

WATAPOTA INVESTMENTS  
LIMITED

ANNUAL REPORT 2005/06

# Company at a Glance

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

<i>For the year ended 31st March</i>	2006	2005	%
	Rs. '000	Rs. '000	Change
Revenue	<b>118,599</b>	56,160	111
Profit from operations	<b>34,026</b>	10,909	212
Profit before taxation	<b>30,390</b>	7,085	329
Profit after taxation	<b>30,390</b>	5,491	453
Profit available for appropriation	<b>40,812</b>	13,777	196
Dividend proposed*	<b>1,006</b>	5,032	(80)
Shareholders' fund	<b>51,878</b>	26,521	95
Total assets	<b>65,189</b>	78,571	(17)
Return on ordinary shareholders' fund (%)	<b>452.89</b>	81.83	453
Earnings per share (Rs.)	<b>45.29</b>	8.18	453
Net assets per share - Book value (Rs.)	<b>77.31</b>	39.52	96
Net assets per share - Market value (Rs.)	<b>224</b>	218	3
Market capitalisation (Company)	<b>395,985</b>	59,785	467
Market value of investment portfolio**	<b>149,875</b>	148,105	1

\* Based on share capital as at 31st March, 2006 and subject to approval at the Annual General Meeting.

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

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# Chairman's Statement

Dear Shareholders,

I welcome you to the 86th Annual General Meeting of the Company and on behalf of the Board of Directors take pleasure in presenting to you the Annual Report and Audited Accounts of the Company for the year ended 31st March, 2006.

## **CORPORATE PERFORMANCE**

The Company recorded a profit after tax of Rs. 30.39 mn as against the Rs. 5.49 mn achieved in the previous year. The profit from investment related activities increased by 453% during the period of review given heightened activity at the Colombo Stock Exchange. This opportunity was made use of to dispose some of the long-term holdings and realign the portfolio to a short-term oriented one to be able to benefit from active trading. Sale of the long-term holdings brought in capital gains of Rs. 22.53 mn. Borrowings which stood at Rs. 50.11 mn at the beginning of the year were also reduced to Rs. 12.74 mn by the end of the year, using the proceeds from sale of these investments.

This year, the market value basis of accounting was adopted for short-term investments in complying with the new Sri Lanka Accounting Standard on Investments. This brought in an additional credit to the profits of Rs. 2.85 mn. The prior year's figures have also been accordingly restated.

Profits were derived out of dividend income of Rs. 2.27 mn and capital gains of Rs. 30.08 mn after providing for expenses of Rs. 1.42 mn and finance charge of Rs. 3.64 mn. The market value of the Company portfolio inclusive of cash and cash equivalents stood at Rs. 149.87 mn end March 2006 as at the close of the financial year from Rs. 148.11 mn as at end March 2005.

Portfolio growth is expected to be better during the current year, while the Company's profitability will improve as a result of the lower level of borrowings.

## **WEALTH ADDED TO SHAREHOLDERS**

A dividend of 15% or Rs. 1.50 per share is proposed for the year under review.

Shareholder wealth gain, during the year has been 468.8% and over a period of three years 1,577.8% in comparison to ASPI growth of 29% and 206% respectively. This includes the dividends paid to shareholders as well as the capital appreciation after rights and bonus issues.

We believe the Company's key objective of giving shareholders an above average return has been successfully achieved since we have created greater wealth for the shareholder in comparison to other investment opportunities in the market.

**MANAGEMENT APPROACH AND  
FUTURE STRATEGY**

A dedicated investment management unit under Guardian Fund Management Ltd. (GFM) was set up during the financial year as detailed out in the last annual report and the task of portfolio management was delegated to this unit by the Managers. GFM's primary task was to establish structured management systems and processes to manage the portfolio within the framework set by the Board of Directors of your Company. GFM obtained registration as an Investment Manager with the Securities and Exchange Commission of Sri Lanka in April 2006.

Having recognised the importance of engaging in active portfolio management to realise short-term capital gains in order to supplement income generation to the portfolio, we have re-organised our holdings during the year to be more oriented for this activity. This strategy is expected to enhance returns to shareholders in the short to medium-term provided market conditions remain positive. We will also consider diversifying into other investment related activities by seeking such opportunities in the market.

In conclusion, I would like to thank all our business associates for their support and the Board of Directors for their invaluable contribution during the year. Last but not the least I like to thank the shareholders for the confidence placed in the management.

*(Sgd.)*

**I. Paulraj**

*Chairman*

Colombo

19th April, 2006

# Review of Operations

## FINANCIAL RESULTS

Profit after tax amounted to Rs. 30.39 mn for the year under review against Rs. 5.49 mn recorded last year, a growth of 453%. The total sales proceeds for the year amounted to Rs. 116.09 mn which resulted in capital gain of Rs. 30.08 mn. A part of the above sales proceeds were utilised to settle borrowings of the Company, thus re-aligning the capital structure to enhance shareholder return by bringing down interest cost. Consequently, due to this realignment the portfolio remained static.

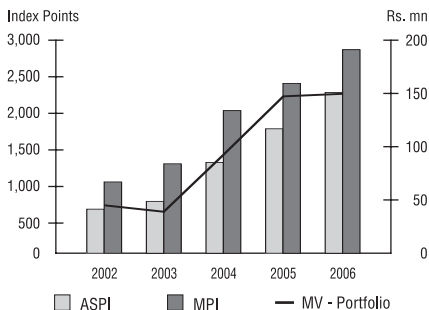
The Directors propose a dividend of 15% for the year, which when combined with the price appreciation in the Company's share and the rights and bonus issues during the year results in a total return to shareholders of 468.8%.

## MARKET REVIEW

The year proved to be a volatile one for the Colombo Bourse. The financial year began on a positive note where retail investor enthusiasm drove market performance. There was a spate of attractive IPOs which brought in enhanced levels of activity and liquidity into the market. Announcement of Presidential elections in November 2005 also saw a further rally. One day prior to the election date, the market reached its all time high of 2,551 in the All Share Index and Milanka Index of 3,374.

The negatives which affected the market were mainly related to the security situation in the country, the uncertainties in the peace process and changing political influences. The sporadic incidents in the North & East set in fears among investors, which saw the market tumbling 11% since the 16th of November 2005. The market, however, regained lost ground with the agreement to resume peace talks in Geneva after a lapse of four years to discuss the strengthening of the CFA, thus underlining the peace process as the most important driver of investor confidence.

**ASPI, MPI vs Portfolio Market Value Growth**



	March 05	June 05	Sept. 05	Dec. 05	March 06
ASPI	1,751.9	1,897.8	2,434.4	1,922.2	<b>2,264.3</b>
Milanka	2,392.2	2,681.6	3,208.9	2,451.1	<b>2,877.6</b>
Average Turnover Rs. mn	629.2	224.3	606.9	248.8	<b>516.4</b>
Market Cap Rs. bn	448.9	489.1	734.8	584.0	<b>688.2</b>

## Review of Operations (Contd.)

Despite the volatility, overall the market was up 29% on the ASPI and 20% on the Milanka for the financial year. Market capitalisation improved to Rs. 688.2 bn from Rs. 448.9 bn as at end March 2006.

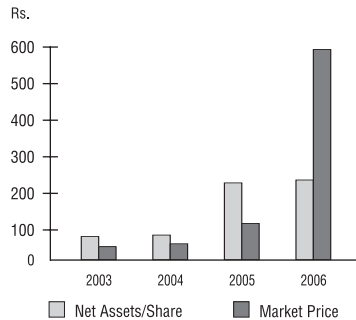
### SHAREHOLDER VALUE

The key objective of Watapota has been the creation and enhancement of shareholder wealth over time. The returns to shareholders takes into account the market value appreciation, dividends and the impact of bonus & rights issues.

The wealth creation for the year has been tabulated below, i.e. consider an investor who purchased 1,000 shares of the Company at Rs. 104/-, at the beginning of the year amounting to a cash outflow of Rs. 104,000/-. This investment rises to Rs. 590,000/- (1,000 shares @ Rs. 590/-) at the end of the financial year. When considered together with dividend proposed of 15% (Rs. 1,500/-) the net wealth gain to the shareholder is 468.8%. This is well above his cost of capital of 15% which is the best rate of return a shareholder could have earned in an alternative investment.

An alternative way of looking at shareholder returns would be to examine whether share price reflects the intrinsic value of the underlying assets - in this instance the market value of the share portfolio.

### Revalued Net Assets/Share vs Market Price



### INVESTMENT PERFORMANCE AND STRATEGY

The closing market value of the equity portfolio was Rs. 161 mn. The capital gains on the sale of long-term investments realised Rs. 20.35 mn. However, our main investment activities centred on a trading portfolio that exploited short-term market volatilities to maximise shareholder return.

	31.3.2004	31.3.2005	31.3.2006	Cumulative 3 years
<b>ASPI gain</b>	74%	36%	<b>29%</b>	206%
Start of the year - quantity	1,000	1,000	<b>1,000</b>	1,000
- wealth	36,000	45,000	<b>104,000</b>	36,000
Dividends - %	50%	75%	<b>15%</b>	-
- value	5,000	7,500	<b>1,500</b>	14,000
End of the year - quantity	1,000	1,000	<b>1,000</b>	1,000
- wealth	50,000	111,500	<b>591,500</b>	604,000
<b>Shareholder wealth gain %</b>	<b>38.9%</b>	<b>147.8%</b>	<b>468.8%</b>	<b>1,577.8%</b>

Starting June 2005 to date short-term share trading activities realised Rs. 9.72 mn as capital gains. The fund base allocated for short-term trading grew by 21.4% vis à vis market appreciation of 16.9% from the time of creation of the trading arm.

### PORTFOLIO COMPOSITION

The portfolio is invested in the following sectors:

	Market Weight	Port Weight	Sector Movement
Beverage, Food & Tobacco	7.9%	12.0%	40.1%
Diversified	19.2%	8.7%	21.6%
Hotels and Travels	8.2%	6.9%	11.0%
Manufacturing	5.1%	0.3%	-3.1%
Tele-communication	26.2%	10.3%	97.5%
Palm Oil	1.5%	61.2%	3.6%
Other	31.9%	0.6%	32.5%

The major acquisitions to the portfolio during the year were Dialog Telekom, Sri Lanka Telecom, Distilleries Company of Sri Lanka and John Keells Holdings. We expect these acquisitions to perform above the market average, given the growth potential of their businesses, liquidity and opportunities for short-term gains based on earnings and investor interest. It is also noteworthy that through these investments the portfolio will gain exposure to most of the high growth sectors of the local economy, namely telecom, real estate, leisure, consumer products, financial

services and infrastructure. Further, your Company holds a Rs. 100 mn long-term investment in the palm oil sector in South East Asia which is considered to be a high growth sector due to usage both as an edible and non-edible vegetable oil and is currently the largest traded commodity in the world.

### THE FUTURE

The Company's resource base will be invested to give above average returns to shareholders in a consistent and sustainable manner. The strategy of focusing on short-term investments will enable the Company to exploit the opportunities to secure gains through trading adding dynamism to the portfolio. We are confident that the realignment of the capital structure undertaken during the year will improve profitability in the current year and portfolio performance will also be in line with market conditions.

With the appointment of Guardian Fund Management Ltd. as investment managers, we are developing our management capabilities to support this wider scope of activities envisaged. The skills, research & knowledge base and the technology needed will be sourced from the very best both locally and regionally in keeping with the Carsons Group's philosophy of excellence.

### **Carsons Management Services (Pvt) Ltd.** *Managers*

Colombo  
19th April, 2006

# Report of the Directors

The Directors are pleased to submit their Report for the financial year ended, 31st March, 2006, together with the audited financial statements of the Company.

## REVIEW FOR THE YEAR

The Review of Operations describes in detail the performance during the year, with comments on the financial results.

## PRINCIPAL ACTIVITY OF THE COMPANY

The core business of the Company remains in managing and holding of an investment portfolio.

## FINANCIAL RESULTS

<i>For the year ended 31st March</i>	<b>2006</b>	2005
	<b>Rs. '000</b>	Rs. '000
Profit for the year	<b>30,390</b>	5,491
Add: Retained profit brought forward	<b>10,422</b>	8,286
Profit available for appropriation	<b>40,812</b>	13,777
Dividend paid	<b>(5,032)</b>	(3,355)
Retained profit carried forward	<b>35,780</b>	10,422

## DIVIDEND

Your Directors have recommended a 15% dividend (2005 - 75%) on the ordinary shares for the year ended 31st March 2006. This is due for adoption at the Annual General Meeting. However, in accordance with the Sri Lanka Accounting Standard No. 12, Events after Balance Sheet date, proposed dividend has not been recognised as a liability as at 31st March, 2006. The proposed dividend would result in a total outflow of Rs. 1,006,512/- (2005 - Rs. 5,032,560/-).

## SHARE CAPITAL

There was no change in the issued and paid up ordinary share capital of the Company during the year under review. The total issued and fully paid up capital as at 31st March, 2006 was Rs. 6.71 mn consisting of 671,008 ordinary shares of Rs. 10/- each.

### **SHAREHOLDERS' FUNDS**

The total shareholders' funds of the Company stood at Rs. 51.87 mn as at 31st March, 2006 (2005 - Rs. 26.52 mn).

### **INVESTMENTS**

The Company has revised the policy on carrying value of short-term investments to be reported at market value since those investments are intended to be held for trading purposes.

The Company also engaged in active trading of the short-term portfolio to realise the benefits of the movements in the stock market. The carrying value of the short-term portfolio as at 31st March, 2006 was Rs. 61.9 mn (2005 - Rs. 59.6 mn) which includes a market value appreciation of Rs. 2.8 mn (2005 - Rs. 2.3 mn).

The market value of long-term investment portfolio of the Company is Rs. 100.2 mn (2005 - Rs. 129.3 mn).

The movements of the investments during the year are set out in Note 5 to the financial statements.

### **STATUTORY PAYMENTS**

The Board of Directors, to the best of their knowledge and belief are satisfied that all statutory payments which are due up to the Balance Sheet date, have been paid on due dates.

### **DIRECTORATE**

The names of the Directors who served during the year are shown on the inner back cover.

In terms of Articles 89, 90 and 91 of the Articles of Association of the Company, Mr. S. Mahendrarajah and Mr. D. C. R. Gunawardena retire from the Board, but being eligible offer themselves for re-election.

### **DIRECTORS' INTERESTS IN CONTRACTS OF THE COMPANY**

Directors' interests in contracts of the Company, both direct and indirect, are disclosed in Note 13 to the financial statements and have been declared at meetings of the Directors. The Directors have 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 the shares of the Company:

<i>As at 31st March</i>	<b>2006</b>	2005
I. Paulraj ( <b>Chairman</b> )	<b>200</b>	200
S. Mahendrarajah	<b>25</b>	25
D. C. R. Gunawardena	<b>25</b>	25
P. C. P. Tissera	-	-

### **SHAREHOLDINGS**

There were 234 registered shareholders holding ordinary shares as at 31st March, 2006. (2005 - 198). The distribution of shareholdings is given on page 29 of this Report.

### **AUDIT AND COMPLIANCE COMMITTEE**

The Audit Committee comprise the following members:

Tilak de Zoysa (**Chairman**)

Tennyson Rodrigo

D.C.R. Gunawardena

### **EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

Subsequent to the date of the Balance Sheet, no circumstances have arisen, which would require adjustments to or disclosure in the financial statements other than as disclosed in Note 9 to the financial statements.

## MAJOR SHAREHOLDINGS

The twenty major shareholders and the percentages held by each as at 31st March, 2006 with the last year comparatives in brackets, are:

Carson Cumberbatch & Company Ltd. - 581,950 - 86.73% (581,950 - 86.73%),  
Lake View Investments Ltd. - 22,948 - 3.42% (22,948 - 3.42%), Minerva Nominees Ltd. -  
9,075 - 1.35% (9,075 - 1.35%), TATA Investment Corporation Ltd. - 2,720 - 0.41% (2,720 -  
0.41%), Mrs. R. V. Jesudason - 2,480 - 0.37% (2,480 - 0.37%), Mr. Sinha Weerasekera -  
2,240 - 0.33% (2,240 - 0.33%), Mr. E. A. G. de Silva - 2,160 - 0.32% (2,160 - 0.32%),  
Mr. C. E. G. Abayasekera - 1,600 - 0.24% (1,600 - 0.24%), The Investment & Finance  
Company Ltd. - 1,600 - 0.24% (1,600 - 0.24%), Mrs. G. H. O. Anscombe - 1,480 - 0.22%  
(1,480 - 0.22%), The Incorporated Trustee of Church of England in Ceylon - 1,368 - 0.20%  
(1,368 - 0.20%), Executrix of the Estate of Mr. J. Amirthanayagam - 1,360 - 0.20%  
(1,360 - 0.20%), Walwin Arnold de Silva & Manik Walwin de Silva - 1,280 - 0.19%  
(1,280 - 0.19%), Mr. P. Udalagama - 1,241 - 0.18% (1,241 - 0.18%), Mr. Vanden Driesen -  
1,034 - 0.15% (1,034 - 0.15%), Mrs. A. J. Martenstyn - 1,030 - 0.15% (1,030 - 0.15%),  
Homi Metha & Sons (Private) Ltd. - 960 - 0.14% (960 - 0.14%), Mrs. E. M. D. de Silva -  
960 - 0.14% (960 - 0.14%), Mr. M. A. U. Gnanatilake - 914 - 0.14% (0 - 0.0%),  
Mr. N. H. Omar - 880 - 0.13% (0 - 0.0%).

## SHARE INFORMATION

Information relating to earnings, dividend, net assets and market price per share are given on page 28 of the Annual Report. Information on share trading is given on pages 29 & 30 of the Annual Report.

## AUDITORS

Messrs. Ernst & Young are eligible for re-appointment.

By Order of the Board,

(Sgd.)

**D. C. R. Gunawardena**

*Director*

**Carsons Management Services (Pvt) Ltd.**

*Managers & Secretaries*

Colombo

19th April, 2006

## 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 Report of the Auditors.

According to the Companies Act, No. 17 of 1982 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 profit or loss 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 judgements 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 for 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 provide the information required by the Companies Act, No. 17 of 1982. 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, at least for a period of twelve months 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.

By Order of the Board,

*(Sgd.)*

**D. C. R. Gunawardena**

*Director*

**Carsons Management Services (Pvt) Ltd.**

*Managers & Secretaries*

Colombo

19th April, 2006

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## Financial Calendar

Financial Year End - 31st March, 2006

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### Announcement of Results

Six months ended  
30th September, 2005 - 14th November, 2005

### Dividend Declaration

\*First and Final - 19th May, 2006

**86th Annual General Meeting** - 19th May, 2006

*\*Subject to approval by Shareholders*

# Report of the Auditors

## **TO THE MEMBERS OF WATAPOTA INVESTMENTS LTD.**

We have audited the Balance Sheet of Watapota Investments Ltd. as at 31st March, 2006 and the related Statements of Income, Changes in Equity and Cash Flow for the year then ended, together with the Accounting Policies and Notes as set out on pages 13 to 27 of the Annual Report.

### **Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

### **Basis of Opinion**

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented with the Sri Lanka Accounting Standards. 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 books of account for the year ended 31st March, 2006, and to the best of our information and according to the explanations given to us, the said Balance Sheet and related Statements of Income, Changes in Equity and Cash Flow and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act, No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st March, 2006 and of its profit and cash flows for the year then ended.

### **Directors' Interests in Contracts with the Company**

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st March 2006, except as stated in Note 13 to these financial statements.

*(Sgd.)*

**ERNST & YOUNG**

*Chartered Accountants*

Colombo,

19th April, 2006

## Income Statement

<i>For the year ended 31st March</i>		<b>2006</b>	2005
	Note	Rs. '000	(Restated) Rs. '000
<b>Revenue</b>	1	<b>118,599</b>	56,160
Cost of investments disposed		<b>(86,011)</b>	(47,102)
		<b>32,588</b>	9,058
Mark to market value adjustment for short-term investments		<b>2,852</b>	2,309
Administrative expenses		<b>(1,414)</b>	(458)
<b>Profit from operations</b>	2	<b>34,026</b>	10,909
Finance cost		<b>(3,636)</b>	(3,824)
<b>Profit before taxation</b>		<b>30,390</b>	7,085
Taxation	3	–	(1,594)
<b>Profit for the year</b>		<b>30,390</b>	5,491
<b>Earnings per share</b>	4	<b>45.29</b>	8.18
<b>Dividend per share</b>		<b>1.50</b>	7.50

The Accounting Policies and Notes on pages 17 to 27 form an integral part of these financial statements.

*Figures in brackets indicate deductions.*

# Balance Sheet

<i>As at 31st March</i>		<b>2006</b>	2005 (Restated)
	Note	Rs. '000	Rs. '000
<b>Assets</b>			
<b>Non-Current Assets</b>			
Long-term investments	5.1	<b>1,475</b>	9,702
		<b>1,475</b>	9,702
<b>Current Assets</b>			
Trade and other receivables		<b>1,000</b>	11
Income tax recoverable		<b>282</b>	-
Short-term investments	5.2	<b>61,907</b>	59,602
Short-term deposits		-	8,573
Cash at bank		<b>525</b>	683
		<b>63,714</b>	68,869
<b>Total Assets</b>		<b>65,189</b>	78,571
<b>EQUITY AND LIABILITIES</b>			
<b>Capital &amp; Reserves</b>			
Share capital	6	<b>6,710</b>	6,710
Capital reserve		<b>3,690</b>	3,690
General reserve		<b>619</b>	619
Retained profit		<b>40,859</b>	15,502
<b>Shareholders' Funds</b>		<b>51,878</b>	26,521
<b>Current Liabilities</b>			
Trade and other payables	7	<b>565</b>	383
Amounts due to related companies	8	-	49,183
Income tax payable		-	1,555
Bank overdraft		<b>12,746</b>	929
		<b>13,311</b>	52,050
<b>Total Equity &amp; Liabilities</b>		<b>65,189</b>	78,571
<b>Net Assets per share (Rs.)</b>		<b>77.31</b>	39.52

The Accounting Policies and Notes on pages 17 to 27 form an integral part of these financial statements.

Approved and signed on behalf of the Managers,

Approved and signed on behalf of the Board,

(Sgd.)

**D.C.R. Gunawardena**

*Director*

(Sgd.)

**I. Paulraj**

*Chairman*

(Sgd.)

**P.C.P. Tissera**

*Director*

**Carsons Management Services (Pvt) Ltd.**

Colombo

19th April 2006

# Statement of Changes in Equity

	Non-distributable Capital & Reserves		Distributable Reserves		Total Equity Rs. '000
	Share Capital Rs. '000	Share Premium Rs. '000	General Reserve Rs. '000	Retained Profit Rs. '000	
Balance as at 1st April 2004 as previously reported	6,710	3,690	619	8,286	19,305
Prior year adjustment (Note )	-	-	-	5,080	5,080
Restated balance as at 1st April 2004	6,710	3,690	619	13,366	24,385
Net profit for the year	-	-	-	5,491	5,491
Dividend paid - 50% (for the year 2004)	-	-	-	(3,355)	(3,355)
Balance as at 31st March, 2005	6,710	3,690	619	15,502	26,521
Balance as at 1st April, 2005 as previously reported	6,710	3,690	619	14,747	25,766
Prior year adjustment (Note)	-	-	-	755	755
<b>Restated balance as at 1st April, 2005</b>	<b>6,710</b>	<b>3,690</b>	<b>619</b>	<b>15,502</b>	<b>26,521</b>
<b>Net profit for the year</b>	-	-	-	<b>30,390</b>	<b>30,390</b>
<b>Dividend paid - 75% (for the year 2005)</b>	-	-	-	<b>(5,033)</b>	<b>(5,033)</b>
<b>Balance as at 31st March, 2006</b>	<b>6,710</b>	<b>3,690</b>	<b>619</b>	<b>40,859</b>	<b>51,878</b>

**Note:**

**Prior year adjustments**

**Change in accounting policy**

During the year under review the Company has revised the policy on carrying value of short term investments to be classified at market value since those investments are intended to be held for trading purposes. The resulting effect on the retained earnings of the past two years have been adjusted against the respective brought forward balances.

This method of valuation has also been prescribed in Sri Lanka Accounting Standards (SLAS) No. 22, "Accounting for Investments".

The Accounting Policies and Notes on pages 17 to 27 form an integral part of these financial statements.

*Figures in brackets indicate deductions.*

# Cash Flow Statement

<i>For the year ended 31st March</i>	<b>2006</b>	2005
	<b>Rs. '000</b>	Rs. '000
<b>Cash Flows from Operating Activities</b>		
Profit from operations before taxation	<b>30,390</b>	7,085
<b>Adjustments for</b>		
Mark to Market value adjustment of short term investments	<b>(2,852)</b>	(2,309)
<b>Operating cash flows before working capital changes</b>	<b>27,538</b>	4,776
(Increase)/Decrease in investments	<b>8,774</b>	(453)
(Increase)/Decrease in receivables	<b>(989)</b>	36
Increase/(Decrease) in amounts due to related companies	<b>(49,183)</b>	3,781
Increase/(Decrease) in creditors and other payables	<b>11</b>	51
<b>Cash generated from/(used in) operating activities</b>	<b>(13,849)</b>	8,191
Taxes paid	<b>(1,837)</b>	–
<b>Net cash generated from/(used in) operating activities</b>	<b>(15,686)</b>	8,191
<b>Cash Flows from Financing Activities</b>		
Dividend paid	<b>(4,862)</b>	(3,236)
<b>Net cash used in financing activities</b>	<b>(4,862)</b>	(3,236)
<b>Net increase/(decrease) in cash &amp; cash equivalents during the year</b>	<b>(20,548)</b>	4,955
Cash & cash equivalents as at the beginning of the year	<b>8,327</b>	3,372
<b>Cash &amp; cash equivalents as at the end of the year</b>	<b>(12,221)</b>	8,327
<b>Cash &amp; Cash Equivalents</b>		
Short-term deposits	–	8,573
Cash at bank	<b>525</b>	683
	<b>525</b>	9,256
Bank overdraft	<b>(12,746)</b>	(929)
	<b>(12,221)</b>	8,327

The Accounting Policies and Notes on pages 17 to 27 form an integral part of these financial statements.

*Figures in brackets indicate deductions.*

# Significant Accounting Policies

## I. GENERAL ACCOUNTING POLICIES

### I.1 Basis of Preparation

The financial statements of the Company are prepared under the historical cost convention in conformity with Generally Accepted Accounting Principles and the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka, applied consistently with that of the previous year. No adjustments have been made for inflationary factors affecting the financial statements.

### I.2 Taxation

#### (A) Current Tax

The liability for taxation has been computed in accordance with the provisions of the Inland Revenue Act, No. 38 of 2000 and amendments made thereto as specified in Note 3 to the financial statements.

#### (B) Deferred Tax

Deferred Tax is not provided since the Company does not have any temporary timing differences.

### I.3 Events occurring after the Balance Sheet date

The materiality of events occurring after the Balance Sheet date is considered and appropriate adjustments to or disclosure are made in the financial statements where necessary.

## 2. ASSETS AND BASES OF THEIR VALUATION

Assets classified as current assets in the Balance Sheet are cash, and those which are expected to be realised in cash, during the normal operating cycle of the Company's business or within one year from 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.

### 2.1 Investments

#### 2.1.1 Classification

Investments held for yield or capital appreciation are classified as long-term investments, and investments that are intended to be held for trading purposes are classified as short-term investments.

### **2.1.2 Valuation**

#### **Quoted Investments**

Quoted investments that are held for long term are carried in the Balance Sheet at the lower of cost and market value determined on an aggregate portfolio basis subject to provision for permanent diminution in value; if any. Quoted investments that are held for short term are carried in the Balance Sheet at market value.

#### **Mark to Market Value Adjustment**

This represents the appreciation/(depreciation) in the market value of short-term investments, determined on an aggregate portfolio basis.

#### **Unquoted Investments**

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

### **2.1.3 Cost**

Cost of investment is the cost of acquisition including brokerage, commission and all other fees.

### **2.1.4 Diminution in Value**

Diminution in value of investments are deemed to be permanent where the investee company:

- auditors have qualified their opinion on the going concern status, and/or
- operations have resulted in net losses and these losses are expected to continue, and/or
- of which the core business has become non-viable due to environmental concerns, and/or
- of which the industry/sector has an uncertain outlook due to environmental concerns.

### **2.1.5 Market Value of the Investment Portfolio**

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

- (a) Marketable equity securities are stated at the values published in the Official Valuation list of the Colombo Stock Exchange as at the Balance Sheet date. Where the Official Valuation is not available the market value is stated at the last transacted price.
- (b) Units purchased from Unit Trusts are valued at the manager's bid price as at the Balance Sheet date.
- (c) Unquoted investments are stated at cost unless otherwise stated.

### **2.2 Debtors and Other Receivables**

Debtors and other receivables are stated at the amounts they are estimated to realise. Where necessary, provisions are made for bad and doubtful debts.

### **2.3 Cash & Cash Equivalents**

For the purpose of the Cash Flow Statement, cash & cash equivalents comprise cash at bank, deposits held in banks and investments in money market instruments.

Interest paid and dividend received are classified as operating cash flows while dividend paid are classified as financing cash flows for the purpose of presentation of cash flows reported based on indirect method.

## **3. LIABILITIES AND PROVISIONS**

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 long-term liabilities are those obligations which expire beyond a period of one year from the Balance Sheet date.

### **3.1 Capital Commitments and Contingencies**

Capital commitments and contingencies, which exist as at the Balance Sheet date, are disclosed in the respective Notes to the financial statements.

#### **4. INCOME STATEMENT**

##### **4.1 Revenue**

Revenue consists of:

- Dividend and interest income from investments.
- Proceeds on disposal of investments.
- Interest income from deposits/advances

##### **4.2 Revenue Recognition**

Revenue is matched with the related expenditure and is recognised in accordance with the Sri Lanka Accounting Standard No. 29 in the following manner:

- Dividend income - when the shareholders' right to receive payment is established.
- Interest income - accrued on a time proportion basis.
- Proceeds on disposal of investments - on receipt of trade confirmation.

##### **4.3 Expenditure Recognition**

(a) Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

(b) For the purpose of presentation of Income Statement the Directors are of the opinion that nature of expenses method present fairly the elements of the Company's performance, and hence such presentation method is adopted.

##### **4.4 The Company's Profit/(Loss) from Operations before Taxation is arrived at after:**

- Providing for bad and doubtful debts and all known liabilities.
- Charging all expenses incurred in the day-to-day operations of the business.
- Charging all expenses incurred in respect of business development.

#### **5. 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 decisions/policies of the other, irrespective of whether a price is being charged.

# Notes to the Financial Statements

<i>For the year ended</i>	<b>31st March 2006 Rs. '000</b>	31st March 2005 Rs. '000
<b>1. REVENUE</b>		
Dividend income	<b>2,266</b>	1,979
Interest income		
- Related companies	-	-
- External	<b>244</b>	1,247
Proceeds from disposal of investments	<b>116,089</b>	52,934
	<b>118,599</b>	56,160
<b>2. PROFIT FROM OPERATIONS</b>		
<b>2.1</b> Profit from operations is stated after charging all expenses including the following:		
Auditors' remuneration & expenses	<b>33</b>	29
Directors' fees	-	-
Directors' emoluments	-	-
Management & Secretarial fees	<b>727</b>	162
<b>2.2</b> The Company did not have any employees of its own during the financial year under review.		
<b>3. TAXATION</b>		
Provision for the year on ordinary activities (Note 3.1)	-	1,594
Total tax expense for the year	-	1,594
<b>3.1</b> Reconciliation between Tax Expense and Accounting Profit		
	<b>2006 Rs. '000</b>	2005 Rs. '000
Accounting profit before taxation	<b>30,390</b>	7,085
Less: Exempt profits on share trading	<b>(31,871)</b>	(1,937)
Dividend income	<b>(2,266)</b>	(1,979)
	<b>(3,747)</b>	3,169
Disallowed expenses	<b>4,693</b>	3,403
Mark to market value adjustment of short term investments	<b>(2,852)</b>	(2,309)
Taxable profit for year	<b>(1,906)</b>	4,263
Loss b/f	-	(321)
Taxable income	<b>(1,906)</b>	3,942
Taxation thereon @ 15% (Note 3.3)	-	1,579
Taxation on balance income @ 32.5% (Note 3.2)	-	15
		1,594

## Notes to the Financial Statements (Contd.)

**3.2** In accordance with the provisions of the Inland Revenue Act, No. 38 of 2000 and amendments made thereto the Company is liable to income tax at 32.5% (2005 - 32.5%). Where taxable income is in less than Rs. 5 mn, the Company is entitled to a lower rate of 20%.

**3.3** During the nine months ending 31st December, 2004 profits on the sale of listed shares was liable to income tax.

From 1st January, 2005, share transactions are liable to a 0.2% transaction levy which is payable by both buyer and seller.

**3.4** The Company has paid Economic Service Charge (ESC) amounting to Rs. 272,015/- during the year. Income tax credit is available thereon for a period of two years.

### 4. EARNINGS PER SHARE

Earnings per Share of Rs. 45.29 (2005 - Rs. 8.18) is calculated on the profit after taxation divided by the weighted average number of ordinary shares outstanding the year. The following reflects the profit after taxation and share data used for the computation of Earnings per Share.

	<b>31st March 2006</b>	31st March 2005
<b>Amount used as the Numerator</b>		
Profit for the year after taxation - Rs.'000	<b>30,390</b>	5,491
<b>Amount used as the Denominator</b>		
Number of ordinary shares in issue	<b>671</b>	671

**5. INVESTMENTS - LONG-TERM AND SHORT-TERM**

	Carrying value of investments at the beginning of the year Rs. '000	Additions/ Transfers Rs. '000	Disposals/ Transfers Rs. '000	Mark to Market value adjustment Rs. '000	Carrying value of investments at the end of the year Rs. '000
<b>Year 2005/06</b>					
Short term investments	59,602	82,256	(82,803)	2,852	61,907
Long term investments	9,702	40,094	(48,321)	—	1,475
<b>Year 2004/05</b>					
Short term investments	57,138	47,257	(47,102)	2,309	59,602
Long term investments	9,402	300	—	—	9,702

**5.1 Long-Term Investments**

	No. of Shares	31st March 2006 Rs. '000	Market Value/ Valuation as at 31st March 2006 Rs. '000	Cost as at 31st March 2005 Rs. '000	Market Value/ Valuation as at 31st March 2005 Rs. '000
<b>Related Companies - Quoted</b>					
Lion Brewery Ceylon Ltd.	—	—	—	6,154	5,445
The Selinsing Company Ltd.	472,326	475	99,188	475	108,635
The Good Hope Company Ltd.	—	—	—	945	6,463
The Indo-Malay Estates Ltd.	—	—	—	1,859	8,483
The Ceylon Investment Company Ltd.	—	—	—	35	112
The Ceylon Guardian Investment Trust Ltd.	—	—	—	206	198
	—	475	99,188	9,674	129,336
<b>Related Companies - Unquoted</b>					
Equity Hotels Ltd.	10	0.1	0.1	0.1	0.1
	—	0.1	0.1	0.1	0.1
<b>Other investments - Quoted</b>					
Ceylon Cold Stores Ltd.	—	—	—	28	24
	—	—	—	28	24
<b>Other Investments - Unquoted</b>					
Capital Reach Holdings	100,000	1,000	1,000	—	—
<b>Total long-term investments</b>		1,475	100,188	9,702	129,360

## 5. INVESTMENTS - LONG-TERM AND SHORT-TERM (CONTD.)

## 5.2 Short-Term Investments

	Market Value/ Valuation		Market Value/ Valuation	
	No. of Shares	as at 31st March 2006 Rs. '000	No. of Shares	as at 31st March 2005 Rs. '000
<b>Quoted</b>				
<b>Bank, Finance &amp; Insurance</b>				
Asia Capital Ltd.	-	-	372,800	7,084
Hatton National Bank Ltd.	-	-	127,200	7,664
Sampath Bank Ltd.	-	-	600	45
	-	-	-	14,793
<b>Beverage, Food &amp; Tobacco</b>				
Distilleries Company of Sri Lanka Ltd.	431,300	19,408	473,700	15,040
Lanka Milk Foods Ltd.	-	-	6,800	131
	431,300	19,408	-	15,171
<b>Diversified</b>				
Hayleys Ltd.	-	-	56,712	6,380
Hemas Holdings Ltd.	75	8	52,300	5,701
John Keells Holdings Ltd.	89,568	14,130	57	8
		14,138		12,089

5. INVESTMENTS - LONG-TERM AND SHORT-TERM (CONTD.)  
5.2 Short-Term Investments (Contd.)

	No. of Shares	Market Value/ Valuation as at 31st March 2006 Rs. '000	No. of Shares	Market Value/ Valuation as at 31st March 2005 Rs. '000
<b>Hotel &amp; Travels</b>				
Aitken Spence Hotels Holdings Ltd.	14,700	1,224	14,700	1,430
Asian Hotels & Properties Ltd.	91,800	5,118	24,300	814
Connaissance de Ceylon Ltd.	-	-	7,100	350
John Keells Hotels Ltd.	-	-	4,000	341
Taji Lanka Hotels Ltd.	203,800	2,904	203,800	3,618
Trans Asia Hotels Ltd.	16,300	1,976	16,300	1,304
Hotels Services (Ceylon) Ltd.	-	-	2,100	388
	-	11,222	-	8,245
<b>Manufacturing</b>				
Tokyo Cement Company (Lanka) Ltd. - Non-Voting	28,500	428	-	-
	-	428	-	-
<b>Stores &amp; Supplies</b>				
Hunter & Company Ltd.	-	-	890	133
	-	-	-	133
<b>Telecommunications</b>				
Dialog Telekom Ltd.	351,000	7,020	-	-
Sri Lanka Telecom Ltd.	538,400	9,691	356,400	5,791
	-	16,711	-	5,791
<b>Power &amp; Energy</b>				
Lanka Indian Oil Company Ltd. (LIOC)	-	-	70,800	3,380
	-	-	-	3,380
<b>Carrying value of short-term investments</b>	-	61,907	-	59,602
<b>Total carrying value of short-term investments</b>	-	61,907	-	59,602

The market value of the quoted investments have been obtained from the Official Valuation List as at 31st March 2006 published by the Colombo Stock Exchange .

The unquoted investments of the Company as at 31st March, 2006 have been valued at cost.

Notes to the Financial Statements (Contd.)

	As at 31st March 2006 Rs. '000	As at 31st March 2005 Rs. '000
<b>6. SHARE CAPITAL</b>		
<b>Authorised</b>		
1,000,000 Ordinary Shares of Rs.10/- each	10,000	10,000
<b>Issued and Fully Paid</b>		
671,008 Ordinary Shares of Rs. 10/- each	6,710	6,710

**6.1 Share Capital**

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

**Share Premium**

The share premium reserve consists of the net surplus of funds generated by issuing ordinary shares over and above the par value. The amount in the reserve cannot be directly distributed to shareholders but can be utilised to issue bonus shares.

**General Reserve**

General reserve consists of such amounts that have been from time to time transferred from retained earnings.

	As at 31st March 2006 Rs. '000	As at 31st March 2005 Rs. '000
<b>7. TRADE AND OTHER PAYABLES</b>		
Unclaimed dividend	414	244
Accruals	151	140
	565	384

**8. AMOUNTS DUE TO RELATED COMPANIES**

Mylands Investments Ltd.	-	24,918
Weniwella Investments Ltd.	-	24,265
	-	49,183

**9. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

The Directors are proposing a final dividend of 15% on the ordinary share capital as at 31st March, 2006 amounting to Rs. 1,006,512/- which would be declared at the forthcoming Annual General Meeting subject to shareholder approval.

Subsequent to the Balance Sheet date, no circumstances have arisen which would require adjustments to or disclosure in the financial statements other than those disclosed above.

**10. CONTINGENT LIABILITIES**

There were no contingent liabilities as at the Balance Sheet date.

**11. CAPITAL COMMITMENTS**

There were no contracts for capital expenditure of a material amount as at the Balance Sheet date.

**12. RELATED PARTY TRANSACTIONS**

	<b>Name of Company</b>	<b>Names of Directors</b>	<b>Nature of Transaction</b>
<b>12.1</b>	Carsons Management Services (Pvt.) Ltd. (CMSL) Guardian Fund Management Ltd. (GFM)	D. C. R. Gunawardena P. C. P. Tissera	The Company paid Rs. 712,740/-, Rs. 14,112/- and Rs. 30,000/- (2005 - Rs. 150,000/-, Rs. 11,500/- and Rs. 30,000/-) respectively to CMSL for the provision of management, secretarial and computer services, which includes portfolio management services obtained from Guardian Fund Management Ltd. (GFM) on market based fees.
<b>12.2</b>	Weniwella Investment Ltd.	I. Paulraj D. C. R. Gunawardena P. C. P. Tissera S. Mahendrarajah	During the year the Company paid Rs. 1,294,081/- as interest to Weniwella Investment Ltd. on overnight borrowings (2005 - Rs. 1,867,287/-). The total outstanding at the Balance Sheet date was Rs. Nil (2005 - Rs. 24,264,766/-).
<b>12.3</b>	Mylands Investment Ltd.	I. Paulraj D. C. R. Gunawardena P. C. P. Tissera S. Mahendrarajah	During the year Company paid Rs. 1,953,465/- as interest to Mylands Investment Ltd. on overnight borrowings (2005 - Rs. 1,956,992/-). The total outstanding at the Balance Sheet date was Rs. Nil (2005 - Rs. 24,917,910/-).

**12.4** During the year the Company invested in quoted equity shares of related companies listed in Note 5.1.

There were no material related party transactions other than those disclosed above and Note 8 to the financial statements.

**13. DIRECTORS' INTERESTS IN CONTRACTS**

Messrs. I. Paulraj, D. C. R. Gunawardena, S. Mahendrarajah and P. C. P. Tissera, Directors of the Company have an interest in all or some of the transactions referred to in Note 12 to the financial statements. They either individually or indirectly have share ownership in companies forming part of the Carsons Group and/or hold Directorates in such related companies.

**14. COMPARATIVE FIGURES**

Certain comparative figures have been re-classified/re-stated to conform to the classifications and presentations of financial statements as at 31st March, 2006.

# Five Year Financial Review

<i>For the year ended 31st March</i>	<b>2006</b>	2005	2004	2003	2002
	<b>Rs. '000</b>	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>OPERATING RESULTS</b>					
<b>Revenue</b>	<b>118,599</b>	56,160	49,028	13,405	2,667
Profit from ordinary activities before tax	<b>30,390</b>	7,085	4,992	2,377	1,045
Taxation	-	(1,594)	-	(118)	(197)
<b>Profit from ordinary activities after tax</b>	<b>30,390</b>	5,491	4,992	2,259	848
<b>BALANCE SHEET</b>					
Share capital	<b>6,710</b>	6,710	6,710	6,710	4,194
Reserves	<b>45,168</b>	19,811	12,594	9,280	10,879
<b>Shareholders' Funds</b>	<b>51,878</b>	26,521	19,305	15,990	15,072
<b>Assets Employed</b>					
Current assets	<b>63,714</b>	68,869	55,516	12,854	15,019
Current liabilities	<b>(13,311)</b>	(52,050)	(45,615)	(148)	(99)
Net current assets	<b>50,403</b>	16,819	9,902	12,706	14,920
Long-term Investments	<b>1,475</b>	9,702	9,403	3,284	153
<b>Net Assets</b>	<b>51,878</b>	26,521	19,305	15,990	15,072
<b>RATIOS &amp; STATISTICS</b>					
<b>Profitability</b>					
Return on shareholders' funds (%)	<b>58.58</b>	20.7	25.86	14.13	5.63
Return on share capital (%)	<b>452.89</b>	81.83	74.40	33.67	20.23
<b>Liquidity</b>					
Current ratio (times)	<b>4.78</b>	1.31	1.22	86.61	151.92
<b>Investor Ratios</b>					
Earnings per share (Rs.)	<b>45.29</b>	8.18	7.44	3.37	1.26
Earnings yield (%)	<b>43.55</b>	7.87	16.53	9.36	3.90
P/E ratio (times)	<b>2.3</b>	12.71	6.05	10.68	25.40
Industry price - Earning ratio (times)	<b>5.6</b>	11.10	10.10	3.60	9.50
Dividend per share	<b>1.5</b>	7.5	5.00	2.50	-
<b>Valuation of Shares</b>					
Net assets per share (Rs.)	<b>77.31</b>	39.52	28.77	23.83	22.46
Market price per share (Rs.)	<b>590.00</b>	104.00	45.00	36.00	32.00
Market price based on industry P/E (Rs.)	<b>253.62</b>	90.83	75.14	12.13	11.97
Market value of investments (Rs.) *	<b>149,875</b>	148,105	137,989	34,898	39,784
All share price index (points)	<b>2,264</b>	1,752	1,284	739	618
Milanka price index (points)	<b>2,877</b>	2,392	2,021	1,259	1,006

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

# Information to Shareholders and Investors

## I. STOCK EXCHANGE LISTING

Watapota Investments Ltd., is a Public Quoted Company, the issued ordinary shares of which are listed on the second board of the Colombo Stock Exchange of Sri Lanka.

## 2. SHARE VALUATION

The market price of the Company's shares as at 31st March 2006 was Rs. 590/- per share (2005 - Rs. 104/-).

## 3. ORDINARY SHAREHOLDERS

*As at 31st March* **2006**      2005

Number of Shareholders **234**      198

The number of shares held by non-residents as at 31st March 2006 was 21,962 which amounts to 3.27% of the issued share capital.

Distribution of Shares	Residents			Non-Residents			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 – 1,000	195	29,389	4.38	23	6,053	0.90	218	35,442	5.28
1,001 – 5,000	9	14,759	2.20	4	6,834	1.02	13	21,593	3.22
5,001 – 10,000	–	–	–	1	9,075	1.35	1	9,075	1.35
10,001 – 50,000	1	22,948	3.42	–	–	–	1	22,948	3.42
50,001 – 100,000	–	–	–	–	–	–	–	–	–
100,001 – 500,000	–	–	–	–	–	–	–	–	–
500,001 – 1,000,000	1	581,950	86.73	–	–	–	1	581,950	86.73
Above 1,000,000	–	–	–	–	–	–	–	–	–
<b>Total</b>	<b>206</b>	<b>649,046</b>	<b>96.73</b>	<b>28</b>	<b>21,962</b>	<b>3.27</b>	<b>234</b>	<b>671,008</b>	<b>100.00</b>

Categories of Shareholders	No. of Shareholders	No. of Shares	%
Individuals	221	49,502	7.38
Institutions	13	621,506	92.62
<b>Total</b>	<b>234</b>	<b>671,008</b>	<b>100.00</b>

**4. MARKET PERFORMANCE - ORDINARY SHARES**

<i>For the year</i>	<b>2005/2006</b>	2004/2005
Highest (Rs.)	<b>900.00</b>	104.00
Lowest (Rs.)	<b>125.00</b>	52.00
Value of shares traded (Rs.)	<b>2,001,500</b>	20,800.00
No. of shares traded	<b>4,500</b>	300
Volume of transactions (Nos.)	<b>35</b>	2

**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. 395,894,720/- as at 31st March, 2006 (2005 - Rs. 69,784,832/-).

**6. PUBLIC HOLDING**

The percentage of issued share capital held by public as at 31st March, 2006 was 9.81%.

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the EIGHTY SIXTH ANNUAL GENERAL MEETING of the Company will be held at 9.45 a.m. on Friday, the 19th day of May, 2006, at the Eighth Floor, No. 65C, Dharmapala Mawatha, Colombo 7, for the following purposes:

1. To receive and adopt the Report of the Directors and the financial statements for the year ended 31st March, 2006, together with the Report of the Auditors thereon.
2. To declare a first & final dividend as recommended by the Directors.
3. To re-elect Mr. Mahendrarajah who retires in terms of Article 89, 90 and 91 of the Articles of Association of the Company.
4. To re-elect Mr. D. C. R. Gunawardena who retires in terms of Articles 89, 90 and 91 of the Articles of Association of the Company.
5. To appoint Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board,

**Carsons Management Services (Pvt) Ltd.**

*Secretaries*

Colombo

19th April 2006

## **Note**

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 9.45 a.m. on Wednesday the 17th day of May, 2006.*
3. *A person representing a corporation is required to carry a certified copy of the resolution authorising him/her to act as the representative of the corporation. A representative need not be a member.*

## **Security Check**

*We shall be obliged if the shareholders attending the Annual General Meeting, produce their National Identity Cards to the security personnel stationed at the entrance.*

# Glossary of Financial Terms

## **Appropriations**

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

## **Capital Reserves**

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

## **Cash Equivalents**

Liquid investments with original maturities of three months or less.

## **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.

## **Current Ratio**

Current assets divided by current liabilities.

## **Dividend Cover**

Post tax profit divided by gross dividend.  
Measures the number of times dividend is covered by distributable profits.

## **Dividend per Share**

Dividend paid and proposed, 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.

## **Earnings per Share**

Profits attributable to ordinary shareholders after preference dividend divided by the number of ordinary shares in issue and ranking for dividend.

## **Equity**

Shareholders' funds (share capital + reserves).

## **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.

## **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.

## **Net Assets per Share**

Total assets less liabilities 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).

## **Price Earning Ratio (P/E)**

Market price of a share divided by earnings per share.

## **Related Parties**

Parties who could control or significantly influence the financial and operating decisions/policies of the business.

## **Return on Shareholders' Funds**

Profit attributable to shareholders divided by shareholders' funds (total of share capital and reserves).

## **Revenue Reserves**

Reserves considered as being available for distribution and other appropriations.

# Form of Proxy

\*I/We .....

of.....

being \*a member/members of the WATAPOTA INVESTMENTS LTD. hereby appoint:

Israel Paulraj or failing him,

Don Chandima Rajakaruna Gunawardena or failing him,

Subramaniam Mahendrarajah or failing him,

Palehenalage Chandana Priyankara Tissera or failing him,

.....of

as \*my/our proxy\*\* ..... to vote as indicated hereunder for \*me/us on \*my/our behalf at the Annual General Meeting of the Company to be held at 9.45 a.m. on Friday, the 19th day of May, 2006 at the Eighth Floor, No. 65C, Dharmapala Mawatha, Colombo 7 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To adopt the Report of the Directors and the Financial Statements for the year ended 31st March, 2006 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a final dividend of 15% for the financial year ended 31st March, 2006 as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. S. Mahendrarajah who retires in terms of Articles 89, 90 and 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. D. C. R. Gunawardena who retires in terms of Articles 89, 90 and 91 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint as Auditors M/s. Ernst & Young and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

In witness \*my/our hands this ..... day of .....Two Thousand and Six.

.....  
Signature

## Note

(a) \*Please delete the inappropriate words.

(b) \*\* If you wish your proxy to speak at the meeting you should interpolate the words "speak and" in the place indicated with \*\* and initial such interpolation.

(c) Instructions as to completion are noted on the reverse hereof.

**Instructions for completion of Form of Proxy**

1. 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 appointer or his attorney and
- (ii) in the case of 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.

2. Kindly perfect the Form of Proxy by filling in legibly your full name and address and sign in the space provided. Please fill in the date of signature and indicate with an "X" in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his/her discretion will vote as he/she thinks fit.
3. 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.
4. 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 9.45 a.m. on 17th May, 2006.

# Corporate Information

## NAME OF COMPANY

Watapota Investments Ltd.

## DOMICILE AND LEGAL FORM

A Public Quoted Company (Quoted on the second board at the Colombo Stock Exchange) with limited liability, incorporated in Sri Lanka in 1920.

## PRINCIPAL ACTIVITY AND NATURE OF OPERATIONS

During the year, the principal activity of the Company was holding and managing of a portfolio consisting of investments.

## DIRECTORS

I. Paulraj (*Chairman*)  
S. Mahendrarajah  
D.C.R. Gunawardena  
P. C. P. Tissera

## ALTERNATE DIRECTOR

S. Mahendrarajah (for I. Paulraj)

## BANKERS

NDB Bank  
Standard Chartered Bank

## AUDITORS

Messrs. Ernst & Young  
Chartered Accountants,  
No. 201, De Saram Place,  
Colombo 10,  
Sri Lanka.

## MANAGERS & SECRETARIES

Carsons Management Services (Pvt) Ltd.  
No. 61, Janadhipathi Mawatha,  
Colombo 1,  
Sri Lanka.  
Telephone No. +94-11-4739200  
Fax No. +94-11-4739300

## REGISTERED OFFICE & 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)

The Company is a member of the  
Carson Cumberbatch Group of Companies.

