



**THE
LION BREWERY
CEYLON LIMITED**

**Financial Report for the
Nine months ended
31st December 2006**

Board of Directors

L.C.R. de C. Wijetunge (**Chairman**)

Hari Selvanathan (**Deputy Chairman**)

Mano Selvanathan

Suresh K. Shah (**Chief Executive Officer**)

D.C.R. Gunawardena

Voon Loong Chin

Mark Lightbown

C. Prasanna Amerasinghe

C.T. Liyanage

D. Ranil P. Goonetilleke

S.A. Nielsen (*Resigned w.e.f. 25th January 2007*)

J.B. Madsen (*Appointed w.e.f. 25th January 2007*)

Review of Operations

The performance of the beer industry continues to labour under numerous regulatory pressures. On 1st December, the National Alcohol & Tobacco Authority Act was implemented, effectively banning all types of advertising of beer products. Further, implementation of the Excise Ordinance has also been severely tightened thereby impacting sales. The Northern & Eastern parts of the country were closed for business as a result of which a significant volume has been lost. The decline in the arrival of tourists has also had a negative impact on the beer industry. However, the most compelling issue faced by the industry at the moment is the relative price between beer & arrack. The price of arrack in terms of alcohol content remains significantly cheaper than beer. As a result consumers have switched between the product categories in significant numbers the result of which is that the hard alcohol segment is growing apace whilst the soft alcohol industry is in decline. As a result, Sri Lankan consumers have consumed significantly more alcohol this year than they did in the previous year. An ironic situation considering that the stated aim of policymakers is to reduce alcohol consumption in the country. In the meanwhile illicit alcohol continues to grow apace. Rising inflation will no doubt help the illicit alcohol industry further boost its sales since price conscious arrack consumers will shift to the lower cost product. With pricing between arrack & beer being what it is, we can expect a similar shift from the price conscious beer consumer as well. Inflation and the depreciation of the currency has burdened the Company with an increased cost base leading to lower margins. All these factors have contributed to the current results of the Company.

Whilst the Company's revenue and profits are not up to expectations, its market share continues to expand in the face of serious competition. This underlies the operating strengths of the Company including its brands, distribution, manufacturing and people. Thus, we are confident that given a level playing field, the Company will be back to its previous levels of profitability sooner rather than later.

In the meanwhile the Company's Indian joint venture with Carlsberg and other investors got off to a good start with the ground breaking ceremony of a greenfield brewery in Rajasthan. This brewery will commence commercial production in the 1st quarter of 2008. Further the Indian Company is also in the process of discussion to acquire a brewery in North India. Thus, the Company's Indian venture is progressing well.

Carsons Management Services (Pvt) Ltd.

12th February 2007

Income Statement

In Sri Lankan Rs. '000s

	Unaudited quarter ended 31.12.2006	Unaudited quarter ended 31.12.2005	Change %	Unaudited nine months ended 31.12.2006	Unaudited nine months ended 31.12.2005	Change %	Audited year ended 31.03.2006
Revenue	982,530	971,041	1	3,026,543	2,922,043	4	3,841,710
Cost of sales	(690,407)	(623,779)	11	(2,125,430)	(1,888,175)	13	(2,490,514)
Gross profit	292,123	347,262	(16)	901,113	1,033,868	(13)	1,351,196
Other operating income	2,252	4,115	(45)	7,615	7,301	4	9,305
	294,375	351,377	(16)	908,728	1,041,169	(13)	1,360,501
Distribution costs	(179,718)	(147,397)	22	(549,096)	(407,624)	35	(629,750)
Administrative expenses	(73,096)	(61,729)	18	(189,892)	(164,561)	15	(226,240)
Other operating expenses	(21,042)	(25,250)	(17)	(62,015)	(90,551)	(32)	(119,068)
Profit from operations	20,519	117,001	(82)	107,725	378,433	(72)	385,443
Finance cost	(14,249)	(7,310)	95	(40,724)	(24,369)	67	(33,508)
Profit before taxation	6,270	109,691	(94)	67,001	354,064	(81)	351,935
Taxation	(1,066)	1,683	(163)	(60,903)	6,243	(1,076)	247
Profit after taxation	5,204	111,374	(95)	6,098	360,307	(98)	352,182
Earnings per ordinary share (Rs.)	(0.15)	1.97		(0.64)	6.44		6.03
Dividends per ordinary share (Rs.)	-	-		3.00	3.00		3.00

Change % represents the percentage change in the current year results compared to the comparative period.

Figures in brackets indicate deductions/negative changes.

Balance Sheet

In Sri Lankan Rs. '000s

As at

	Unaudited 31.12.2006	Unaudited 31.12.2005	Audited 31.03.2006
ASSETS			
Non-Current Assets			
Property, plant & equipment	2,319,952	2,079,841	2,296,200
Current Assets			
Inventories	440,665	382,314	381,294
Trade and other receivables	755,947	649,951	628,318
Amount due from related companies	6,214	-	4,751
Short-term deposits	106,168	26,935	37,814
Cash at bank and in hand	28,123	27,678	58,861
	1,337,117	1,086,878	1,111,038
Total assets	3,657,069	3,166,719	3,407,238
EQUITY & LIABILITIES			
Capital & Reserves			
Share capital	850,000	850,000	850,000
Capital reserves	726,272	592,609	726,272
Retained profits	436,260	639,037	618,225
	2,012,532	2,081,646	2,194,497
Non-Current Liabilities			
Payables due after one year	402,145	344,494	360,190
Retirement benefit obligations	20,470	17,303	18,768
Deferred tax liabilities	417,511	360,973	364,274
Long-term loans repayable after one year	93,063	-	-
	933,189	722,770	743,232
Current Liabilities			
Taxes payable	199,451	201,554	216,799
Trade and other payables	165,484	113,209	229,885
Amounts due to related companies	69,925	32,107	-
Long-term loans repayable within one year	53,879	-	-
Bank overdrafts (Unsecured)	222,609	15,433	22,825
	711,348	362,303	469,509
Total equity & liabilities	3,657,069	3,166,719	3,407,238
Net assets per ordinary share (Rs.)	33.25	34.63	36.89

Approved and signed on behalf of the Managers,

D.C.R. Gunawardena
Director

Approved and signed on behalf of the Board,

M. Selvanathan
Director**S.K. Shah**
Director**Carsons Management Services (Pvt) Limited**

12th February 2007

Statement of Changes in Equity

<i>In Sri Lankan Rs. '000s</i>	Ordinary Share Capital	Preference Share Capital	Capital Reserves	Retained Earnings	Total Equity
Balance as at 1st April 2005	500,000	350,000	592,609	466,793	1,909,402
Profit attributable for the nine months ended 31st December 2005	-	-	-	360,307	360,307
Dividend - Ordinary	-	-	-	(150,000)	(150,000)
- Preference	-	-	-	(38,063)	(38,063)
Balance as at 31st December 2005 (unaudited)	<u>500,000</u>	<u>350,000</u>	<u>592,609</u>	<u>639,037</u>	<u>2,081,646</u>
Balance as at 1st April 2006	500,000	350,000	592,609	466,793	1,909,402
Revaluation	-	-	133,663	-	133,663
Profit attributable for the year 2006	-	-	-	352,182	352,182
Dividend - Ordinary	-	-	-	(150,000)	(150,000)
- Preference	-	-	-	(50,750)	(50,750)
Balance as at 31st March 2006 (audited)	<u>500,000</u>	<u>350,000</u>	<u>726,272</u>	<u>618,225</u>	<u>2,194,497</u>
Balance as at 1st April 2006	500,000	350,000	726,272	618,225	2,194,497
Profit attributable for the nine months ended 31st December 2006	-	-	-	6,098	6,098
Dividend - Ordinary	-	-	-	(150,000)	(150,000)
- Preference	-	-	-	(38,063)	(38,063)
Balance as at 31st December 2006 (unaudited)	<u>500,000</u>	<u>350,000</u>	<u>726,272</u>	<u>436,260</u>	<u>2,012,532</u>

Cash Flow Statement

In Sri Lankan Rs. '000s

	Unaudited nine months ended 31.12.2006	Unaudited nine months ended 31.12.2005	Audited year ended 31.03.2006
Net cash generated from/(used in) operating activities	(104,255)	298,527	439,285
Net cash used in investing activities	(54,973)	(107,398)	(200,782)
Net cash used in financing activities	(2,940)	(187,977)	(200,681)
Net increase/(decrease) in cash & cash equivalents	(162,168)	3,152	37,822
Cash & cash equivalents at the beginning of the year	73,850	36,028	36,028
Cash & cash equivalents at the end of the year	(88,318)	39,180	73,850
Cash & Cash Equivalents			
Cash at bank and in hand	28,123	27,678	58,861
Short-term deposits	106,168	26,935	37,814
	134,291	54,613	96,675
Bank overdraft	(222,609)	(15,433)	(22,825)
	(88,318)	39,180	73,850

Notes to the Summarised Financial Report

1) Basis of preparation of the Summarised Financial Report

The Interim Financial Report of the Company has been prepared on the basis of the same accounting policies and methods applied for the year ended 31st March 2006 and is in compliance with Sri Lanka Accounting Standard 35 - Interim Financial Reporting.

2) Events occurring after the Balance Sheet date

Subsequent to the Balance Sheet date, no circumstances have arisen which would require adjustments to or disclosure in the Summarised Financial Report.

3) Preference Dividend

The dividend for the redeemable cumulative preference shares has been appropriated but not paid as the Company's profit after tax was not sufficient to meet the full commitment for the nine months ended 31st December 2006.

4) Contingent Liabilities

Contingent liabilities as at 31st December 2006 amount to Rs. 5.3 million, being bank guarantees given to government bodies for operational purposes.

Apart from the above there were no other material contingent liabilities which would require adjustments to or disclosure in the Summarised Financial Report.

5) Comparative Figures

Certain comparative figures have been restated to conform to the classifications and presentation as at 31st December 2006.

Investor Information**Share Valuation**

For the nine months

<i>ended 31st December</i>	2006	2005
Market value per share (Rs.)	63.25	70.00
Highest traded (Rs.)	85.00	108.00
Lowest traded (Rs.)	55.00	60.00

CORPORATE INFORMATION

NAME OF COMPANY

The Lion Brewery Ceylon Limited
(A Carson Cumberbatch Company)

LEGAL FORM

A public quoted company with limited liability,
incorporated in Sri Lanka in 1996

BANKERS

Commercial Bank
Citibank
Hatton National Bank Limited
HSBC
Nations Trust Bank
Standard Chartered Bank

LEGAL ADVISERS

Messrs. F.J. & G. De Saram
216, De Saram Place
Colombo 10
Sri Lanka
Tel: +94 11 4718200
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AUDITORS

Messrs. KPMG Ford, Rhodes, Thornton & Co.,
Chartered Accountants
No. 32A, Sir Mohamed Macan Markar Mawatha,
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MANAGERS & SECRETARIES

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REGISTERED OFFICE

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BREWERY

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COMPANY WEBSITE

www.lionbeer.com

CORPORATE WEBSITE

www.carsoncumberbatch.com