Mar 10	30th Jun 10	30th Sept 10	31st Dec 10	31st Mar 11	Movement for 2010/11
ASPI	3724.6	4612.5	6997.2	6635.8	7226.1	94.0%
Milanka	4270.7	5278.4	7552.7	7061.5	6874.7	60.9%
Avg.T/O Rs. mn	1487	2954	4358	1962	2401	61.5%
Mkt Cap Rs. bn	1210.84	1503.91	2,308.75	2,217.81	2,425.05	100.3%
Mkt P/E ratio	18.4	23.3	27.8	25.31	25.71	39.8%

## CSE Indicators



much of the increase happening in the second half of the year with world commodity prices and oil prices hiking to record highs. Rising inflation has been a global challenge and Sri Lanka too has felt the impact due to foreign and domestic reasons. Excess money supply in the banking system, flood impact on food prices and rising commodity prices have been the main causes of inflation locally. In the wake of escalating

inflation, we need to be mindful of the impact it would have on interest rates.

The Sri Lankan Rupee closed at LKR 110.39 against the US\$ as at end March 2011 (end Mar 2010 - LKR 114.04), amounting to an appreciation of 3.3% during the financial year. The strengthening of the currency was mainly due to remittances, the inflows of foreign investor funds to US Dollar and Rupee denominated sovereign bond market and foreign investments. The demand for bonds was enhanced due to relatively attractive yields and reduction in country risk. During the same period, the Rupee depreciated against such currencies as the Euro 2.7% and Sterling Pound 4.1%. Steady currencies, though not

	SLRs. Per unit as at 31st Dec 09	SLRs. Per unit as at 31st Mar 10	SLRs. Per unit as at 31st Dec 10	SLRs. Per unit as at 31st Mar 11	Appreciation/(Depreciation) for Financial yr 2010/11
USD	114.38	114.04	110.95	110.39	+3.31%
GBP	181.75	169.78	171.69	177.12	-4.14%
Euro	163.72	152.10	147.78	156.38	-2.74%
Yen	1.24	1.24	1.36	1.32	-6.06%

exactly benefitting exporters, does help to curb domestic inflation stemming from import of high priced commodities and intermediate goods.

The stock market in Sri Lanka was among the best performing in the world for the second year running, with an appreciation of 125% in 2009 and 94% for the year 2010. The Colombo Bourse reached an all time high of 7,147.7 index level in Sept 2010 and thereafter surpassed it

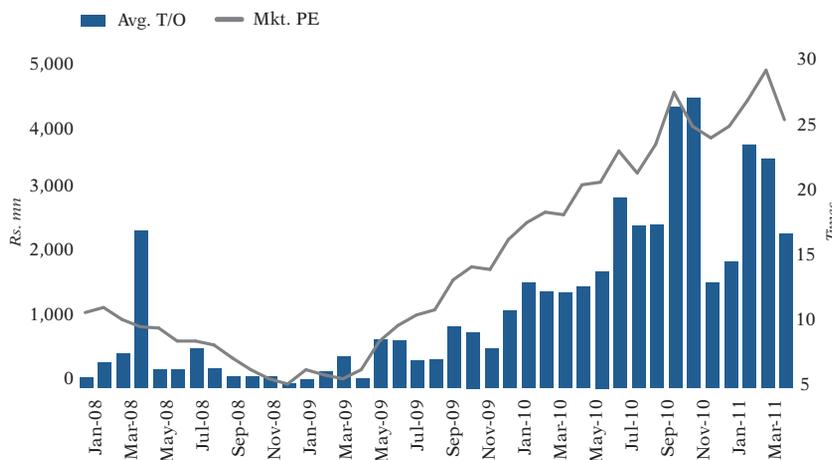
also seen improving with Market Capitalisation crossing the Rs.1 trillion mark in 2009 and the Rs. 2 trillion mark in 2010 achieving a milestone year on year. The daily average turnover too has seen great improvement to Rs. 2,401 mn in comparison to Rs.1,487 mn at the beginning of the year. However the valuations of the market have gone up tremendously from 18.4 times to market P/E multiples of 25.7 times, which appears very expensive on historic earnings figures. However,

it is pertinent to note that corporate earnings overall have shown the capacity to increase steadily with spectacular earnings growth of over 100% recorded in year 2010. In relation to regional markets the Colombo bourse is looking fairly valued at a forward multiple of 16 times, where we have seen average P/Es ranging between 13 - 14 times and the all time high has been an 18 times multiple.

The market cap to GDP ratio is at 40% in 2010 comparison to 23% in 2009 which points to a relatively immature market which is likely to see further upside given that the norm for developed countries is over 100%. Hence we believe that the true potential of the CSE is yet to be harnessed.

During the period of review a spate of IPO's hit the Colombo bourse including Pan Asia Power, Singer Finance, Laugfs, Union Bank, Free Lanka Capital Holdings, Odel and HVA Foods. The initial public offerings in the period of review have attracted a flurry of interest among

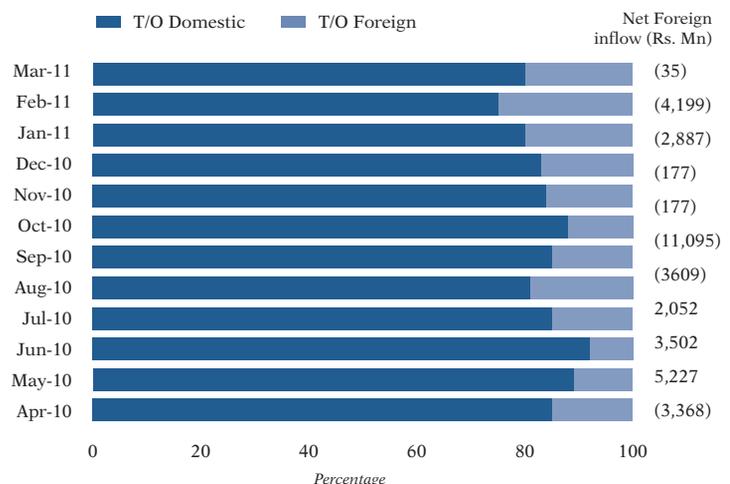
Daily Avg. T/O vs Mkt. PE



in Feb 2011 with the All Share Index reaching 7,811.0 points during the period of review. However the indices subsequently closed lower at 7,226.1, a drop of 7.5% from the high. Divergent performance of the indices is highlighted, with the All Share Index trading at a higher level than the Milanka blue chip index for the first time in the history of the Colombo Stock Exchange. The anomaly has been attributed to the run on second tier stocks vis-a vis blue chip shares.

The depth of the equity market was

Turnover - Domestic vs Foreign



investors being over subscribed in ever increasing multiples. It proved to be unviable for institutional investors to subscribe for some of the issues given the meagre allocation of shares and high bank guarantee costs, making the breakeven average price high. Hence some institutions stayed out from subscribing for IPO's of small offerings. We hope the regulators efforts to achieve a predetermined allocation in IPO offerings would address this issue effectively as would the limits on bank guarantees. Initial public offerings and rights issues raised Rs. 28.6 bn during the calendar year 2010. Dividend yield of the market came down to 1.3% in 2010 from 2.7% in 2009.

Much of the market activity is observed to be arising from local institutional and retail investors while foreign investors are seen on the selling side. A net foreign outflow of Rs. 32.2 bn was recorded for the calendar year 2010 and Rs. 7.1 bn recorded to date in the New Year 2011. Local investors continued their dominance at the Colombo bourse, accounting for 85% of turnover, the highest ever seen at the CSE. This is unlikely to be reversed due to selling across all Asian markets by foreign investors as a result of crises in the Middle East and revival of Western markets. However select buying was evident on the banking & finance sector and diversified sector by foreign investors.

### The bullish sectors of the Colombo Stock Exchange

	<b>Sector Movement for 2010/11</b>
Stores & Supplies	323.7%
Oil Palms	247.8%
Trading	205.2%
Motors	203.1%
Information Technology	203.0%
Banks, Finance & Insurance	135.5%
Chemicals & Pharma	116.4%
All Share Index movement	94.0%

The banking & finance sector which accounts for 22% of market cap has grown by 135% above the market performance of 94%. The diversified holdings sector the second largest, which accounts for 21% of the market capitalisation of the CSE under-performed the CSE. Other sectors that over performed the benchmark for the period of review have been the small weight sectors.

# Portfolio Review

## Overview

Our portfolio is fully invested in equities and has been segmented to represent long term, trading, private equity and strategic investments based on varying risk levels and anticipated returns.

An appreciable component of the fund is invested in long term listed equities which cover an investment horizon of 3-5 years, which account for 18.7% of the consolidated portfolio. A small component of the fund has been allocated for short term trading, taking a one year investment horizon. Strategic investments which account for 76.4 % of the portfolio is held for the long haul and currently is mostly composed of the stake in Bukit Darah PLC, the ultimate parent company of the Carsons Group. Private equity accounts for only a minimal part of the portfolio based on cost, in the absence of market values.

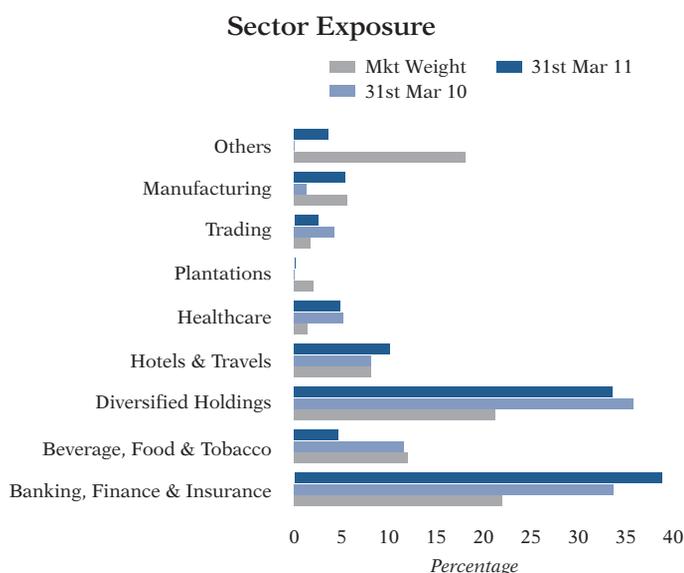
## Listed equity portfolios - long term and trading

Our investment framework encompasses the evaluation and structuring of our portfolio to achieve sustainable long term returns, whereby our acquisition and divestment decisions are based on research and evaluation of market opportunities to best enhance the investment return in the long term. We review and rebalance our existing portfolio regularly and transform investments from under performing to better performing sectors and stocks, maintaining our risk- return stance. Our portfolio is overweight on sectors where we anticipate above average economic growth and is structured to represent the economic trends faced by the country at present. A bottom up approach is applied when selecting stocks, taking into account industry presence, quality of the business

model, dynamic management and a strong balance sheet. Our investment choices are based on detailed financial valuations. A combination of different portfolio management styles are adopted when making investment decisions on the long term portfolio and short term trading portfolio, the former being on fundamental analysis and latter on temporary anomaly of price.

During the year ended 31st March 2011, we made Rs. 2.2 bn of new investments and Rs. 1.45 bn of divestments. Hence the Company was a net purchaser in the market amounting to Rs. 0.71 bn, reflecting our overall positive outlook. Our focus on the banking & financial services, retail, leisure and diversified holdings continued, although some stocks which appeared overvalued within these sectors were divested in favour of more promising growth stocks.

The construction sector was a new sector of added focus, to which we did not previously have an exposure in the long term portfolio, although significant positions in the tile business was held by the trading portfolio. The palm oil sector continued to be the heavy weight sector for the portfolio, through associate company Rubber Investment Trust Limited.



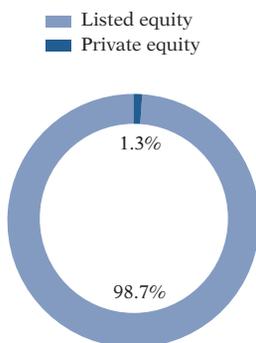
**Top 5 Holdings - excluding related companies**

	Mkt Value Rs. mn	% of Portfolio
1 John Keells Holdings	771	17.8%
2 Hatton National Bank	608	14.1%
3 Commercial Bank of Ceylon	588	13.6%
4 Aitken Spence	540	12.5%
5 Aitken Spence Hotel Holdings	376	8.7%

**Private equity portfolio**

On the private equity investment side the year under review has been a challenge, in identifying projects which are a best fit for the Guardian Group investment approach. One significant investment was committed in the year under review in Expo Lanka Holdings Ltd to the value of Rs. 252 mn inclusive of transaction costs, where the investee company's business is spread diversely among transportation, international trading, manufacturing and strategic investments, with significant regional exposure. However, in keeping with our business re-alignment strategy of having specialised entities for each asset class, the stake was taken up by a Group Company Guardian Capital Partners once it obtained shareholder approval for the acquisition. Ceylon Investment was paid an interest to cover holding costs at market rates.

**Portfolio exposure to listed equity vs private equity**



**Portfolio performance**

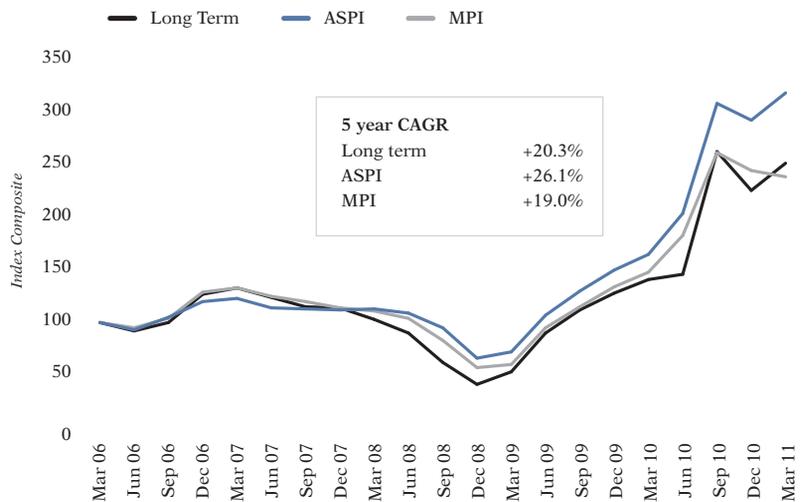
In summary, the year end valuation of the different components of our portfolio are as follows:

	31 Mar 2011 Rs. mn	31 Mar 2010 Rs. mn
Short term	698	401
Long term	3,323	1,865
Private equity	227	227
Strategic	13,745	4,109

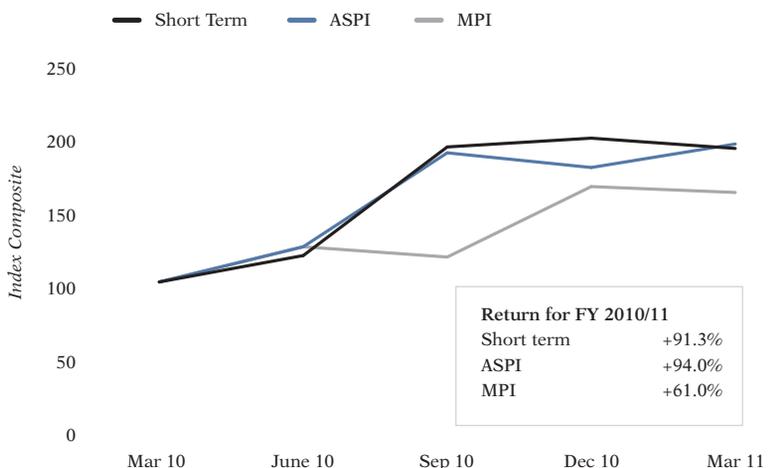
The long term portfolio clearly under performed during the financial year

where the portfolio grew by only 78%, against market appreciation of 94%. This was mainly due to the portfolio being concentrated on less than ten stocks, which outperformed the select Milanka Index but not the All Share. Market performance was affected by the under-performance of blue chip stocks and this is clearly evident with the over-performance of the All Share Index up 94% vis - a vis the Milanka index which was only up 61%, a phenomenon which leads us to conclude that this year, the market mainly ran on second tier stocks.

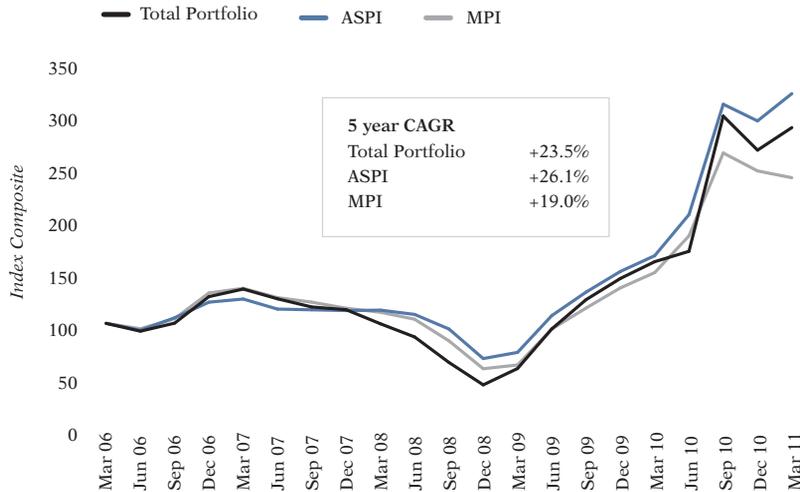
**CICL-Long term Portfolio Performance**



**CICL-Trading Portfolio Performance-2010/11**



CICL-Total Portfolio Performance



The short term portfolio recorded a growth of 91% under performing the All Share Index but out performing the blue chip Milanka Index. However when considering the whole portfolio together, the portfolio has recorded a growth of 169% against the benchmark All Share Index growth of 94% and Milanka Index growth of 61%, when the strategic holding in Bukit Darah is included.

### Profile of the Managers and Client Management

The funds are managed by Guardian Fund Management Ltd (GFM), the asset management company of the Guardian Group. Guardian Fund Management is registered with the Securities and Exchange Commission of Sri Lanka, thus being compliant with all regulatory requirements imposed by the regulator. 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 also set in place an efficient Compliance Process, Code of Ethics & Standards of Professional Conduct for the employees to support fund management activities and good management processes. The process has been set in place for future expansion plans as well, making GFM one of the best structured and governed fund management outfits in Sri Lanka.

GFM has branched out its activities in recent times to managing outsourced portfolios and has under its management approximately Rs.1.5 bn of outsourced funds, comprising Rs.1.2 bn of institutional client funds and Rs. 300 mn in the country fund, the Sri Lanka Fund.

### 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 steady long term returns to our shareholders by re-investing for growth as well as maintaining a consistent distribution

# Financial Review and Shareholder Returns

## Results

Consolidated profit after tax amounted to Rs. 1,169 mn for the year under review against Rs. 989 mn recorded last year. The consolidated profit after tax includes an unrealised appreciation of Rs. 112 mn arising from the short term portfolio. Total unrealised gains of Rs 983 mn are taken to reserves on account of the long term portfolio value appreciation, representing potential profits that could be booked in the form of cash as at the date of reporting. Group turnover comprised dividend, interest income and sales proceeds during the year. Year on year, turnover has recorded an increase of 34%. The Group also achieved an operating profit of Rs. 703 mn before finance cost a growth of 9% from Rs. 645 mn recorded in the previous year. Finance cost increased during the year, demonstrating that the

portfolio has been leveraged this year to take advantage of the lower interest rate regime.

We have considered it prudent to expose the portfolio to a conservatively leveraged position in order to bridge temporary mismatches in cashflow generation, and take advantage of low interest rates. The gearing ratio of 3% is adequately covered by our trading portfolio value in order to ensure quick liquidation in the event of a reversal in interest rates.

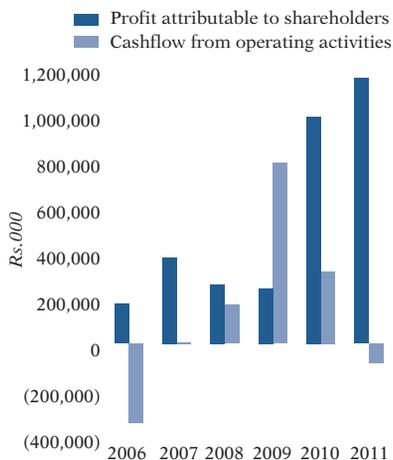
Share of associate companies profits increased from Rs. 358 mn to Rs. 474 mn during the year with the Group's holding in Rubber Investment Trust.

The Company proposes a final dividend of Rs. 1.00 per share, comparable with a dividend of

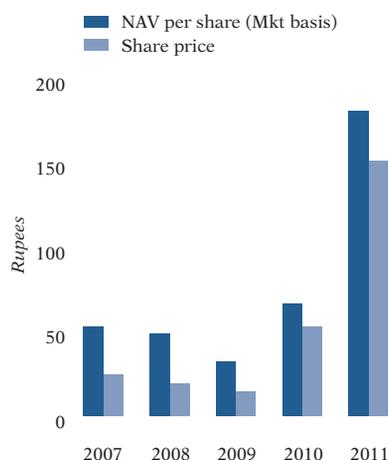
Rs. 6.70 paid in FY 2009/10 due to the impact of the share subdivision. The dividend yield has come down to 0.7% from 2.5% recorded last year, owing to changes in the Company's share price. During the year under review the company announced a sub division of one share to five and a capitalisation of Rs. 167.5 mn in a proportion of 1: 50, which re-rated the share price and resulted in a growth in market cap. The company's EPS increased to Rs. 11.87 from Rs. 9.72, and the current years dividend represents a payout of 8%.

The value per share of the company amounts to Rs. 181, on a market price based net asset valuation. With the adoption of market value accounting for all our portfolios, the net worth of the balance sheet is at market value and the actual net asset value per share is represented at market valuations. Thus the market

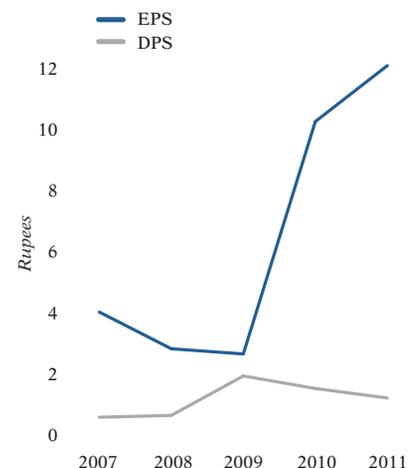
Profit to shareholders vs cashflows generated



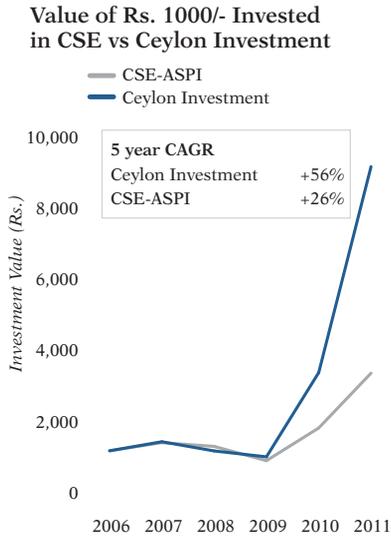
Revalued Net Assets/Share vs Market Price\*



DPS and EPS - Last 5 years\*



\* Figures prior to FY 2010/11 are adjusted for share subdivision and capitalisation of reserves.



price of the share should tend to move along with the net asset value, and it is presently seen to be trading at a discount to the intrinsic value on 31 March 2011. Shareholder wealth gained 184.6% during the year with a 184.2% share price appreciation and proposed dividend of Rs. 1 per share.

(Sgd.)

**Guardian Fund Management  
Limited**

**Investment Managers**

26th May 2011

At Ceylon Investment, 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. In the light of the financial crisis faced by many financial institutions both locally and internationally in recent times, we at Ceylon Investment have re-assessed the importance of this function to protect the interests of stakeholders.

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. With this review, we plan to bring our risk management practices in line with the benchmark best practices adopted internationally in the industry.

We see risk management in portfolio management not as an effort to eliminate risk, but in identifying which risks to bear with suitable safeguards in place, and avoiding unnecessary risks. What risks are appropriate for a particular portfolio will depend on the risk preferences of the investor and the role that particular portfolio plays in the investor's overall portfolio strategy. Hence risk management is a balancing act between managing risks & returns, and having in place practices to minimize the risks taken on by a particular portfolio.

Thus, risk is an integral part of our business and we aim at delivering

shareholder value by achieving an appropriate trade-off between risk and returns. Our risk management strategy is based on a clear understanding of various risks a portfolio is exposed to and disciplined assessment, measurement and continuous monitoring of such 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. The policies and procedures established for this purpose are continuously reviewed.

#### **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 has 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. A comprehensive risk identification and management framework is in place which is monitored consistently.

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 the Ceylon Guardian Investment Trust PLC and its listed subsidiary Ceylon Investment PLC & Guardian Capital Partners PLC conform to the listing rules and guidelines of the Colombo Stock Exchange.

The Board of Directors of the Company has ultimate responsibility for risk management. 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 Ceylon Investment 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**

Ceylon Investment 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 may be 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 Ceylon Investment 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 Ceylon Investment as the current exposure of the Company 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.

The exposure however, indirectly exists when managing the Sri Lanka Fund and any customized portfolios of foreign investors. Here we take care to ensure that benchmark returns on such foreign currency dependent portfolios are met after currency conversions are executed. Our economic research would give us an understanding of the expectations on future currency movements.

#### **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 such as Ceylon Investment 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.

#### **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 last year with the impacts of the global financial crisis arising from the US sub prime mortgage crisis spreading to other Western countries and 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, budget deficits 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.

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 Ceylon Investment 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 of all or part of the principal sums invested. 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. At Ceylon Investment 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 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. Further, private equity exposure limits at company and group level are monitored as another measure of

managing risk. 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.

In the case of private equity, Board representation in proportion to the investment for stakes over 10% is considered necessary while for smaller stakes, monitoring mechanisms to facilitate constant evaluation of the investment will be built into the shareholder agreement.

#### **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 large stakes might be a limiting factor when selling, if the stock is illiquid or in the case of a change in fundamentals.

At Ceylon Investment 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.

Temporary leverage as a measure to enhance liquidity when the risk/return trade off justifies it, has been adopted as a policy in order not to miss out on lucrative buy opportunities in the market. Our overdraft facilities currently cover approximately 3% of portfolio value. 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 and maintenance of liquidity within Ceylon Investment.

In the case of private equity, liquidity risks are difficult to manage due to time bound exit strategies. However, our insistence on one or two fall back exit options being built into the shareholder agreement ensures that eventually private equity projects will end up in an encashable state with at least a minimum return.

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

At Ceylon Investment we mitigate this risk by setting a process which seeks to meet investment targets within stated risk parameters. Portfolio performance, valuations and risks are monitored by fund managers and managed on a regular basis. We recognize that all investments will not outperform all of the time hence we diversify portfolio which reduce concentration of risk on the total performance of the fund.

#### **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.

At Ceylon Investment 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.

##### **Regulatory Compliance**

The operations of Ceylon Investment come within the rules and regulations applicable to all market participants operating in the equity 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

Mandatory regulations	Compliant and referred to in the Directors' Report.
Colombo Stock Exchange Rules and Regulations	Compliant
Securities Exchange Commission Act	Compliant
Securities Exchange Commission Rules	Compliant
Market Intermediary Rules	Staff is being made aware of the requirements under the Act and an extensive procedure manual is being prepared on same.
Financial Transactions Reporting Act Mandatory Know your customer & customer due diligence : Rules for the Securities Industry in terms of the provisions of the Financial Transactions Reporting Act	The Sri Lanka Fund has been launched and thus profiling of investors is done for new investors to the fund. Checklist of KYCs in place.
Anti Money Laundering Act	Staff is being made aware of the requirements under the Act and an extensive procedure manual is being prepared on same.
Exchange Control Act and Regulations under the Gazette regulations made under the Act	The Exchange Control Act mainly applies to the entry of foreign clients if any, and we advise the clients as and when required.
Complying with regulations for SLF marketing material	General disclaimer and any additional disclaimers applicable to different jurisdictions where the fund is distributed

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, is also subject to further regulation by the capital markets regulator

### Operational Risks

#### Professionalism in operational dealings

Ceylon Investment 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.

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 Chinese walls being maintained.

#### 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, at Ceylon Investment 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 & not falling to prohibited investments; 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 international accepted practices. 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.

#### Key risk management initiatives upto 2010/11

1. Development of a broad based research unit to research companies, industry sectors and monitoring of economic indicators
2. Implementation of Code of Ethics for all employees directly or indirectly related to the fund management operation
3. Regular monitoring of fund management operational functions by the independent Compliance Officer and Internal Audit Division of the parent company
4. Updating of staff knowledge on key issues such as insider trading and other trading rules, money laundering, KYC issues and similar regulatory priorities

#### Key risk management initiatives planned for 2011/12

1. Short listing and formulating guidelines to manage the risk impacts to the fund management company on the management of local and foreign individual or institutional client portfolios and mutual funds.
2. Formulation of a comprehensive compliance manual covering all aspects of fund management.

**Israel Paulraj**

Chairman of Ceylon Guardian Investment Trust PLC, Guardian Capital Partners PLC (Formerly Watapota Investments 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 England in 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 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 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. He is a member of the Group's Strategic Planning Forum. He also serves as a member of the Audit Committees of the Group, in Sri Lanka and overseas. Has over three decades of experience in varied fields of business and commercial activities and has held senior positions in the corporate sector. He is a Fellow of the Chartered Institute of Management Accountants, UK.

**Asoka Gunasekera**

Director of Ceylon Guardian Investment Trust PLC. Alternate Director to Mr. I.W. Senanayake (Chairman) of IWS Holdings (Pvt) Ltd in most of its 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. He is also a Director of Pirarus (Pvt) Ltd., Aitken Spence & Co. PLC., and Sri Lankan Airlines Ltd., He is also a Trustee of Joseph Fraser Memorial Hospital.

President of the local Football League and Past President of the Football Federation of Sri Lanka from 1979 to 1999.

He is a Member of the FIFA and AFC Executive Committee, Asian Cup Organising Committee and Chairman Competitions Committee of the AFC. He is also a Member of the Players Status Committee of FIFA and the FIFA Development Officer for South and Central Asian Countries., as well as the Vice President of the National Olympic Committee of Sri Lanka from 1990 to date.

Attorney-at-Law & Notary Public.

**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 held the post of secretary to the Monetary Board.

Represented the Government on the Boards of Ceylon Electricity Board, Sri Lanka Telecom, Sri Lanka Export Development Board and DFCC Bank.

Has over 36 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.

**Krishna Selvanathan**

Director of Carsons Management Services (Private) Limited, the Investment Sector Group Companies and Lion Brewery (Ceylon) PLC. He is also a member of the Investment Sector Management Team.

He holds a BA Degree in Accounting and Finance and Business Administration from the University of Kent, 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 Groups 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 Brewery PLC. He is a Fellow member of the Chartered Institute of Management Accountants of UK.

**Ruvini Fernando**

Director of Guardian Fund Management Limited, the fund management company of the Carsons Group. 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 Jayawardenepura. Counts over 20 years work experience in the fields of management accounting, finance, research analysis, strategic planning and investments, within the Hayleys Group and Carson Cumberbatch Group. Was a former visiting faculty member of the Postgraduate Institute of Management in the MBA programme. Member of the Regaining Sri Lanka Tourism Steering Committee, a key policy making forum of the government from January 2002 to January 2004.

Director of the Sri Lanka Fund and Durdans Medical and Surgical Hospital Limited representing the Guardian Group which has a private equity investment in the latter.

**Niloo Jayatilake**

Director and Head of Portfolio Management, Guardian Fund Management Ltd. Counts over 15 years experience in the investments field. Prior to joining the Carsons group worked as Fund Manager at The Unit Trust Management Company Limited managers of one of the largest unit trust in Sri Lanka. Is an Associate member of the Chartered Institute of Management Accountants, UK and Associate member of the Institute of Chartered Secretaries and Administrators, UK.

**Krishna Selvanathan**

Please refer page 20 for detailed profile.

**Vibath Wijesinghe**

Financial Controller of the Carsons Management Services (Private) Limited, the Management Company of the Carsons Group. Commenced career at M/s. KPMG Ford Rhodes, Thornton & Company and acquired over five years experience. Joined the Carsons Group in 2004 as the sector Accountant for its Real Estate, Leisure and Investment sectors. 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. Holds a B.Sc. (Special) Degree in commerce from the University of Kelaniya, Sri Lanka.

**Tharinda Jayawardena**

Head of 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 a CFA charter holder and an associate member of the Chartered Institute of Management Accountants. Also holds BSc Degree from the University of Sri Jayawardenepura specializing in Finance.

**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). Holds a Bsc (Hons) in Economics and Business Finance from Brunel University, UK and an Associate Member of the Chartered Institute of Management Accountants.

**Gayan Karunarathna**

Sector Accountant for the Group's Investment, Real Estate and Leisure sectors of the Carsons Group. Commenced career at Ernst & Young, Chartered Accountants and thereafter with Pricewaterhouse Coopers, Chartered Accountants, prior to joining Carsons Group. Counts over five 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.

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 Directors on 26th May 2011.

## GENERAL

The Directors have pleasure in presenting to the shareholders their report together with the audited Financial Statements for the year ended 31st March 2011 of Ceylon Investment PLC, a public limited liability Company incorporated in Sri Lanka in 1919.

## THE PRINCIPAL ACTIVITIES OF THE COMPANY

There were no significant changes in the nature of the principal activities of the Company during the financial year under review where the principal activity of the Company continues to be managing and holding of an investment portfolio. The main focus of the investment portfolio in future would be in listed equity investments, in order to better manage the risk profile of the portfolio to one specialized asset class.

## REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

The Chairman's Statement and the Managers' review on pages 2 to 12 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.

## FINANCIAL STATEMENTS

The Financial Statements of the Company 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 2011 are set out on pages 32 to 53. These Financial Statements do comply with the requirements of the Section 151 of the Companies Act, No 7 of 2007.

## FINANCIAL RESULTS

The audited results of the Company for the financial years ended were as follows;

For the year ended 31st March	2011	2010
Profit for the year	1,169,278	988,883
Retained earnings brought forward from previous year	1,489,520	1,656,470
Transfers	(42,443)	(84,788)
<b>Profit before appropriations</b>	<b>2,616,355</b>	<b>2,560,565</b>
Capitalization of reserves	(167,456)	-
Re-purchase of shares	-	(912,711)
Effect of change in associate company's negative goodwill	-	10,686
Dividend paid	(129,421)	(169,020)
<b>Retained earnings carried forward</b>	<b>2,319,478</b>	<b>1,489,520</b>

## INDEPENDENT AUDITORS' REPORT

The Independent Auditors' Report on the Financial Statements is given on page 31 of this Annual Report.

## SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements are given on pages 36 to 41.

There have been no changes in the Accounting Policies adopted by the

Company during the year under review.

## 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 the 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.

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; and
- Reasonable and prudent judgments and estimates have been made.

The Directors are responsible for ensuring that the Company maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company, and to ensuring that the Financial Statements have been prepared and presented in

accordance with the 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.

### INTEREST REGISTER

The Company maintains an Interest 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 Interest Register during the year under review.

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

### REMUNERATION OF DIRECTORS

Directors' remuneration, for the financial year ended 31st March 2011 is given in Note 14 to the Financial Statements on page 42.

### DIRECTORS' INTERESTS IN CONTRACTS AND SHARES

Directors' interests in transactions of the Company are disclosed in Note 28 to the Financial Statements and have been declared at meetings of the Directors. The Directors have had no direct or indirect interest in any other 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 2011	No. of Shares as at 1st April 2010
Mr. I. Paulraj	255	50
Mr. D.C.R. Gunawardena	255	50
Mr. A.P. Weeratunge	-	-
Mrs. M.A.R.C. Cooray	-	-
Mr. A. de Z. Gunasekera	-	-
Mr. V.M. Fernando	-	-
Mr. K. Selvanathan	-	-

### CORPORATE DONATIONS

There were no donations granted during the year.

### 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 and a brief profile on each of the Directors appears on page 19 to 20.

### Appointments

Mr. Krishna Selvanathan was appointed as an Executive Director of the Company on 16th December 2010.

### Directors to Retire by Rotation

In terms of Articles 89 and 90 of the Articles of Association of the Company, Mr. D.C.R. Gunawardena retires by rotation and being eligible offers himself for re-election.

In terms of Articles 89 and 90 of the Articles of Association of the Company, Mrs. M.A.R.C. Cooray retires by rotation and being eligible offers herself for re-election.

### Retirement at the 1st AGM following Appointment as Director

In terms of Articles 88 and 95 of the Articles of Association of the Company, Mr. Krishna Selvanathan retires from the Board and being eligible offers himself for re-election.

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

Mr. W.A. de Z. Gunasekera who is 70 years of age to be re-appointed as a Director of the Company for a period of one year from the conclusion of the Annual General Meeting and that the age limit stipulated in Section 210 of Companies Act No. 7 of 2007 shall not be applicable.

### AUDITORS

Company's auditors during the year under review were Messrs. KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants.

A sum of Rs. 267,000/- was paid to them by the Company as audit fees for the year ended 31st March 2011 (2010 - Rs. 193,000/-) In addition they were paid Rs. 341,600/- (2010 - Rs. 683,000) by the Company for non-audit related 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 its relationship with the group, including the level of audit and non-audit fees paid to the Auditor.

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

The following transactions were effected by the Company in the ordinary course of business with the following parties and the aggregate monetary value of these transactions exceeded 10% of the shareholder's equity or 5% of the total assets of the Company as at 31st March 2011.

<b>Company</b>	<b>Relationship</b>	<b>Transaction</b>
Carson Cumberbatch PLC (CCPLC)	Affiliated Company	On 18th August 2010 the Company disposed 808,000 and 915,200 shares of Ceylon Brewery PLC and Lion Brewery (Ceylon) PLC respectively, for a consideration of Rs. 348,176,802/-.
Guardian Capital Partners PLC (GCP)	Affiliated Company	On 30th March 2011, the Company transferred 41,600,000 ordinary shares of Expolanka Holdings Limited representing 2.34% of the total ordinary shares in issue of the said company, to the Company, at a consideration of Rs. 250,848,000/-.
		The Company held this investment on behalf of GCP. This transfer was in line with plan to structure private equity investments of the Guardian Group under GCP.

#### **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 did not have any interest with the Company and its subsidiaries that would impair their independence.

#### **SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

##### **Sub-division of shares and capitalization of reserves of Ceylon Investments PLC**

After obtaining the approval from the shareholders through an Extraordinary General Meeting held on 19th October 2010, the Company made the following changes to the Stated Capital of the Company during the year.

- Sub division of each ordinary share to 5 ordinary shares. This increased the existing number of ordinary shares 19,316,642 to 96,583,210 ordinary shares. The sub-division of shares will not result in increasing the value of the stated capital of the Company.
- 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.

#### **CORPORATE GOVERNANCE**

Compliance of Corporate Governance Rules as per the Listing Rules of the Colombo Stock Exchange (CSE).

#### **Board of Directors**

The following Directors held office as at the Balance Sheet date and their brief profiles are given on pages 19 to 20 of the Annual Report.

<b>Name of the Director</b>	<b>Executive/ Non-Executive/ Independent</b>
Mr. I. Paulraj	Non-Executive /Independent*
Mr. D.C.R. Gunawardena	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 (appointed w.e.f. 16th December 2010)	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.

\*\*Mr. D.C.R. Gunawardena having assumed Non-Executive responsibilities with effect from 15th April 2011, is categorised as a Non-Executive Director.

\*\*\*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.

#### 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 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. H. Selvanathan*	-Executive Director of CCPLC
Mr. M. Selvanathan*	Executive Director of CCPLC
Mr. D.C.R. Gunawardena**	-Executive Director of CCPLC

\* Messrs H. Selvanathan and M. Selvanathan have stepped down from the CCPLC Remuneration Committee with effect from 15th April 2011.

\*\*Mr. D.C.R. Gunawardena having assumed Non-Executive responsibilities with effect from 15th April 2011, is categorised as a Non-Executive Director of CCPLC.

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

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

#### Audit Committee

As per the 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 the following members.

Audit Committee members	Executive/ Non-Executive
Mr. Vijaya Malalasekera	Non-Executive, Independent Director of CCPLC
Mr. Chandima Gunawardena*	Executive Director of CCPLC
Mr. Faiz Mohideen	Non-Executive, Independent Director of CCPLC

\*Mr. D.C.R. Gunawardena having assumed Non-Executive responsibilities with effect from 15th April 2011, is categorised as a Non-Executive Director of CCPLC.

Additionally Mr. T. Rodrigo acts as the Expert Advisory Member to the Investment Sector.

The Audit Committee Report is given on page 28 to 29 of this Annual Report.

**Directors Meeting Attendance**

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

Director	Meetings attended (out of 4)
Mr. I. Paulraj	4
Mr. D.C.R. Gunawardena	4
Mr. A.P. Weeraratunge	4
Mrs. M.A.R.C. Cooray	4
Mr. A. de Z. Gunasekera	4
Mr. V.M. Fernando	3
Mr. K. Selvanathan (appointed w. e. f 16th December 2010)	1

**DIVIDEND**

Subject to the approval of the shareholders at the Annual General Meeting, a first and final dividend of Rs. 1/- per share is recommended by the Directors for the year ended 31st March 2011. 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.

**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. 7 of 2007 immediately after the distribution.

KPMG Ford, Rhodes, Thornton & Company have issued a Certificate of Solvency confirming the same.

**STATED CAPITAL**

The Stated Capital of the Company as at 31st March 2011 was Rs. 673,529,144/- consisting of 98,514,874 Ordinary shares.

The stated capital of the Company increased during the year from Rs. 506.07 mn to Rs. 673.5 mn due to capitalization of Rs. 167.4 mn out of revenue reserves of the Company by issuing 1,931,664 new ordinary shares.

The movement in stated capital of the Company is given in Note 23 to the Financial Statements.

**INVESTMENTS**

Investments represent investments in associate companies, short-term investments (trading portfolio) and other long-term investments.

Investment in associate company is explained in Note 19 on page 44.

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. The carrying value of the short-term portfolio as at 31st March 2011 was Rs. 697.64 mn (2010 – Rs. 400.61 mn)

Long term investments at market value are disclosed in Note 20

comprises 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 is Rs. 3,550.3 mn. (2010 - Rs. 2,092.1mn)

The movements in the investment portfolio during the year are set out in Notes 20 and 22 to the Financial Statements.

**STATUTORY PAYMENTS**

The Directors to the best of their knowledge and belief are satisfied that all statutory payments have been paid up to date or have been provided for in these Financial Statements.

**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.

**EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

Subsequent to the Balance Sheet date, no circumstances have arisen, which required adjustments to or disclosures in the Financial Statements, other than those detailed in Note 26 to the Financial Statements.

**TWENTY MAJOR SHAREHOLDERS**

	2011		2010	
	No. of shares	%	No. of shares	%
1. Ceylon Guardian Investment Trust PLC	<b>63,407,518</b>	<b>64.36</b>	10,870,453	56.27
2. Thurston Investments Limited	<b>2,044,606</b>	<b>2.08</b>	398,513	2.06
3. Mrs. M.L. De Silva	<b>1,305,380</b>	<b>1.33</b>	255,957	1.33
4. Miss G.I.A. De Silva	<b>1,277,422</b>	<b>1.30</b>	250,475	1.30
5. Mr. K.C. Vignarajah	<b>1,213,669</b>	<b>1.23</b>	169,892	0.88
6. Waldock Mackenzie Ltd/Mr. H.M.S. Abdulhussein	<b>1,120,656</b>	<b>1.14</b>	264,515	1.37
7. Mr. G.J.W. De Silva	<b>994,500</b>	<b>1.01</b>	195,000	1.01
8. Oakley Investments Limited	<b>795,600</b>	<b>0.81</b>	156,000	0.81
9. J.B. Cocoshell (Pvt) Ltd	<b>740,511</b>	<b>0.75</b>	174,218	0.90
10. DFCC Bank A/C 1	<b>676,953</b>	<b>0.69</b>	113,336	0.59
11. Miss R.H. Abdulhussein	<b>606,701</b>	<b>0.62</b>	118,961	0.62
12. Mr. Y.H. Abdulhussein	<b>582,295</b>	<b>0.59</b>	110,901	0.57
13. Employees Trust Fund Board	<b>522,220</b>	<b>0.53</b>	30,900	0.16
14. Waldock Mackenzie Ltd/Mr. M.A.N. Yoosufali	<b>502,072</b>	<b>0.51</b>	101,020	0.52
15. Commercial Bank Of Ceylon Ltd/K.C.Vignarajah	<b>496,122</b>	<b>0.50</b>	97,279	0.50
16. Cocoshell Activated Carbon Company Limited	<b>458,836</b>	<b>0.47</b>	95,317	0.49
17. Aitken Spence Plc-A/C No. 2	<b>440,339</b>	<b>0.45</b>	86,341	0.45
18. Bank Of Ceylon No. 1 Account	<b>417,000</b>	<b>0.42</b>	17,600	0.09
19. Mercantile Bank (Agency) Private Limited	<b>409,045</b>	<b>0.42</b>	80,205	0.42
20. Miss G.N.A. De Silva	<b>391,027</b>	<b>0.40</b>	76,672	0.40

**SHARE INFORMATION**

Information relating to earnings, net assets, market value per share and information on share trading are given on pages 50 and 60 to 61 of the Annual Report.

**ANNUAL REPORT**

The Board of Directors approved the Company's Financial Statements together with the reviews which forms a part of the Annual Report, on 26th May 2011. 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.

**ANNUAL GENERAL MEETING**

65th Annual General Meeting of the Company will be held on Wednesday, 29th day of June 2011 at 2.00 p.m at Taj Samudra Hotel, at "Crystal Room Upper Floor" No. 25, Galle Face Center Road, Colombo 3.

The Notice of the Annual General Meeting is on page 64 of the Annual Report.

Signed on behalf of the Board

(Sgd.)

**I. Paulraj**  
Chairman

26th May 2011

(Sgd.)

**K. Selvanathan**  
Director

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

The members of the Audit Committee are as follows :

Audit Committee members  
Executive /Non-  
Executive/Independent

Mr.Vijaya Malalasekera Non-  
Executive, Independent (CCPLC)

Mr.Chandima Gunawardena  
Executive\* (CCPLC)

Mr. Faiz Mohideen Non-Executive,  
Independent (CCPLC)

\*Mr. D.C.R. Gunawardena having assumed Non-Executive responsibilities with effect from 15th April 2011, is categorised as a Non - Executive Director.

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

Mr.Chandima Gunawardena is a 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.

In addition, Mr. Tennyson Rodrigo is the Expert Advisor to the Audit Committee for the Investment Sector.

The audit aspects of Ceylon Investment PLC are conducted within the Agenda of CCPLC-Audit Committee and the Committee is 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 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.

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	04
Mr. Chandima Gunawardena	04
Mr. Faiz Mohideen	04

Mr.Tennyson Rodrigo, the Expert Advisor attended all 04 Audit Committee Meetings.

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

The Committee has also 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 draft Financial Report and Accounts were discussed with the external auditors, without the management being present.

In accordance with the audit plan formulated and approved by the Audit Committee for the financial year 2010/2011, the Group Internal Audit (GIA) carried out five 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 2011 have also been reviewed at a

Meeting of the Audit Committee, together with the External Auditors, Messrs. KPMG Ford Rhodes Thornton & Company, 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 Ford Rhodes Thornton & Company, 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 Ford Rhodes Thornton & Company as Auditors for the financial year ending 31st March 2011, subject to the approval of the shareholders of Ceylon Investment PLC at the Annual General Meeting.

The purpose of the Audit Committee of CCPLC, the Audit Committee of Ceylon Investment PLC 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 process for monitoring compliance with Company policies and procedures, laws and regulations and the code of conduct and the identification of and management of risks that would impact on the Company/Group's business objectives.

*(Sgd.)*

**Vijaya Malalasekera**

*Chairman - Audit Committee*

**Carson Cumberbatch PLC**

*26th May 2011*

# *Financial Calendar*

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Financial year end	31st March 2011
65th Annual General Meeting to be held on	29th June 2011

## *ANNOUNCEMENT OF RESULTS*

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

• 1st Quarter	27th July 2010
• 2nd Quarter	12th November 2010
• 3rd Quarter	14th February 2011



**KPMG Ford, Rhodes, Thornton & Co.**  
(Chartered Accountants)  
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## TO THE SHAREHOLDERS OF CEYLON INVESTMENT PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Ceylon Investment PLC as at 31st March 2011 which comprise the balance sheet as at 31st March 2011 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 set out on pages 32 to 53.

### 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 31st March 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31st March 2011 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

26th May 2011  
Colombo.

KPMG Ford, Rhodes, Thornton & Co., 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.

A.N. Fernando FCA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA

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

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

For the year ended 31st March <i>In Rs.'000</i>	Note	2011	2010
<b>Revenue</b>	11	<b>1,430,972</b>	1,068,615
Carrying amount of investments disposed		<b>(1,294,615)</b>	(912,461)
Realised gain on sale of investments	12	<b>487,031</b>	424,298
Mark to market value adjustment - Unrealized gain	13	<b>112,410</b>	84,788
<b>Profit on portfolio activities</b>		<b>735,798</b>	665,240
Other income		<b>525</b>	-
Administrative and other operating expenses		<b>(33,715)</b>	(19,775)
<b>Profit from operations</b>		<b>702,608</b>	645,465
Finance cost		<b>(6,754)</b>	(103)
<b>Profit from operations after finance cost</b>	14	<b>695,854</b>	645,362
Share of associate company's profit net of tax	15	<b>473,858</b>	357,630
<b>Profit before taxation</b>		<b>1,169,712</b>	1,002,992
Income tax expense	16	<b>(434)</b>	(14,109)
<b>Profit for the year</b>		<b>1,169,278</b>	988,883
<b>Earnings per share (Rs.)</b>	17	<b>11.87</b>	9.72
<b>Dividends per share (Rs.)</b>	18	<b>1.00</b>	6.70

The Notes from pages 36 to 53 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.*

As at 31st March <i>In Rs.'000</i>	Note	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in associate	19	3,079,303	2,273,895
Long-term investments	20	3,550,313	2,092,126
<b>Total non-current assets</b>		<b>6,629,616</b>	4,366,021
<b>Current assets</b>			
Trade and other receivables	21	4,758	5,162
Income tax recoverable/credit		2,069	-
Short-term investments	22	697,638	400,613
Short-term deposits		-	5,941
Cash at bank		9,132	12,485
<b>Total current assets</b>		<b>713,597</b>	424,201
<b>Total assets</b>		<b>7,343,213</b>	4,790,222
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Stated capital	23	673,530	506,074
Capital reserves	24.1	2,043,359	1,686,615
Revenue reserves	24.2	4,411,121	2,555,828
<b>Total equity</b>		<b>7,128,010</b>	4,748,517
<b>Current liabilities</b>			
Trade and other payables	25	927	26,787
Income tax payable		-	7,010
Unclaimed dividends		10,603	6,902
Bank overdraft		203,673	1,006
<b>Total current liabilities</b>		<b>215,203</b>	41,705
<b>Total equity and liabilities</b>		<b>7,343,213</b>	4,790,222
<b>Net assets per share - Book value (Rs.)*</b>		<b>72.35</b>	245.83
<b>Net assets per share - Market value (Rs.)*</b>		<b>180.61</b>	340.86

\*Comparative figures have not been adjusted for sub-division of shares and capitalisation of reserves effected during the year.

The Notes from pages 36 to 53 form an integral part of these Financial Statements.

I certify that these Financial Statements have been prepared 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*

**Guardian Fund Management Limited**

(Sgd.)

**I. Paulraj**

*Chairman*

(Sgd.)

**K. Selvanathan**

*Director*

Colombo  
26th May 2011

	Stated Capital	Capital Reserves				Revenue Reserves			Total Equity
		Investment Reserve	Other Capital Reserve	Associate Company's Capital Reserve	Market Value Adjustment Reserve	Long term Investment Revaluation Reserve	General Reserve	Retained earnings	
<i>In Rs. '000s</i>									
Balance as at 1st April, 2009	506,074	8,401	178,740	711,968	-	70,096	27,217	1,656,470	3,158,966
Profit for the year *	-	-	-	-	-	-	-	988,883	988,883
Re-purchase of shares by the company	-	-	-	-	-	-	-	(912,711)	(912,711)
Movement in associate company's reserves	-	-	-	787,506	-	-	-	-	787,506
Effect of change in associate company's negative goodwill	-	-	-	-	-	-	-	10,686	10,686
Gain on revaluation of long term investments	-	-	-	-	-	884,207	-	-	884,207
Transfers	-	-	-	-	84,788	-	-	(84,788)	-
Dividend paid for 2009	-	-	-	-	-	-	-	(169,020)	(169,020)
Balance as at 31st March, 2010	506,074	8,401	178,740	1,499,474	84,788	954,303	27,217	1,489,520	4,748,517
<b>Balance as at 1st April, 2010</b>	<b>506,074</b>	<b>8,401</b>	<b>178,740</b>	<b>1,499,474</b>	<b>84,788</b>	<b>954,303</b>	<b>27,217</b>	<b>1,489,520</b>	<b>4,748,517</b>
Profit for the year *	-	-	-	-	-	-	-	1,169,278	1,169,278
Capitalization of reserves	167,456	-	-	-	-	-	-	(167,456)	-
Movement in associate company's reserves	-	-	-	356,744	-	-	-	-	356,744
Gain on revaluation of long term investments	-	-	-	-	-	982,892	-	-	982,892
Transfers	-	-	-	-	42,443	-	-	(42,443)	-
Dividend paid for 2010	-	-	-	-	-	-	-	(129,421)	(129,421)
<b>Balance as at 31st March, 2011</b>	<b>673,530</b>	<b>8,401</b>	<b>178,740</b>	<b>1,856,218</b>	<b>127,231</b>	<b>1,937,195</b>	<b>27,217</b>	<b>2,319,478</b>	<b>7,128,010</b>

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

The notes from pages 36 to 53 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

For the year ended 31st March <i>In Rs.'000</i>	2011	2010
<b>Cash Flows from Operating Activities</b>		
Profit before taxation	1,169,712	1,002,992
<b>Adjustments for:</b>		
Mark to market value adjustment for short-term investments	(112,410)	(68,743)
Mark to market value adjustment for long-term investments	-	(16,045)
Finance cost	6,754	103
Share of associate Company's profit net of tax	(473,858)	(357,630)
Dividend received from associate company	25,194	92,460
Sales proceeds on repurchase of shares	-	348,392
<b>Operating Profit Before Working Capital Changes</b>	<b>615,392</b>	1,001,529
Decrease/(Increase) in trade and other receivables	404	(2,525)
Net Increase in investments	(659,910)	(702,334)
Increase/(Decrease) in trade and other payables	(25,860)	24,018
<b>Cash Generated from/(used in) operations</b>	<b>(69,974)</b>	320,688
Finance cost paid	(6,754)	(103)
Tax paid	(9,513)	(6,369)
<b>Net Cash Generated from/(used in) Operating Activities</b>	<b>(86,241)</b>	314,216
<b>Cash Flows from Financing Activities</b>		
Cost of re-purchase of shares by the company	-	(912,711)
Dividend paid	(125,720)	(165,492)
<b>Net Cash Used in Financing Activities</b>	<b>(125,720)</b>	(1,078,203)
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(211,961)</b>	(763,987)
<b>Cash and Cash Equivalents at the Beginning of the Year</b>	<b>17,420</b>	781,407
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>(194,541)</b>	17,420
<b>Statement of Cash and Cash Equivalents</b>		
Short-term deposits	-	5,941
Cash at bank	9,132	12,485
Bank overdraft	(203,673)	(1,006)
	<b>(194,541)</b>	17,420

The notes on pages 36 to 53 form an integral part of these Financial Statements.

*Figures in brackets indicate deductions.*

## 1 REPORTING ENTITY

Ceylon Investments PLC 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, 2011 comprise the financial information of the Company and the Company's interest in its associate.

Principal activity of the Company was investment holding & portfolio management.

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

The Company had no employees as at the Balance Sheet date (2010 - Nil).

## 2 STATEMENT OF COMPLIANCE

The Financial Statements of the Company comprise the Balance Sheet, Statements of Income, Changes in Equity and Cash Flows together with Accounting policies and 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 2011 were authorized for issue by the Board of Directors on 26th May 2011.

## 3 BASIS OF PREPARATION

### 3.1 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently, except for the market value adjustment of investment portfolios as stated in the notes to the Financial Statements.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the respective notes to the financial statements.

### 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.

All foreign currency transactions are converted into functional currency at the 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 the exchange rate at the date when the fair values were determined.

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 aggregated 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 requires 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. The recoverable amount of an asset or Cash Generating Unit (CGU) is 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 reflects the current market assessments of the time value of money and risks specific to the asset.

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

#### 4.2 Current Taxation

Current tax liabilities are provided for in the Financial Statements applying the 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 liability is confirmed.

#### 4.3 Value of Unquoted Investments

The unquoted equity investments are stated at lower of cost and directors' valuation.

### 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and deviations if any, have been disclosed accordingly.

#### 5.1 Associate

Associates are those enterprises in which the Company has significant influence but not control, over the financial and operational policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the 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 associates' 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 the 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 value of the Company's investments in such Associates is reduced to the extent of the dividend received from these Associate Companies.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

### 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 the 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.

## 5.2 Investments

### I. Classification

- Investments held for yield or capital appreciation are classified as long-term investments.
- Investments derived from private placements of unlisted securities and held for yield or capital appreciation are classified as Private equity investments, within the category of long-term investments. Such assets are initially categorized under non-current assets. Subsequently, upon obtaining the listing in the Colombo 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.

### II. Cost

Cost of investments is the cost of acquisition including brokerage, commission and

such other fees, including all directly attributable costs of acquisition.

### III. Valuation

#### • Quoted Investments

The 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 market valuation are dealt with through the income statement.

The 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 as cost and subsequently measured at revalued amounts on quarterly basis, based on market value. Any gains are recognized in the equity as revaluation surplus. A decrease in the carrying amount of an investment over the amounts credited against such investments in to equity is recognized as an expense. A subsequent decline will be offset against a previous increase for the same investment which is credited to the revaluation surplus. An increase on revaluation that is relating to a previous decrease in carrying amount recognized as an expense, is credited to income to the extent it offsets the previously recorded decrease.

On disposal, the amount of gains applicable to that investment previously credited to the revaluation surplus is transferred from revaluation surplus to income statement.

#### • Unquoted Investments

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

### IV. Market Value of the Investment Portfolio

- Marketable equity securities are stated at the values published in the Official Valuation List of the Colombo Stock Exchange. Where the Official Valuation is not available, the market value is stated at the last transacted price.
- Units purchased from Unit Trusts are valued at the manager's buying price as at the Balance Sheet date.

### 5.3 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 the receivables. The carrying amount of the asset is reduced and the amount of the loss is recognised, if any, in the income statement under 'selling and marketing costs'. 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 'selling and marketing costs' in the income statement.

#### 5.4 Cash & Cash Equivalents

Cash & 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 changes in value.

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

#### 5.5 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. Individual assets are grouped for impairment testing purposes at the lowest level at which there are identifiable cash flows that are largely independent from the cash flows of other groups of assets. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered to be

impaired and is written down to its recoverable amount.

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.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Any decrease in the carrying value is recognised as an expense in the Income Statement in the reporting period in which the impairment loss occurs.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Management judgment is applied to establish cash generating units. Each of these cash generating units is represented by an individual primary reporting segment, or a subdivision of a primary segment. Financial Statements

### LIABILITIES AND PROVISIONS

#### 5.6 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 recognised 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.

#### 5.7 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 the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

#### 5.8 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 the 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 recognised 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 the 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

### 5.9 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 the fair value of the consideration received or receivable, net of trade discounts and sales taxes, and after eliminating sales within the Company and its Associate. The following specific criteria are used for the purpose of recognition of revenue:

- I. Disposal of Investments**  
Profits or losses on disposal of Investments are accounted for in the Income Statement on the basis of realised net profit.
- II. Proceeds on Sales of Shares**  
On accrual basis.
- III. Dividend Income**  
When the shareholders' right to receive dividend is established.
- IV. Interest income**  
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### 5.10 Expenditure Recognition

- I. Operating Expenses**  
All expenses incurred in day-to-day operations of the business has been charged to revenue in arriving at the profit or loss for the year. Provision has also been made for bad and doubtful debts and all known liabilities.
- II. Finance Expenses**  
Interest expenses are recognised on an accrual basis.

### 5.11 Current Taxation

- I. Current Taxation**  
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to Revenue Authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

The relevant details are disclosed in respective notes to the Financial Statements.

### II. Economic Service Charge (ESC)

As per the provisions of Economic Service Charge Act No. 13 of 2006 and amendments thereto, 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 the four subsequent years.

### III. Social Responsibility Levy (SRL)

As per the provisions of Finance Act No. 5 of 2005, and amendments thereto, the SRL was introduced with effect from January 1, 2005. SRL is payable at the rate of 1.5% on all taxes and levies chargeable as specified in the First Schedule of the Act.

### 5.12 Earnings per share

The Company's presents basic earnings per share (EPS) data for its ordinary shares. Basic Earnings Per Share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

**CASH FLOW STATEMENT**

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 presentation of Cash Flow Statement which has been prepared using the "Indirect Method".

**Related Party Transactions**

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the 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 the 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****I. Offsetting Income and Expenses**

Income and expenses are not offset unless required or

permitted by accounting standards.

**II. 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 DIRECTORS' RESPONSIBILITY**

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

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

**9 COMPARATIVE FIGURES**

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

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

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards – 2011, applicable for financial periods beginning on or after 1, January 2012. These new

Accounting Standards are prefixed as both SLFRS and LKAS which correspond to the relevant International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

Accordingly, these Standards have not been applied in preparing these Financial Statements as they were not effective for the year ended 31st March 2011.

The Company is currently in the process of evaluating the potential effects of these Standards on its Financial Statements and the impact on the adoption of these Standards have not been quantified as at Balance Sheet date.

For the year ended 31st March		2011	2010			
<i>In Rs.'000</i>						
<b>11 Revenue</b>						
Dividend income		80,394	129,052			
Interest income		11,303	61,403			
Proceeds from disposal of investments - strategic		-	348,392			
Proceeds from disposal of investments - non strategic		1,364,469	970,620			
		<b>1,456,166</b>	1,509,467			
Less : Sales proceeds on share re-purchase by the associate company		-	(348,392)			
Dividend received from associate company		(25,194)	(92,460)			
		<b>1,430,972</b>	1,068,615			
<b>12 Realized Gain on Sale of Investments</b>						
- On long-term investments		293,091	337,375			
- On short-term investments		193,940	86,923			
		<b>487,031</b>	424,298			
<b>13 Mark to market value adjustment -Unrealised Gain/(Loss)</b>						
On long-term investments		-	16,045			
On short-term investments		112,410	68,743			
		<b>112,410</b>	84,788			
<b>14 Profit from Operations</b>						
<b>Profit from operations is stated after charging all expenses including the following expenses:</b>						
Directors' fees		1,440	60			
Directors' emoluments		-	-			
Management fees		21,350	6,045			
Auditors' remuneration						
- Audit fees		216	193			
- Audit related fees		51	-			
- Non audit fees		342	683			
<b>15 Share of Associate Company's Profit after Taxation</b>						
		<b>Revenue</b>	<b>Profit after tax</b>	<b>Group's Share of Profit after tax</b>		
For the year ended 31st March	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010
Rubber Investment Trust Limited	<b>564,757</b>	238,592	<b>948,693</b>	749,417	<b>473,858</b>	357,630
<b>16 Income Tax Expense</b>						
<b>(a) Taxation on Current Year's Profits</b>						
Current tax expense for the year (Note 16 b)					869	13,931
Under/(Over) provision for previous year					(435)	178
					<b>434</b>	14,109

For the year ended 31st March  
In Rs.'000

2011 2010

**(b) Reconciliation of Accounting Profit with Taxable Profit**

Profit before taxation	1,169,712	1,002,992
Less: Share of associate Company's profit	(473,858)	(357,630)
Accounting profit of the Company	695,854	645,362
Dividend income (Net of associate company dividend)	(55,200)	(36,593)
Exempt gain on sale of quoted shares	(362,945)	(482,458)
Mark to market value adjustment	(306,350)	(84,788)
Aggregate of allowable claims	(525)	-
Disallowed Expenses	2,602	4,574
Expenses attributable to exempt profits	30,328	14,233
Tax adjusted profit	3,764	60,330
Less: Utilization of brought forward tax losses (Note 16 d (v))	(1,317)	(21,116)
Taxable income	2,447	39,214
<b>Tax charged thereon</b>		
Income Taxation (Note 16 d (i))	856	13,725
Social Responsibility Levy (Note 16 d (iii))	13	206
Total tax charge for the year	869	13,931

**(c) Analysis of Tax Losses**

Tax losses brought forward	11,315	32,480
Adjustment on finalization of liability	31	(49)
Utilization of tax losses during the year	(1,317)	(21,116)
Tax losses carried forward	10,029	11,315

**(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 35% (2010 - 35%).
- ii) In terms of Section 13 (t) of Inland Revenue Act No. 10 of 2006 and amendments thereto, profits derived on the sale of shares on which share transaction levy has been paid is exempt from income tax.
- iii) The Company is liable to pay 1.5% of income tax as a Social Responsibility Levy (2010 - 1.5%).
- iv) During the year company paid Economic Service Charge (ESC) amounting to Rs. 3,080,109/- (2010 - Rs. 4,029,064/-). Payment made hereunder is available as income tax credit for a period of 5 years.
- v) Utilization of brought forward tax losses is restricted to 35% of current year's Statutory Income. Unabsorbed tax losses can be carried forward indefinitely.

**17 Earnings per Share**

The earnings per share is calculated on the profit attributable to the shareholders of the Ceylon Investment PLC over 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 during the year and the previous year were adjusted for the events that have changed the number of ordinary shares in issue without a corresponding change in the resources.

The following reflects the income and share data used for the computation of Earnings per Share:

For the year ended 31st March <i>In Rs.'000</i>	2011	2010
<b>Amount used as the Numerator</b>		
Profit for the year (Rs. '000)	<b>1,169,278</b>	988,883
<b>Amount used as Denominator</b>		
Weighted average number of ordinary shares (In '000)	<b>19,317</b>	22,535
Addition to the number of shares in issue due to;		
-Sub - division of shares (Note 23.1.1a) (In '000)	<b>77,267</b>	77,267
-Capitalization of reserves (Note 23.1.1b) (In '000)	<b>1,932</b>	1,932
Weighted average number of ordinary shares used for EPS calculation (In 000)	<b>98,516</b>	101,733
<b>Earnings per Share - Rs.</b>	<b>11.87</b>	9.72

## 18 Dividend

### Dividend paid

First and Final Dividend	<b>129,421</b>	169,020
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### Dividend Proposed\*

Interim/Final Dividend	<b>98,515</b>	129,421
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\* Dividend proposed - Final is not provided for in the financial statements in accordance with the Sri Lanka Accounting Standard No. 12 (Revised 2005). "Events after the Balance Sheet Date".

## 19 Investment in Associate

### Summary

<i>In Rs. '000s</i>	Note	Carrying Value as at 31st March 2011	Directors' Valuation as at 31st March 2011	Carrying Value as at 31st March 2010	Directors' Valuation as at 31st March 2010
Investment in Associate		<b>3,079,303</b>	<b>13,744,587</b>	2,273,895	4,109,677
Total Investment in Associate	19A	<b>3,079,303</b>	<b>13,744,587</b>	2,273,895	4,109,677

### 19A. Movements in Investment in Associate

<i>In Rs. '000s</i>	% Holding	Carrying Value as at 31st March 2011	Directors' Valuation as at 31st March 2011	% Holding	Carrying Value as at 31st March 2010	Directors' Valuation as at 31st March 2010
Rubber Investment Trust Limited	<b>49.95</b>	<b>296</b>	<b>13,744,587</b>	49.95	296	4,109,677
Investors' share of net assets at the beginning of the year		<b>2,273,599</b>	-		1,558,629	-
Appreciation of associate company's reserves		<b>356,744</b>	-		787,506	-
Dividend		<b>(25,194)</b>	-		(92,460)	-
Effect of changes in associate company negative goodwill		-	-		10,686	-
Re-purchase of shares		-	-		(348,392)	-
Share of profit for the year (net of tax)		<b>473,858</b>	-		357,630	-
At the end of the year		<b>3,079,007</b>	<b>13,744,587</b>		2,273,599	4,109,677
Total Investment in Associate on Equity Method		<b>3,079,303</b>	<b>13,744,587</b>		2,273,895	4,109,677

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 the investment portfolio of RITL.

**19B. Summarised Financial Information of Associate**

<i>In Rs. '000s</i>	<b>Revenue</b>		<b>Profit after tax</b>		<b>Total Assets</b>		<b>Total Liabilities</b>	
31st March	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010
Rubber Investment Trust Limited	<b>564,757</b>	238,592	<b>948,693</b>	749,417	<b>6,165,558</b>	4,691,845	<b>624</b>	28,496

**20 Long-Term Investments**

<i>In Rs. '000s</i>	<b>Note</b>	<b>Cost as at 31st March 2011</b>	<b>Market value/ Director's Valuation as at 31st March 2011</b>	Market value/ Cost as at 31st March 2010	Market value/ Director's Valuation as at 31st March 2010
<b>Summary</b>					
<b>Investments in Equity Securities</b>					
Quoted	20.1	<b>1,274,193</b>	<b>3,181,147</b>	911,180	1,865,485
Unquoted	20.2	<b>543</b>	<b>543</b>	543	543
Private Equity	20.3	<b>226,097</b>	<b>226,097</b>	226,097	226,097
Total Investments in Equity Securities		<b>1,500,833</b>	<b>3,407,787</b>	1,137,820	2,092,125
<b>Investments in Unit Trusts</b>					
The Sri Lanka Fund	20.4	<b>112,280</b>	<b>142,525</b>	-	-
Total Investments in Unit Trusts		<b>112,280</b>	<b>142,525</b>	-	-
<b>Investments in Debentures</b>					
Unquoted	20.5	<b>1</b>	<b>1</b>	1	1
Total Investments in Debentures		<b>1</b>	<b>1</b>	1	1
<b>Total Net Carrying Value of Long-Term Investments</b>					
		<b>1,613,114</b>	<b>3,550,313</b>	1,137,821	2,092,126

**20A Movement in Long-Term Investments**

<i>In Rs. '000s</i>	<b>As at 1st April 2010</b>	<b>Additions</b>	<b>Disposals/ Write offs</b>	<b>Mark to Market Value Adjustment</b>	<b>As at 31st March 2011</b>
<b>Year 2010/11</b>					
Investments in Equity Securities	<b>2,092,125</b>	<b>961,043</b>	<b>(598,028)</b>	<b>952,647</b>	<b>3,407,787</b>
Investments in Unit Trusts	-	<b>112,280</b>	-	<b>30,245</b>	<b>142,525</b>
Investments in Debentures	<b>1</b>	-	-	-	<b>1</b>
	<b>2,092,126</b>	<b>1,073,323</b>	<b>(598,028)</b>	<b>982,892</b>	<b>3,550,313</b>

2009/10	As at 1st April 2009	Additions	Disposals/ Write offs	Mark to Market Value Adjustment	As at 31st March 2010
<i>In Rs. '000s</i>					
Investments in Equity Securities	775,613	689,732	(610,847)	1,237,627	2,092,125
Investments in Debentures	1	-	-	-	1
	775,614	689,732	(610,847)	1,237,627	2,092,126

The Mark to Market Value adjustment includes the realised and unrealized gains/(losses) on market value adjustment as indicated in Notes 12 and 13 to the Financial Statements and the movement in long-term investment revaluation reserve is disclosed in the Statement of Changes in Equity.

## 20.1 Investments in Equity Securities - Quoted

	No. of Shares	Cost as at 31st March 2011 Rs. '000	Market Value as at 31st March 2011 Rs. '000	No. of Shares	Cost as at 31st March 2010 Rs. '000	Market Value as at 31st March 2010 Rs. '000
<b>Banks, Finance &amp; Insurance</b>						
Commercial Bank of Ceylon PLC	2,180,071	188,334	579,463	1,444,100	184,003	291,347
Hatton National Bank PLC	1,500,000	245,217	570,000	1,500,000	245,217	282,375
Sampath Bank PLC	799,600	240,882	230,525	-	-	-
		674,433	1,379,988		429,220	573,722
<b>Beverage, Food &amp; Tobacco</b>						
Ceylon Brewery PLC	-	-	-	808,000	31,690	145,440
Lion Brewery (Ceylon) PLC	-	-	-	915,200	34,589	79,165
Distilleries Company of Sri Lanka PLC	-	-	-	130,500	6,385	15,399
Nestle Lanka PLC	84,600	28,700	54,212	84,600	28,700	41,454
		28,700	54,212		101,364	281,458
<b>Diversified</b>						
Aitken Spence PLC	3,325,500	81,510	539,729	265,100	97,467	364,181
John Keells Holdings PLC	1,957,981	111,030	559,199	2,053,981	116,474	377,932
		192,540	1,098,928		213,941	742,113
<b>Health Care</b>						
Ceylon Hospitals PLC	756,915	39,942	75,692	630,763	39,942	75,692
		39,942	75,692		39,942	75,692
<b>Manufacturing</b>						
Tokyo Cement PLC (Non Voting)	4,449,600	181,332	195,782	-	-	-
	4,449,600	181,332	195,782	-	-	-
<b>Hotels &amp; Travels</b>						
Aitken Spence Hotel Holdings PLC	3,842,300	157,246	376,545	500,000	126,713	192,500
		157,246	376,545		126,713	192,500
<b>Total Investments in Equity Securities - Quoted</b>						
		1,274,193	3,181,147	-	911,180	1,865,485

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 Investments in Equity Securities - Unquoted**

	No. of Shares	Cost as at 31st March 2011 Rs. '000	Director's Valuation as at 31st March 2011 Rs. '000	No. of Shares	Cost as at 31st March 2010 Rs. '000	Director's Valuation as at 31st March 2010 Rs. '000
<b>Unquoted Investments</b>						
Guardian Fund Management Limited	3	-	-	-	-	-
Kandy Private Hospitals Limited	600	10	10	600	10	10
DFCC Vardhana Bank	42,975	533	533	42,975	533	533
<b>Total Investments in Equity Securities-unquoted</b>		<b>543</b>	<b>543</b>		<b>543</b>	<b>543</b>

**20.3 Private Equity Investments**

	No. of Shares	Cost as at 31st March 2011 Rs. '000	Director's Valuation as at 31st March 2011 Rs. '000	No. of Shares	Cost as at 31st March 2010 Rs. '000	Director's Valuation as at 31st March 2010 Rs. '000
<b>Private Equity Investments</b>						
Durdans Medical & Surgical Hospital (Private) Limited	10,000,000	125,297	125,297	10,000,000	125,297	125,297
Softlogic Holdings (Private) Limited	1,400,000	100,800	100,800	1,400,000	100,800	100,800
<b>Total Investments in Equity Securities - Private Equity</b>		<b>226,097</b>	<b>226,097</b>		<b>226,097</b>	<b>226,097</b>

**20.4 Investments in Unit Trusts**

	No. of Units	Cost as at 31st March 2011 Rs. '000	Director's Valuation as at 31st March 2011 Rs. '000	No. of Units	Cost as at 31st March 2010 Rs. '000	Director's Valuation as at 31st March 2010 Rs. '000
<b>Unit Trusts</b>						
The Sri Lanka Fund	1,265,823	112,280	142,525	-	-	-
	-	112,280	142,525	-	-	-

**20.5 Investments in Debentures - Unquoted**

	No. of Debentures	Cost as at 31st March 2011 Rs. '000	Director's Valuation as at 31st March 2011 Rs. '000	No. of Debentures	Cost as at 31st March 2010 Rs. '000	Director's Valuation as at 31st March 2010 Rs. '000
<b>Redeemable Unsecured Debentures</b>						
Ocean View Limited - 6%	120	1	1	120	1	1
<b>Total Investments in Debentures - Unquoted</b>		<b>1</b>	<b>1</b>		<b>1</b>	<b>1</b>

As at 31st March 2011 2010  
*In Rs.'000*

**21 Trade and other receivables**

Trade receivable	122	-
Dividend receivable	4,207	4,810
Interest receivable	-	129
Pre-payments	429	223
	<b>4,758</b>	<b>5,162</b>

**22 Short-Term Investments**

**22.1 Movement in Short-Term Investments**

<i>In Rs. '000s</i>	As at 1st April 2010	Additions During the Year	Disposals/ Write Offs	Mark to Market Value/ Adjustment	As at 31st March 2011
<b>Year 2010/2011</b>					
<b>Short-term investments</b>	400,613	1,096,242	(857,704)	58,487	697,638
	400,613	1,096,242	(857,704)	58,487	697,638
<b>Year 2009/2010</b>					
Short-term investments	45,743	500,818	(301,614)	155,666	400,613
	45,743	500,818	(301,614)	155,666	400,613

**Mark to market value adjustment**

Mark to Market value adjustment includes the realized and unrealized gains/(loss) on market value adjustment on short-term investments as disclosed in Note 12 and 13 to the Financial Statements.

## 22.2 Investments in Equity Securities - Short-Term

	No. of Shares	Market Value as at 31st March 2011 Rs. '000	No. of Shares	Market Value as at 31st March 2010 Rs. '000
<b>Banks, Finance &amp; Insurance</b>				
National Development Bank PLC	118,600	40,371	524,100	110,061
Sampath Bank PLC	402,484	116,036	242,000	53,724
Development Finance Corporation of Ceylon PLC(DFCC)	-	-	225,000	40,613
HNB Assurance PLC	-	-	421,600	23,399
Ceylinco Insurance PLC	-	-	60,000	13,860
Commercial Bank of Ceylon PLC	35,224	9,363	-	-
Hatton National Bank PLC	100,000	38,000	-	-
LB Finance PLC	53,800	9,420	-	-
		213,190		241,657
<b>Beverage, Food &amp; Tobacco</b>				
Distilleries Company of Sri Lanka PLC	772,000	138,960	-	-
		138,960		-
<b>Diversified</b>				
John Keells Holdings PLC	742,600	212,087	674,600	124,126
CT Holdings PLC	199,000	39,800	-	-
Richard Peiris PLC	2,000,000	27,200	-	-
		279,087		124,126
<b>Hotels &amp; Travels</b>				
Browns Beach Hotels PLC	-	-	41,200	2,987
Trans Asia Hotel PLC	187,600	36,732	-	-
		36,732		2,987
<b>Plantations</b>				
Namunukula Plantations PLC	50,000	5,730	-	-
		5,730		-
<b>Manufacturing</b>				
Royal Ceramic Lanka PLC.	-	-	281,800	31,843
Lanka Tiles PLC	182,600	23,939	-	-
		23,939		31,843
<b>Total market value of short-term investments</b>		<b>697,638</b>		<b>400,613</b>

As at 31st March <i>In Rs.'000</i>	2011	2010
<b>23 Stated Capital</b>		
Balance as at the beginning of the year	506,074	506,074
Re-purchase of shares	-	-
Sub-division of shares (Note 23.1.1 a)	-	-
Capitalization of reserves (Note 23.1.1 b)	167,456	-
Balance as at the end of the year	673,530	506,074

**23.1 Movement in the number of shares**

Balance as at the beginning of the year - Issued and fully paid	19,316,642	24,145,803
Re-purchase of shares	-	(4,829,161)
Sub-division of shares (Note 23.1.1 a)	77,266,568	-
Capitalization of reserves (Note 23.1.1 b)	1,931,664	-
Balance as at the end of the year - Issued and fully paid	98,514,874	19,316,642

**23.1.1 Sub-division of shares and capitalization of reserves**

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

- a) Subdivision of each ordinary share to 5 ordinary shares. This increased the existing number of ordinary shares 19,316,642 to 96,583,210 ordinary shares. The sub-division of shares will not result in increasing 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** After the subdivision and capitalization of reserves the total stated capital of the Company amounts to Rs. 673.5mn which consists of 98,514,874 ordinary shares.

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

As at 31st March <i>In Rs.'000</i>	2011	2010
---------------------------------------	------	------

**24 Capital and Revenue Reserves****24.1 Capital Reserves**

Investment reserve	24.1.1	8,401	8,401
Associate company's capital reserve	24.1.2	1,856,218	1,499,474
Other capital reserves	24.1.3	178,740	178,740
		2,043,359	1,686,615

**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 the reserves that includes revaluation of property, plant, equipment and investments, foreign exchange differences and other changes in the associate company's equity that is not included in the Income Statement.

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

As at 31st March <i>In Rs.'000</i>		<b>2011</b>	2010
<b>24.2 Revenue Reserves</b>			
Market value adjustment reserve short term	24.2.1	<b>127,231</b>	84,788
Long term investment revaluation reserve	24.2.2	<b>1,937,195</b>	954,303
General reserve	24.2.3	<b>27,217</b>	27,217
Retained earnings		<b>2,319,478</b>	1,489,520
		<b>4,411,121</b>	2,555,828

**24.2.1** "Market Value Adjustment Reserve" consists of unrealized gains and losses arising from the "Mark to Market Value Adjustment" of short-term investment 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 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 from time to time transferred from Retained Earnings. The movements of the above reserves are given in the Statement of Changes in Equity.

As at 31st March <i>In Rs.'000</i>		<b>2011</b>	2010
<b>25 Trade and other payables</b>			
Trade payables		<b>99</b>	26,013
Other payables		<b>63</b>	-
Provisions and accruals		<b>765</b>	774
		<b>927</b>	26,787

## **26 Events after the Balance Sheet date**

The Directors recommend a first and final dividend of Rs. 1/- per share as at 31st March 2011 amounting to Rs. 98,514,874/- which would be declared at the forthcoming Annual General Meeting subject to the shareholder approval. In accordance with Sri Lanka Accounting Standard No. 12 (Revised 2005) "Events after the Balance Sheet Date" the proposed dividend has not been recognised as a liability as at 31st March 2011.

Subsequent to the Balance Sheet date, no circumstances of material nature have arisen which required adjustment to or disclosure in these Financial Statements other than disclosed 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 carries out transactions 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. Pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

### **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 operational parent company of Ceylon Investment PLC.

## 28.2 Transactions with Related Companies

Name of Related Company	Nature of relationship	Names of Directors	Nature of Transaction
<b>Ceylon Investment PLC</b> Carson Cumberbatch PLC (CCPLC)	Ultimate Parent	I. Paulraj D.C.R. Gunawardena	During the year, the Company paid a dividend amounting to Rs.13,740,588/- (2010-Rs.12,050,703/-) to CCPLC.  During the year the Company disposed 808,000 and 915,200 shares of Ceylon Brewery PLC and Lion Brewery (Ceylon) PLC for a consideration of Rs. 207,958,298/- and Rs. 140,218,453/- respectively.
Ceylon Guardian Investment Trust PLC (CGIT)	Parent	I. Paulraj D.C.R. Gunawardena Ms.M.A.R.C. Cooray A.de Z. Gunasekara V.M. Fernando	During the year Company paid dividend amounting to Rs. 72,832,705/- (2010 - Rs. 95,117,162/-) to Ceylon Guardian Investment Trust PLC.
Rubber Investment Trust Limited (RITL)	Associate	I. Paulraj D.C.R. Gunawardena A.P. Weeratunge (Alternate to I. Paulraj)	During the year Company received dividend amounting to Rs. 25,193,818/- (2010 - Rs. 92,459,989/-) from Rubber Investment Trust Limited.
Carsons Management Services (Private) Limited. (CMSL)	Affiliate	D.C.R. Gunawardena A.P. Weeratunge	The Company paid the following fees to CMSL during the year under review: Computer charges - Rs. 431,885/- (2010 - Rs. 420,000/-) Secretarial fees - Rs. 61,698/- (2010 - Rs. 60,000/-) Management fees - Rs. 9,228,517/- (2010 - Rs. 6,045,416/-)
Guardian Fund Management Limited (GFM)	Affiliate	I. Paulraj D.C.R. Gunawardena	The Company paid management fees amounting to Rs. 12,121,540/- to Gurdian Fund Management Limited during the year under review.
Guardian Capital Partners PLC (GCP)	Affiliate	I. Paulraj D.C.R. Gunawardena	41,600,000 ordinary shares of Expolanka Holdings Limited, amounting to Rs.250,848,000/-, was transferred from the Company to Guardian Capital Partners PLC (GCPP) on 30th March 2011.  The Company held the said investment on behalf of GCP until such time GCP obtained requisite shareholder approval and sourced funding to acquire the investment. GCP paid Rs.5.72 mn as interest to the Company against the cost of funds on the above transaction. Interest was charged at 8% per annum.
The Sri Lanka Fund	Affiliate	D.C.R. Gunawardena	The Company invested a sum of US\$ 1,000,000 in units of The Sri Lanka Fund as promoters capital subsequent to obtaining approval from the Controller of Exchange.

## 28.2 Transactions with Related Companies (Contd)

Name of Related Company	Nature of relationship	Names of Directors	Nature of Transaction
<b>Rubber Investment Trust Limited</b>  Ceylon Guardian Investment Trust PLC (CGIT)	Parent	I. Paulraj D.C.R. Gunawardena	During the year, the Company paid dividend amounting to Rs. 25,239,428/- (2010 - Rs.92,627,026/-) to CGIT.  The Company transferred its holding in Guardian Fund Management Limited (GFM) consisting of 1,045,015 shares of GFM which had been a wholly owned subsidiary of the Company for a total consideration of Rs. 28,089,842/-.
Carsons Management Services (Private) Limited (CMSL)	Affiliate	D.C.R. Gunawardena A.P. Weeraturunge	The Company paid the following fees to CMSL during the year under review: Computer charges - Rs. 420,000/- (2010 - Rs. 420,000/-) Secretarial fees - Rs. 60,000/- (2010 - Rs. 60,000/- ) Management fees - Rs. 7,368,605/- (2010 - Rs.4,384,724/-)
Guardian Fund Management Limited (GFM)	Affiliate	I. Paulraj D.C.R. Gunawardena	The Company paid management fees amounting to Rs. 8,198,766/- to GFM during the year under review.

## 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) and their immediate family members have been classified as Key Management Personnel of the Company.

No payments such as short term employment benefits, post employment benefits, termination benefits and share based payments have been made to KMP during the year.

Year ended 31st March

In Rs. '000s

	2011	2010	2009	2008	2007
<b>Financial Highlights</b>					
<b>Operating Results</b>					
<b>Revenue</b>					
Dividend income	80,394	129,052	81,266	70,423	81,109
Interest income	11,303	61,403	26,315	152	186
Proceeds from disposal of investments	1,364,469	1,319,012	881,308	199,164	269,568
	<b>1,456,166</b>	1,509,467	988,889	269,739	350,863
Less:					
Dividend received from associate company	(25,194)	(92,460)	(30,194)	(2,786)	(18,581)
Sales proceeds on share re-purchase by the associate Company	-	(348,392)	-	-	-
	<b>1,430,972</b>	1,068,615	958,695	266,953	332,282
<b>Profit before tax</b>	<b>1,169,712</b>	1,002,992	245,847	257,200	410,965
Income tax expense	(434)	(14,109)	(5,647)	-	(35,952)
<b>Profit after tax</b>	<b>1,169,278</b>	988,883	240,200	257,200	375,013
Dividend paid	(129,421)	(169,020)	(42,255)	(36,219)	36,219
<b>Balance Sheet</b>					
<b>Capital Employed</b>					
Stated capital	673,530	506,074	506,074	506,074	506,074
Reserves	6,454,480	4,242,443	2,652,892	3,527,224	1,935,131
<b>Shareholders' Funds</b>	<b>7,128,010</b>	4,748,517	3,158,966	4,033,298	2,441,205
<b>Assets Employed</b>					
Investments	6,629,616	4,366,021	2,334,592	3,925,710	2,401,861
Current assets	713,597	424,201	890,490	116,624	140,056
	<b>7,343,213</b>	4,790,222	3,225,082	4,042,334	2,541,917
Current liabilities	(215,203)	(41,705)	(66,116)	(9,036)	(100,712)
<b>Net assets</b>	<b>7,128,010</b>	4,748,517	3,158,966	4,033,298	2,441,205
<b>Cash Flow Statements</b>					
Net cash inflows/(outflows) from operating activities	(86,241)	314,216	787,338	168,608	5,002
Net cash generated from/(used in) financing activities	(125,720)	(1,078,203)	(41,673)	(35,514)	(38,092)
<b>Net (decrease)/increase in cash &amp; cash equivalents</b>	<b>(211,961)</b>	(763,987)	745,665	133,094	(33,090)

Year ended 31st March	2011	2010	2009	2008	2007
<b>Ratios and Statistics</b>					
<b>Operational Ratio</b>					
Return on shareholders' funds (%)	<b>16.40</b>	20.83	7.60	6.38	15.36
<b>Liquidity Ratio</b>					
Current ratio (times)	<b>3.32</b>	10.17	13.47	12.91	1.39
<b>Investor Ratio</b>					
Earnings per share (Rs.)	<b>11.87</b>	9.72	9.95	10.65	15.53
Dividend per share (Rs.)	<b>1.00</b>	6.70	7.00	1.75	1.50
Dividend cover (times)	<b>11.87</b>	6.55	1.42	6.09	10.35
Dividends growth (%)	<b>718</b>	(4)	(77)	(41)	-
Dividend yield (%)	<b>0.66</b>	2.47	12.07	2.24	1.49
Dividend payout ratio(%)	<b>8.43</b>	15.27	70.35	16.43	9.66
Net assets per share - Book value (Rs.)	<b>72.35</b>	245.83	130.83	167.04	101.10
Net assets per share - Market value (Rs.)	<b>180.61</b>	340.86	132.52	200.18	214.97
Market value per share - CSE (Rs.)	<b>151.00</b>	271.00	58.00	78.00	100.50
Price earnings ratio (times)	<b>3.44</b>	6.18	5.83	7.32	6.47
Price to book value(times)	<b>2.09</b>	1.10	0.44	0.47	0.99
Market capitalization (Rs. '000)	<b>14,875,746</b>	5,234,810	1,400,457	1,883,373	2,426,653
Market value of investments (Rs. '000)	<b>17,992,538</b>	6,602,416	3,161,742	4,792,066	5,288,098
Milanka Price Index (points)	<b>6,875</b>	4,271	3,181	3,181	3,838
All Share Price Index (points)	<b>7,226</b>	3,725	2,550	2,550	2,790

Previous years ratios are not adjusted for sub-division of shares and capitalisation of reserves during the year.

## 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.

(All figures in US\$ thousands unless otherwise stated)

For the year ended 31st March	2011	2010
Revenue	<b>12,970</b>	9,301
Profit from operations	<b>6,307</b>	5,617
Profit before taxation	<b>10,602</b>	8,730
Profit after taxation	<b>10,598</b>	8,607
Dividend	<b>1,173</b>	1,471
Shareholders' funds	<b>64,547</b>	41,624
Total assets	<b>66,496</b>	42,021
Return on ordinary shareholders' funds (%)	<b>16.42</b>	20.68
Earnings per share (US\$)	<b>0.11</b>	0.08
Net assets per share - Book value (US\$)	<b>0.66</b>	2.15
Net assets per share - Market value (US\$)	<b>1.64</b>	2.99
Market capitalization	<b>45,887</b>	12,104
Market value of investment portfolio	<b>162,976</b>	57,875

For the year ended 31st March <i>In US\$</i>	2011	2010
<b>Revenue</b>	<b>12,969,927</b>	9,301,201
Carrying value of investments disposed	<b>(11,734,025)</b>	(7,942,040)
Realised gain on sale of investments	<b>4,414,312</b>	3,693,080
Mark to market value adjustment - Unrealized gain	<b>1,018,853</b>	737,993
<b>Profit on portfolio activities</b>	<b>6,669,066</b>	5,790,234
Other Income	<b>4,758</b>	-
Administrative and other operating expenses	<b>(305,583)</b>	(172,121)
<b>Profit from operations</b>	<b>6,368,241</b>	5,618,113
Finance cost	<b>(61,216)</b>	(897)
<b>Profit from operations after finance cost</b>	<b>6,307,024</b>	5,617,216
Share of associate company's profit net of tax	<b>4,294,915</b>	3,112,804
<b>Profit before taxation</b>	<b>10,601,940</b>	8,730,020
Income tax expense	<b>(3,934)</b>	(122,802)
Profit for the year	<b>10,598,006</b>	8,607,218
<b>Earnings per share (US \$)</b>	<b>0.11</b>	0.08
<b>Dividends per share (US \$)</b>	<b>0.01</b>	0.06

*Figures in brackets indicate deductions.*

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

As at 31st March <i>In US\$</i>	2011	2010
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment in associate	27,892,237	19,932,460
Long-term investments	32,158,632	18,339,113
<b>Total non-current assets</b>	<b>60,050,869</b>	<b>38,271,573</b>
<b>Current assets</b>		
Trade and other receivables	43,098	76,587
Short-term investments	6,319,185	3,511,685
Short-term deposits	-	52,077
Cash at bank	82,717	109,441
<b>Total current assets</b>	<b>6,445,000</b>	<b>3,749,790</b>
<b>Total assets</b>	<b>66,495,869</b>	<b>42,021,363</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Stated capital	5,868,428	4,374,019
Capital reserves	18,508,687	14,784,493
Revenue reserves	39,955,808	22,403,822
Foreign currency equalization reserve	213,643	62,114
<b>Total Equity</b>	<b>64,546,566</b>	<b>41,624,448</b>
<b>Current liabilities</b>		
Trade and other payables	8,397	234,809
Income tax payable	-	92,786
Unclaimed dividends	96,042	60,502
Bank overdraft	1,844,864	8,818
<b>Total current liabilities</b>	<b>1,949,303</b>	<b>396,915</b>
<b>Total equity and liabilities</b>	<b>66,495,869</b>	<b>42,021,363</b>
Net assets per share - Book value (US \$)	0.66	2.15
Net assets per share - Market value (US \$)	1.64	2.99
<b>Basis of Conversion</b>		
Income Statement	- Average rate	
Monetary assets and liabilities	- Closing rate	
Stated Capital	- Historical rate	
	<b>2011</b>	<b>2010</b>
	<b>US\$</b>	<b>US\$</b>
Average rate	110.33	114.89
Closing rate	110.40	114.08

Figures in brackets indicate deductions.

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

For the year ended 31st March <i>In Rs. '000s</i>	2011 US\$	2010 US\$	2009 US\$	2008 US\$	2007 US\$	
<b>Financial Highlights</b>						
<b>Operating Results</b>						
<b>Revenue</b>						
Dividend income	699,748	1,123,266	707,584	638,179	768,223	
Interest income	98,381	534,450	229,125	1,377	1,762	
Proceeds from disposal of investments	11,876,308	11,480,651	7,673,557	1,804,839	2,553,211	
Less:	12,674,436	13,138,367	8,610,266	2,444,395	3,323,196	
Sales proceeds on share re-purchase by the associate company	-	(3,032,396)	-	-	-	
Dividend received from associate company	(219,288)	(804,770)	(262,899)	(25,247)	(175,990)	
	12,455,148	9,301,201	8,347,366	2,419,148	3,147,206	
<b>Profit before tax</b>	<b>10,601,940</b>	10,490,302	2,140,592	2,966,877	3,892,451	
Income tax expense	(3,934)	(3,934)	(49,168)	(701,994)	(340,519)	
<b>Profit after tax</b>	<b>10,598,006</b>	10,486,368	2,091,424	2,264,883	3,551,932	
Dividends proposed	892,911	1,126,482	1,471,664	391,795	343,045	
<b>Balance Sheet</b>						
<b>Capital Employed</b>						
Stated capital	5,868,428	4,374,019	4,374,019	4,854,053	4,854,053	
Reserves	58,464,495	37,188,315	22,929,058	21,780,992	17,769,798	
Foreign currency equalization reserve	213,643	62,114	-	(161,665)	(206,905)	
<b>Shareholders' funds</b>	<b>64,546,566</b>	41,624,448	27,303,077	26,473,380	22,416,946	
Non-current liabilities	-	-	-	-	-	
	64,546,566	41,624,448	27,303,077	26,473,380	22,416,946	
<b>Assets Employed</b>						
Investments	60,050,869	38,271,573	20,177,978	25,475,772	22,055,659	
Current assets	6,445,000	3,749,790	7,696,532	1,081,400	1,286,097	
	66,495,869	42,021,363	27,874,510	26,557,172	23,341,756	
Current liabilities	(1,949,303)	(396,915)	(571,433)	(83,792)	(924,810)	
<b>Net assets</b>	<b>64,546,566</b>	41,624,448	27,303,077	26,473,380	22,416,946	
<b>Cash Flow Statements</b>						
Net cash inflows/(outflows) from operating activities	(755,969)	2,734,929	6,855,359	1,563,356	47,380	
Net cash generated from/(used in) financing activities	(1,102,034)	(9,384,655)	(362,847)	(329,290)	(360,788)	
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,858,003)</b>	(6,649,726)	6,492,512	1,234,066	(313,408)	
<b>Ratios and Statistics</b>						
<b>Operating ratio</b>						
Return on shareholders' funds	(%)	16.41	25.19	7.67	8.00	15.84
<b>Liquidity ratio</b>						
Current ratio	(times)	3.31	9.45	13.40	12.91	1.39
<b>Investor ratio</b>						
Earnings per share	(US\$.)	0.11	0.38	0.09	0.09	0.15
Net assets per share - Book value	(US\$.)	0.66	2.15	1.13	1.10	0.93
Net assets per share - Market value	(US\$.)	1.64	2.99	1.33	1.86	1.97
Market value per share - CSE	(US\$.)	1.37	2.38	0.50	0.72	0.92
Market capitalization	(US\$.)	134,744,076	45,887,184	12,104,219	17,384,978	22,283,317
Market value of investments	(US\$.)	162,975,888	57,876,275	27,757,450	18,332,564	47,665,255

### 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. The audited Income Statement for the year ended 31st March 2011 and the audited Balance Sheet of the Company as at date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

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

### 3 Ordinary Shareholders

As at 31st March	<b>2011</b>	2010
Number of Shareholders	<b>2,740</b>	1,737

The number of shares held by non-residents as at 31st March, 2011 was 4,244,679 which amounts to 4.31% of the issued share capital. (2010 - 954,087 / 4.93%)

Distribution of Shares	Residents			Non-Residents			Total		
	No. of Shareholders	No. of Share	%	No. of Shareholders	No. of Share	%	No. of Shareholders	No. of Share	%
1 - 1,000	1,660	506,805	0.51	7	1,256	0.00	1,667	508,061	0.51
1,001 - 10,000	757	2,536,537	2.57	20	86,030	0.09	777	2,622,567	2.66
10,001 - 100,000	201	5,982,715	6.08	28	780,801	0.79	229	6,763,516	6.87
100,001 - 1,000,000	54	16,919,493	17.18	7	1,331,986	1.35	61	18,251,479	18.53
Above 1,000,000	5	68,324,645	69.35	1	2,044,606	2.08	6	70,369,251	71.43
Total	2,677	94,270,195	95.69	63	4,244,679	4.31	2,740	98,514,874	100.00

Categories of Shareholders	No. of Shareholders	No. of Shares	%
Individuals	2530	20,681,960	20.99
Institutions	210	77,832,914	79.01
Total	2740	98,514,874	100.00

### 4 Market Performance - Ordinary Shares

For the year	<b>2011</b>	<b>2010</b>
Share price as at 31st March	<b>151.00</b>	271.00
Highest price (Rs.)	<b>660.00</b>	335.00
Lowest price (Rs.)	<b>82.00</b>	57.50
Value of shares traded (Rs.)	<b>1,346,200,030</b>	604,417,450
No. of shares traded	<b>8,866,600</b>	3,839,600
Volume of transactions (Nos.)	<b>6,955</b>	5,573

### 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.14,584,064,710/- as at 31st March 2011 (as at 31st March 2010 - Rs. 5,234,809,982).

## 6 Market Capitalisation

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	1:5	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/- per share (2010 - Rs. 6/70) amounting to Rs. 98,514,874/- (2010 - Rs. 129,421,501/-).

## 8 Public Holding

The total number of shares held by public as at 31st March 2011 was 35.64% (2010 - 33.10%).

**Accounting Policies**

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

**Amortisation**

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

**Accrual Basis**

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

**Associate**

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

**Appropriations**

Apportioning of earnings to capital reserves, revenue reserves or as dividends.

**Beta**

A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole

**Bonus Issue (Scrip Issue)**

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) into issued capital and hence does not involve an infusion of cash.

**Capital Reserves**

Reserves identified for specific purposes and considered not available for distribution.

**Capital Markets**

A market for debt or equity, where business enterprises can raise long-term (longer than one year) funds.

**Current Ratio**

Current assets divided by current liabilities.

**Compounded Annual Growth Rate (CAGR)**

The rate at which it would have grown if it grew at an even rate compounded annually.

**Compliance officer**

The officer primarily responsible for overseeing and managing compliance issues within an organization. Is in charge of ensuring that a company is complying with regulatory requirements, and that the company and its employees are complying with internal policies and procedures.

**Contingencies**

Conditions or situations at the Balance Sheet date, the financial effects of which are to be determined by future events which may or may not occur.

**Cost Method**

This is a method of accounting for an investment whereby the investment is initially recognized at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

**Corporate Governance**

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

**Cash Equivalents**

Short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Credit Risk**

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

**Country Fund**

An international mutual fund with a portfolio that consists entirely of securities, generally stocks, of companies located exclusively in a given country.

**Dividend per Share**

Dividend paid divided by the number of ordinary shares in issue which ranked for those dividends.

**Dividend Yield**

Dividend per share as a percentage of market price per share.

**Deferred Taxation**

Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

**Dividend Cover**

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

**Dividend Payout**

The percentage of earnings paid to shareholders as dividend.

**Earnings per Ordinary Share (EPS)**

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

**Economic Value Added (EVA)**

A measure of productivity which takes into consideration cost of total invested equity.

**Effective Tax Rate**

Provision for taxation excluding deferred tax divided by the profit before taxation.

**Equity Method**

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

**Events occurring after the Balance Sheet date**

Significant events that occur between the Balance Sheet date and the date on which the Financial Statements are authorised for issue, which would require adjustments to or disclosure in the Financial Statements.

**Fair Value**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Fundamental Investing**

The strategy of selecting stocks which trade for less than their intrinsic values, after research on the company and its industry. Intrinsic value is based on the actual financial returns of the company and the current and future plans of the company.

**Group**

A group is a parent and all its subsidiaries and associates.

**Impairment**

This occurs when the recoverable amount of an asset is less than its carrying amount.

**Initial Public Offer (IPO)**

The first sale of stock by a private company to the public. IPOs are often issued by smaller companies seeking the capital to expand, but can also be done by large privately owned companies looking to become publicly traded.

**Intangible Asset**

An intangible asset is an identifiable non-monetary asset without physical substance.

**Key Management Personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

**Mark to Market Value Adjustment**

The accounting act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.

**Market Risk**

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as

interest rates, exchange rates, credit spreads and other asset prices.

**Materiality**

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

**Market Capitalisation**

The market value of a company at a given date obtained by multiplying the share price by the number of shares in issue.

**Mutual Fund**

An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets.

**Net Assets Value per Ordinary Share**

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

**Net Current Assets**

Capital required to finance the day-to-day operations (current assets less current liabilities).

**Operational Risk**

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

**Parent Company**

A Parent Company is an entity that has one or more subsidiaries.

**Private equity**

Money invested in companies that are not publicly traded on a stock exchange.

**Prudence**

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

**Price Earnings Ratio (P/E)**

Market price of a share divided by earnings per share (EPS)

**Related Parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

**Repurchase Of Shares**

A program by which a company buys back its own shares from the share holders, reducing the number of outstanding shares.

**Return on Average Assets (ROA)**

Profit after tax divided by the average assets.

**Return on Average Equity (ROE)**

Net profit for the year, less preference share dividends, if any, expressed as a percentage of average ordinary shareholders' equity.

**Return on Shareholders' Funds**

Profit attributable to shareholders divided by shareholders' funds

**Revenue Reserves**

Reserves considered as being available for distribution and other appropriations.

**Rights Issue**

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

**Share Split**

A corporate action in which a company's existing shares are divided into multiple shares.

**Shareholders' Funds**

Shareholders' funds consist of stated capital plus capital and revenue reserves.

**Stock market index**

Index is a number that measures the relative value of a group of stocks. As the stocks in this group change value, the index also changes value.

**Subsidiary**

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent)

NOTICE IS HEREBY GIVEN that the Sixty Fifth Annual General Meeting of Ceylon Investment PLC will be held on Wednesday, the 29th day of June 2011 at 2.00 p.m. at Taj Samudra Hotel, at "Crystal Room Upper Floor" No. 25, Galle Face Center 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 2011 together with the Independent Auditors' Report thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr. D.C.R. Gunawardena who retires by rotation in term of Articles 89 & 90 of the Articles of Association of the Company.
4. To re-elect Mrs. M.A.R.C. Cooray who retires by rotation in term of Articles 89 & 90 of the Articles of Association of the Company.
5. To re-elect Mr. Krishna Selvanathan who retires by rotation in term of Articles 88 & 95 of the Articles of Association of the Company.
6. To re-appoint Mr. W.A. de Z. Gunasekera as a Director of the Company who is 70 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. W.A. de Z. Gunasekera who has attained 70 years of age and that he be re-appointed a Director of the Company for a period of one year from the conclusion of the Annual General Meeting."
7. To re-appoint Messrs. KPMG Ford, Rhodes, Thornton & Company, 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,  
26th May 2011*

**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 27th June 2011.
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.

\*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 65th Annual General Meeting of the Company to be held on Wednesday, the 29th day of June 2011 at 2.00 p.m., at Taj Samudra Hotel, "Crystal Room Upper Floor", No. 25, Galle Face Central Road, Colombo 3 and any adjournment thereof and at every poll which may be taken in consequence thereof.

	<b>For</b>	<b>Against</b>
1 To adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2011, together with the Independent Auditors' Report thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2 To declare Rs 1/- per share as a First & Final dividend for the financial year ended 31st March 2011 as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Mr. D.C.R. Gunawardena 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 Mrs. M.A.R.C. Cooray 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-elect Mr. K. Selvanathan who retires in terms of Articles 88 & 95 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6 To re-elect Mr. W.A. de Z. Gunasekera who is Seventy Years of age as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
7 To re-appoint Messrs. KPMG Ford, Rhodes, Thornton & Co., 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 Eleven.

.....  
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 27th June 2010.

Please fill in the following details

Name : .....

Address : .....

.....

Jointly with

Share folio no. : .....

## Corporate Information

### Name of 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. Gunasekera  
Mr. V.M. Fernando  
Mr. K. Selvanathan  
(Appointed w.e.f. 16.12.2010)

### Bankers

Standard Chartered Bank  
HSBC  
Commercial Bank  
Deutsche Bank  
Hatton National Bank

### Auditors

Messrs. KPMG Ford, Rhodes,  
Thornton & Company, Chartered  
Accountants  
No. 32A, Sir Mohamed Macan  
Markar Mawatha,  
Colombo 3,  
Sri Lanka.

### Managers & Secretaries

Carsons Management Services  
(Private) Limited  
No. 61, Janadhipathi Mawatha,  
Colombo 1, Sri Lanka.

Telephone No. +94-11-4739200  
Fax No. +94-11-4739300

### Fund Managers

Guardian Fund Management  
Limited  
No. 61, Janadhipathi Mawatha,  
Colombo 1, Sri Lanka.

Telephone No. +94-11-4739200  
Fax No. +94-11-4739385

### Registered Office and Principal Place of Business

No. 61, Janadhipathi Mawatha,  
Colombo 1, Sri Lanka.

Telephone No. +94-11-4739200  
Fax No. +94-11-4739300

### Corporate Website

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



**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 Rs. '000)

	Note	2,011		2010	
		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
<b>Non-current investments</b>					
Investment in Subsidiary	1	-	-	10,450	10,450
Investment in Associate	2	1,927	23,982,243	1,927	6,011,250
Other long-term Investments	3	474,546	3,061,062	431,506	1,980,961
		<b>476,473</b>	<b>27,043,305</b>	<b>443,883</b>	<b>8,002,661</b>
<b>Current investments</b>					
Short - term Investments	4	338,600	365,027	166,996	219,482
		<b>338,600</b>	<b>365,027</b>	<b>166,996</b>	<b>219,482</b>

**1. Investment in Subsidiary**

	No. of shares	2011		2010	
		Cost As At 31st March	Directors Valuation As At 31st March	Cost As At 31st March	Directors Valuation As At 31st March
<b>Unquoted Investments</b>					
Guardian Fund Management Limited	6	-	-	1,045,015	10,450
total Investment in Subsidiary		-	-	1,045,015	10,450

**2. Investment in Associate**

	% Holding	2011		2010	
		Cost As At 31st March	Market Value As At 31st March	Cost As At 31st March	Market Value As At 31st March
<b>Quoted Investments</b>					
Bukit Darah PLC	20.04%	1,927	23,982,243	20.04%	1,927
	-	1,927	23,982,243	-	1,927

**3. Other long-term Investments**

	No. of Shares	2011		2010	
		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	10,533,178	421,760	3,008,276	10,763,178	430,970
Total long-term Investments - Quoted		<b>421,760</b>	<b>3,008,276</b>	430,970	1,980,425
<b>(B) Unquoted</b>					
DFCC Vardhana Bank	42,975	533	533	42,975	533
Vallibel One Limited	2,090,000	52,250	52,250	-	-
Total long-term Investments - Unquoted		<b>52,783</b>	<b>52,783</b>	533	533

**(B) Unquoted**

DFCC Vardhana Bank	42,975	533	533	42,975	533
Vallibel One Limited	2,090,000	52,250	52,250	-	-
Total long-term Investments - Unquoted		<b>52,783</b>	<b>52,783</b>	533	533
<b>Total Long-term Investment in Equity Securities</b>		<b>474,543</b>	<b>3,061,059</b>	431,503	1,980,958

2011			2010		
No. of Shares / Debentures	Cost As At 31st March	Market Value As At 31st March	No. of Shares / Debentures	Cost As At 31st March	Market Value As At 31st March

**(C) Investments in Debentures - Redeemable unsecured Debentures**

Riverina Hotels Limited	56	1	1	56	1	1
Ocean View Limited - 6%	120	1	1	120	1	1
<b>Total Investment in Debentures</b>		<b>2</b>	<b>2</b>		<b>2</b>	<b>2</b>

**(D) Preference Shares in Associate**

Bukit Darah PLC - 8%	31,875	1	1	3,125	1	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>474,546</b>	<b>3,061,062</b>	<b>431,506</b>	<b>1,980,961</b>
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**4. Short - term Investments**

No. of shares	Market Value As At 31st March 2,011	No. of shares	Market Value As At 31st March 2,010
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**Diversified**

John Keells Holdings PLC	269,000	76,826	164,000	30,176
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**Manufacturing**

Royal Ceramic Lanka PLC	200,000	31,400	100,000	11,300
Lanka Tiles PLC	179,300	23,506	-	-
Ceylon Glass Company PLC	1,400,000	15,540	-	-

**Banks**

Development Finance Corporation of Ceylon PLC	-	-	412,500	74,456
Central Finance PLC	40,000	50,948	-	-
Commercial Bank of Ceylon PLC	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	75,000	25,530	-	-
Lanka Orix Leasing Company PLC	100,000	11,960	-	-

**Hotels & Travels**

Aitken Spence Hotel Holdings PLC	-	-	250,000	96,250
Amaya Leisure PLC	-	-	100,000	7,300

**Beverage, Food and Tobacco**

Distilleries Company of Sri Lanka PLC	294,200	57,240	-	-
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**Plantations**

Namunukula Plantations PLC	19,500	2,235	-	-
Kegalle Plantations PLC	20,000	4,150	-	-

<b>Total Short - term Investments</b>		<b>365,027</b>		<b>219,482</b>
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