

# Building on our strengths...

# Ceylon Guardian Investment Trust PLC

Ceylon Guardian Investment Trust PLC is the largest listed investment company on the Colombo Stock Exchange. Guardian is the holding company of the investment sector of the Carson Cumberbatch Group. Its businesses comprise listed and private equity, asset management and management of mutual funds, carried out by its fund management company, Guardian Fund Management Limited.

## Contents

|  |    |
|--|----|
| Group at a glance .....  | 1  |
| Chairman's Statement.....  | 2  |
| Managers' Review.....  | 4  |
| Profiles of the Directors .....  | 15 |
| Management Team Profiles .....   | 17 |
| Risk Management.....   | 19 |
| Annual Report of the Board of Directors<br>on the Affairs of the Company ..... | 26 |
| Audit Committee Report .....   | 34 |
| Financial Calendar.....  | 36 |
| Independent Auditor's Report .....   | 37 |
| Income Statement.....  | 38 |
| Balance Sheet .....  | 39 |
| Statement of Changes in Equity.....  | 40 |
| Cash Flow Statement .....  | 42 |
| Notes to the Financial Statements .....  | 43 |
| Five Year Summary .....  | 81 |
| USD Financial Statements   |    |
| Group at a glance .....  | 84 |
| Income Statement.....  | 85 |
| Balance Sheet .....  | 86 |
| Notes to the Financial Statements .....  | 87 |
| Five Year Summary .....  | 88 |
| Information to Shareholders and Investors .....                                | 90 |
| Glossary of Financial Terms.....   | 92 |
| Notice of Meeting .....  | 94 |
| Form of Proxy .....  | 95 |

# Group at a glance

(Amounts expressed in Sri Lankan Rupees thousands)

|   | 2012       | 2011<br>(Restated) | %    |
|---|------------|--------------------|------|
| Group revenue   | 2,081,510  | 2,525,592          | (18) |
| Profit from operations                                      | 1,274,847  | 2,638,327          | (52) |
| Share of associate company's profits net of taxation        | 882,824    | 713,798            | 24   |
| Profit before taxation                                      | 2,150,006  | 3,328,380          | (35) |
| Profit for the year   | 2,134,310  | 3,323,848          | (36) |
| Profit attributable to equity holders of the parent company | 1,980,240  | 2,962,760          | (33) |
| Shareholders' funds   | 12,172,325 | 13,131,758         | (7)  |
| Net assets  | 13,996,197 | 15,286,176         | (8)  |
| Total assets  | 14,062,790 | 15,864,573         | (11) |
| Return on ordinary shareholders' funds (%)                  | 16.27      | 22.56              | (28) |
| Earnings per share (Rs)                                     | 22.54      | 33.73              | (33) |
| Dividend per share (Rs) *                                   | 2.00       | 1.50               | 33   |
| Net assets per ordinary/deferred share - book value (Rs)    | 138.58     | 149.50             | (7)  |
| Net assets per ordinary/deferred share - market value (Rs)  | 264.81     | 354.68             | (25) |
| Guardian fund value **                                      | 27,939,223 | 36,282,044         | (23) |

## Stock market data

As at 31st March

|                                 |            |            |      |
|---------------------------------|------------|------------|------|
| All share price index           | 5,420.20   | 7,226.12   | (25) |
| Milanka price index             | 4,891.58   | 6,874.70   | (29) |
| Market capitalization (Company) | 18,964,342 | 30,334,738 | (37) |
| Share price (Rs.)               |            |            |      |
| Year end                        | 231.00     | 369.50     | (37) |
| High                            | 402.00     | 478.00     | (16) |
| Low                             | 231.00     | 230.10     | 0    |

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

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

# Chairman's Statement

I welcome you to the 60th Annual General Meeting of the Company and on behalf of the Board of Directors, take pleasure in presenting the Annual Report and Audited Accounts of the Company for the year ended 31st March 2012.

The year under review has been a challenging one given the vagaries of the stock market, both on the domestic and international front. The Colombo Stock Exchange has reflected this with negative returns being recorded for the year under review, against a backdrop of economic re-adjustment after two years of growth in post war Sri Lanka. Despite the realignment of economic variables (namely depreciation of the currency and a rise in interest rates) which led to some uncertainty on the macro front, the steps taken to curb imports and moderate the rate of credit growth will help in stabilizing conditions in the months ahead. We at Guardian still remain confident of the long term potential of Sri Lanka and the sustainability of the economic development plans set in place after an end to a thirty year civil war. We believe the long term development potential of Sri Lanka will flow through to its equity markets, which is likely to grow in stature since market capitalization to GDP is still a mere 33% when compared with more mature markets where it can exceed 100%. We believe that as long as strong country fundamentals play a pivotal role in economic resurgence, periodic turmoil in equity markets are not a cause for concern.

Against this backdrop, the Company too had a challenging year although risks were mitigated in handling the impacts of a volatile equity market. The Company recorded a profit after tax of Rs.2.1 bn. Our performance is attributed to booking profits on selected overvalued stocks when the market was at high level, thus securing substantial capital gains. Our portfolio value declined to Rs. 28 bn, down from Rs. 36 bn a year earlier; recording a decline of 23% vis-à-vis a 25.0% decline in the benchmark All Share Price Index and 28.8% decline in the Milanka Index. In the medium term, five year compounded portfolio growth was 34.28% on market value basis and 43.86% on market capitalization, vis-à-vis an All Share Price Index growth of 14.21%.

The experience of being in this business paid off with an acceptable performance being upheld in a market downturn,

by switching to a more balanced portfolio where cash generated from sales were held back from re-investment, given the uncertainty in equity markets.

Keeping the anticipated developments in capital markets as the backbone of our strategy, the Group undertook several new initiatives aimed at widening its business model into managing investment products and portfolios aimed at all levels of investors with preferences for different asset classes. We have initiated an action plan of segmenting the portfolios in terms of risk appetite into listed and private equity, thus sub grouping the investment companies to better represent these multiple asset classes. Ceylon Guardian Investment Trust PLC would function as the main holding entity, while subsidiary Ceylon Investment PLC would concentrate on listed equity investing. Both entities have long term and trading portfolios to take cognizance of time horizons, while the newly branded Guardian Capital Partners would focus on private equity, a riskier but lucrative asset class. Our key business initiative of growing assets under management has been entrusted to Guardian Fund Management Limited the asset management company which is a fully owned subsidiary of Ceylon Guardian. It manages a diverse product range, namely an institutional client business, unit trusts and a country fund.

In pursuit of its strategy of accessing a wider investor group, the Group entered into a joint venture with Acuity Partners Private Limited (the investment banking arm of the HNB and DFCC banks) to manage, and market unit trusts using Acuity's and its partners' distribution and network capabilities. Acuity's extended distribution network will be accessed to market the equity and fixed income funds of this joint venture through innovative investor centric savings plans catering to the retail segment.

In building our outsourced fund management business, we continued our efforts to raise funds for the country fund - "The Sri Lanka Fund". Unfortunately due to external market conditions both here and overseas, investor interest in frontier markets such as Sri Lanka has been very poor, posing a challenge in raising funds.

Thus, our corporate structure is evolving to serve many different investor groups and asset classes and we have created specialized entities and investment products for investors with diverse risk profiles, giving them the opportunity to best select what suits them. This structure would better equip us to handle the growth phase of the investment industry in Sri Lanka which we believe would evolve along the lines of more developed markets in the world. We believe our business scope will enable us to strategically partner with global players who want to be part of the country's capital market.

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

Following the trends in most successful Asian economic growth models, both the public sector and private sector will be instrumental in driving the economy, the former playing the role of infrastructure developer & facilitator, while the latter engages in more entrepreneurial activity. In this context, we must point out that where capital markets are concerned, it is most important for the large state owned enterprises which account for significant economic activity, also to be listed to enable the capital markets to better reflect the country's economic profile. This has the obvious benefit of deepening the capital markets and thus attracting foreign

investments. A recent survey published in the Economist Magazine has revealed that 80% and 62% of China's and Russia's market capitalization respectively are represented by national and state controlled companies.

During the year under review, the Company portfolios continued to be managed by Guardian Fund Management Limited (GFM), the fund management company within the Guardian Group. Guardian Fund Management is registered with the Securities and Exchange Commission of Sri Lanka as an Investment Manager while Ceylon Guardian Investment Trust PLC and its subsidiary Ceylon Investment PLC are registered as underwriters. GFM over the years has built an experienced team with a strong skill base, backed by a second level of management being developed to take over the new lines of businesses being mooted. Ours is a model which seeks performance excellence, built on a strong foundation of fundamental style investing, driven by research, innovation, compliance, ethics and systems.

Despite the challenging market conditions faced, the Board of Directors propose a first & final dividend of Rs.2.00 per share an improvement over the previous year's Rs.1.50, thus maintaining our policy of a regular payout.

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

*(Sgd).*  
**Israel Paulraj**  
*Chairman*

Colombo  
24th May 2012

# Managers' Review

## Financial Review and Shareholder Returns

Ceylon Guardian Investment Trust PLC and its subsidiaries, Ceylon Investment PLC, Guardian Capital Partners PLC and Rubber Investment Trust Limited, and associate company Bukit Darah PLC reported a consolidated profit after tax of Rs. 2,134 mn for the year ended 31st March 2012, on a consolidated revenue of Rs 2.1bn. The consolidated profit after tax and revenue recorded a decline of 35.8% and 17.6% respectively.

The investment related operations generated an after tax profit of Rs. 1,254 mn, accounting for 58.7% of group profit after tax, whilst share of associate profits accounted for the balance, generating Rs. 882.8 mn. The group revenue is fully attributable to the investment operations.

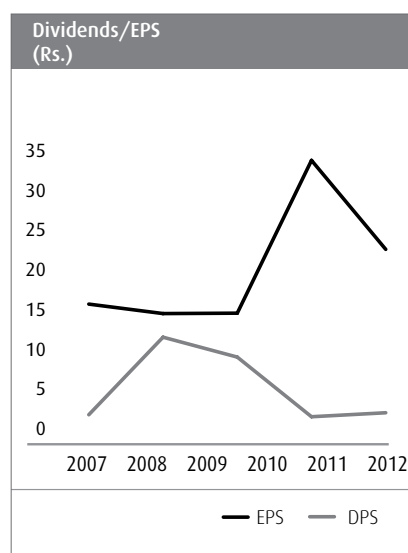
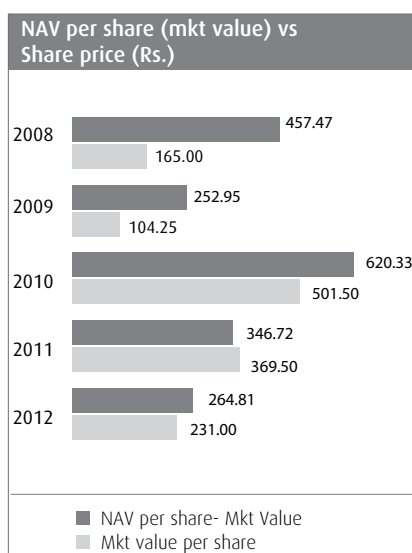
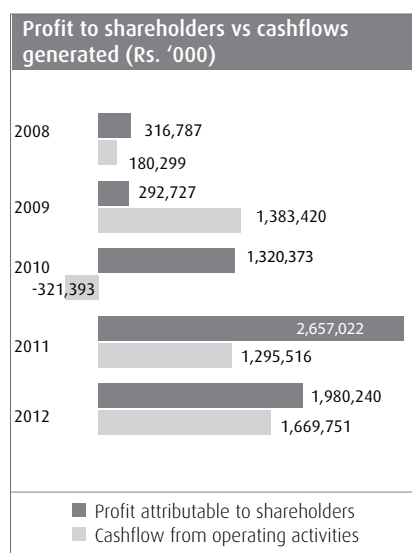
Investment related profits declined by 52% during the financial year, primarily due to reduced gains from disposals as well as a provision of Rs 692 mn on account of certain portfolio holdings' market value declining below the holding cost. These could get reversed with a recovery in the market. The consolidated revenue also dropped due to lack of opportunities to realize gains on existing holdings. The decline in investment related profit and revenue was softened to certain extent by higher dividend receipts and interest income on account of a higher cash holding. A portion of the proceeds realized on sale were used to settle outstanding overdraft facilities resulting in a decrease in the interest cost.

Share of associate company profits attributable to Bukit Darah increased from Rs.714 mn to Rs.883 mn during the year, on the back of improved commodity prices. The Guardian Group portfolio's strategic holding in Bukit Darah PLC stood at Rs. 17.5 bn as at 31st March 2012 down from Rs. 23.9 bn as at 31st March 2011, a decline of 27%.

The consolidated fund value declined by 23% to Rs. 28 bn, from the Rs. 36 bn recorded last year.

The company's EPS decreased to Rs.22.54 from Rs.33.73, a decline of 33%. The value per share of the company amounts to Rs.264.81 on a market price based net asset valuation. With the adoption of market value accounting for all portfolios, the net worth of the balance sheet is now stated at market value. Thus the market price of the share should tend to move along with the net asset value, and is presently trading at a discount of 13% to the intrinsic value on 31st March 2012.

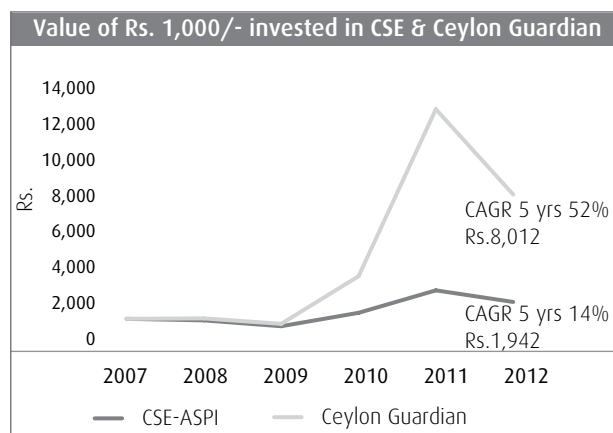
The Company proposes a final dividend of Rs.2.00 per share an improvement on the dividend of Rs.1.50 paid in FY 2010/11. The company has been maintaining a constant dividend payout policy keeping in line with market movements. The dividend yield of the company has increased to 1%, owing to the share price coming down. Shareholder wealth loss during the year was 37%.



## Investment Performance and Strategy

The total net asset value of the Guardian Group portfolio at market value stood at Rs.28.0 billion as at the year end from Rs.36.3 billion as at 31st March 2011, a depreciation of 23% against the benchmark All Share Index depreciation of 24.99% and Milanka depreciation of 28.85% for the same period. Our portfolio is segmented into long-term, trading, private equity and strategic investments and from time to time allocations are shifted to optimize portfolio performance.

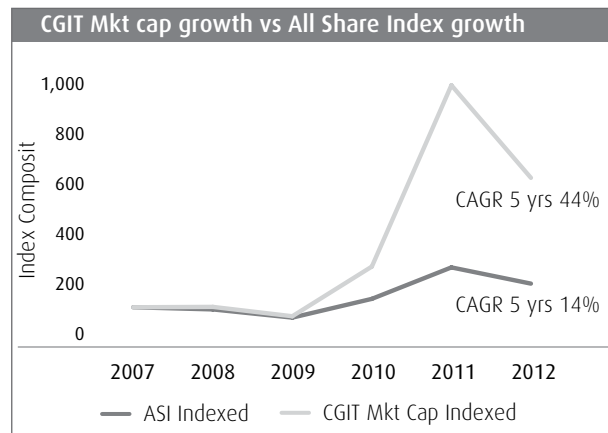
A major component of the portfolio is its stake in Bukit Darah PLC which account for 63% of the portfolio, and this amounts to the non - discretionary component of the portfolio. The balance 37% of the portfolio is termed as the discretionary portfolio which mainly consists of long term listed equities which cover an investment horizon of 3-5 years, accounting for 27.5% of the consolidated portfolio. A small component of the fund has been allocated for short-term trading, taking a



one year investment horizon. Lastly a new component within the consolidated portfolio has been built up for private equity which accounts for 1% of the total portfolio.

## Listed Equity

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



| Shareholder Returns               | 31-3-2007 | 31-3-2008 | 31-3-2009 | 31-3-2010 | 31-3-2011 | 31-3-2012 |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| ASPI                              | 2,790     | 2,550     | 1,638     | 3,725     | 7,226     | 5,420.20  |
| ASPI gain                         | 23%       | -8.6%     | -35.8%    | 127.4%    | 94.0%     | -25.0%    |
| ASPI CAGR 5 yr                    |           |           |           |           |           | 14.2%     |
| Start of the year - Quantity      | 1,000     | 1,000     | 1,000     | 1,000     | 850       | 4,337     |
| - Market price per share          | 140.00    | 162.50    | 165.00    | 104.25    | 501.50    | 369.50    |
| - Wealth                          | 140,000   | 162,500   | 165,000   | 104,250   | 426,275   | 1,602,423 |
| Dividends - %                     | 15.00%    | 17.50%    | 115.00%   | 90.00%    | 15.00%    | 20.00%    |
| - Dividend per share              | 1.50      | 1.75      | 11.50     | 9.00      | 1.50      | 2.00      |
| - Value                           | 1,500     | 1,750     | 11,500    | 62,850    | 1,275     | 8,673     |
| End of the year - Quantity        | 1,000     | 1,000     | 1,000     | 850       | 4,337     | 4,337     |
| - Market price per share          | 162.50    | 165.00    | 104.25    | 501.50    | 369.50    | 231.00    |
| - Wealth                          | 164,000   | 166,750   | 115,750   | 489,125   | 1,603,698 | 1,010,459 |
| Annual Shareholder wealth gain    | 17.1%     | 2.6%      | -29.8%    | 369.2%    | 276.2%    | -36.9%    |
| Shareholder wealth gain 5 yr CAGR |           |           |           |           |           | 51.6%     |

## Managers' Review

Our portfolio is overweight on the diversified sector which has indirect exposure to tourism, banking & finance sector and the food & beverage sector, all of which have potential to grow in multiples with country growth. Our indirect exposure to the construction boom in the country comes from the manufacturing sector. The palm oil sector continued to be a top exposure due to our strategic holding and will benefit from global commodity demand and the enhanced business model of the Carsons palm oil sector which now has a diverse exposure to both the upstream and downstream segments of the industry. Thus it's clear that our portfolio best represents the economic trends faced by the country at present, with a regional and global flavour coming in with the strategic stake in Bukit Darah PLC.

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

During the year ended 31st March 2012, the Guardian Group made Rs. 2.3 bn of new investments and Rs.3.8 bn of divestments. Hence Guardian Group has been a net seller in the market whereby a cash position of Rs. 1.2 bn was built, highlighting in our view, a correct reading of the market where over-heating warranted a negative stance on adding equities in the short end.

### 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.

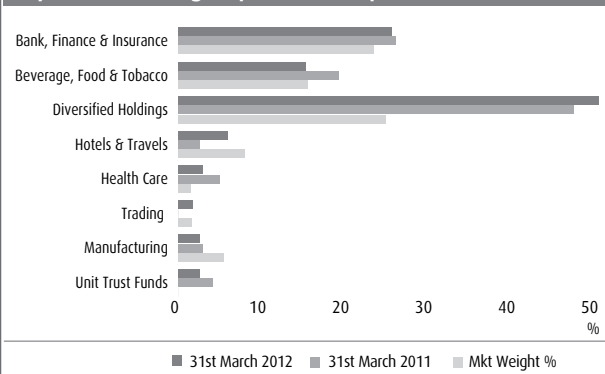
#### Investing for consistent above market returns

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

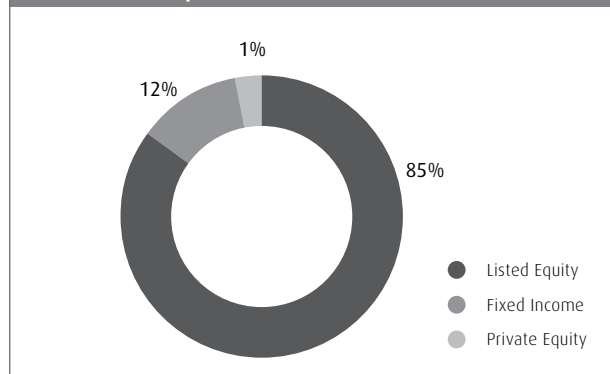
#### Investing for shareholder value

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

### Ceylon Guardian group - sector exposure



### Guardian Group Asset Mix





| Top 5 Holdings - excluding related companies |                               | Mkt Value Rs.mn | % stake held |
|--|-------------------------------|-----------------|--------------|
| 1  | John Keells Holdings PLC      | 3632            | 2.1%         |
| 2  | Commercial Bank of Ceylon PLC | 1379            | 1.8%         |
| 3  | Cargills (Ceylon) PLC         | 1157            | 3.0%         |
| 4  | Expolanka Holdings PLC        | 340             | 2.8%         |
| 5  | Sampath Bank PLC              | 301             | 1.0%         |

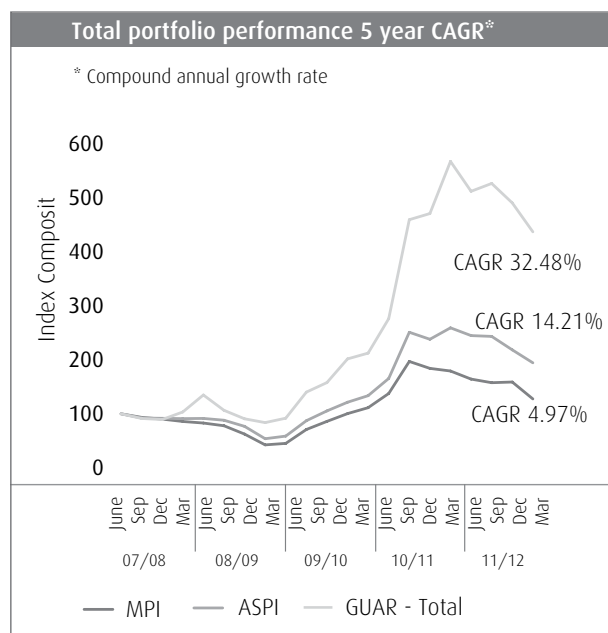
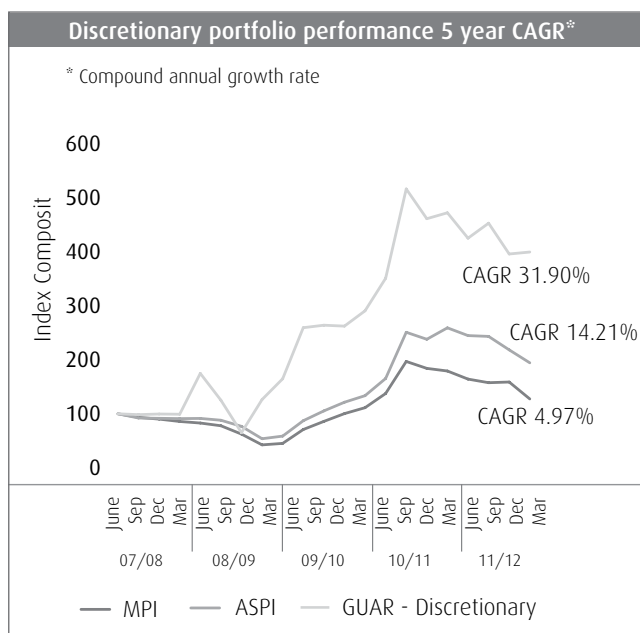
### PRIVATE EQUITY PORTFOLIO – GUARDIAN CAPITAL PARTNERS PLC

On the private equity asset class, the year under review was challenging, where some of the private equity investments which came for listing did not perform upto expectations for numerous reasons. Among the most significant reasons were the impacts of the global economic downturn having a knock on effect on the business, rise in borrowing costs and deferring of expansion plans, all of which caused investor confidence to ebb. The downturn in markets saw poor share price performance of our investee companies. However, we foresee private equity to be a growing component of our business in time to come and would be looking to allocate more resources to it provided the project pipeline yields good quality projects.

We are also in the process of forming partnerships with financial institutions, foreign private equity players and issuer companies to enhance the quality of our deal flow.

The current financial year saw two of our private equity investments being encashed through the IPO route. Decisions to exit at the time of IPO were determined by factors based on IPO pricing, market conditions and considering the long term value of stocks. On the buy side we made two investments during the year. One was in hSenid Business Solutions (Pvt) Ltd which develops and markets human resource management software, delivering solutions via on premise and internet based platforms. The second investment was in Access Engineering PLC engaged in the construction and real estate businesses. Total investments amounted to Rs. 240 mn.

We evaluated many private equity investment opportunities in varying industries but most projects failed to achieve our internal benchmarks set for investment, both in terms of financial returns as well as governance criteria related to business structure. We remain confident that good quality private placements will give us an edge in maintaining premium returns to our shareholders into the future and will continue to look for deal flows actively. Nevertheless, the



## Managers' Review

success rate of PE investments, we are well aware could be much less than in listed equity. We have also noted a considerable shrinkage in the number of projects coming up for evaluation, as markets take a downturn.

### **THE MANAGERS – GUARDIAN FUND MANAGEMENT LIMITED**

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

The fund management company also built on its specialist private equity capabilities, perfecting its style of evaluating, managing and structuring good quality private equity deals. Further management capability in this area is being built, drawing upon lessons from best practices in global private equity companies. This is a long term business which requires dedicated skills different from managing conventional listed equity and Guardian needs to build an investment team and culture suited to private equity within itself.

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

### **UNIT TRUSTS – GUARDIAN ACUITY ASSET MANAGEMENT LIMITED**

The Group made its first foray into retail investing activity with the joint venture with Acuity Partners (Private) Limited to manage and market unit trusts, using Acuity's and the HNB Bank's distribution and branch network. The Equity and Fixed Income Funds of this joint venture have been approved by the Securities and Exchange Commission and were launched in year 2012, as a series of innovative investor centric savings plans for retail investors. The products are marketed through over 60 designated branches of the HNB, thus making it accessible to a wide range of investors with differing investment needs. It is envisaged that our joint venture company, Guardian Acuity Asset Management Limited, will evolve into a multi product, multi channel retail fund management company over time, with a wide presence in the local and select international markets. It is well known that the unit trust industry in Sri Lanka has been slow to evolve and in this context, we plan to position our joint venture as an innovative player that can address customers through multiple media and distribution channels.

We recognize the mutual fund industry in Sri Lanka as yet in its infancy and foresee that increasing per capita incomes will drive innovative saving habits amongst people. Our JV company will be poised to address those needs through investment schemes that can attract the mass market. We are privileged to be partnered by some of the foremost and trusted players in the local financial services industry like the HNB and DFCC banks in taking the unit trust industry to new heights in the local market. Investor sophistication is now on the increase and better awareness of alternate savings products as well as use of innovative media to access investor groups is a vital component of business development. Furthermore, professional marketing of savings products through a well informed sales force will form an important platform for our venture.

| Our Top Holdings as at 31st March 2012  | Value of the holding Rs.mn | Portfolio weight % | Price movement % |
|---|----------------------------|--------------------|------------------|
| Group Holdings  |                            |                    |                  |
| <b>Bukit Darah PLC</b> - An investment holding company with a 46% stake in Carson Cumberbatch PLC and exposure to oil palm plantations and downstream value added products in Asia  | 17,532                     | 65.7%              | -27%             |
| Group Holdings total value  | 17,532                     | 65.7%              |                  |
| Non Group Holdings  |                            |                    |                  |
| <b>John Keells Holdings PLC</b> - A diversified company with interest in ports & related activities, transportation, property development, tourism, financial services and consumer products in Sri Lanka.  | 3,632                      | 13.6%              | -3%              |
| <b>Commercial Bank of Ceylon PLC</b> - One of the largest commercial banks in Sri Lanka with a wide branch network of over 200 branches spread island wide  | 1,379                      | 5.2%               | -19%             |
| <b>Cargills (Ceylon) PLC</b> - Leading player in the retail super market trade, commanding 50% of modern retail market share. Also has manufacturing operations in the food sector and operates the KFC franchise in Sri Lanka  | 1,157                      | 4.3%               | -24%             |
| <b>Expolanka Holdings PLC</b> - One of the leading freight forwarders in the South Asian region, specializing in the garments, apparel vertical. In addition to freight forwarding the company has also diversified into air line GSA, travel agency, export of agro commodities, pharmaceutical and paper manufacture, and also holds strategic investments in the BPO and education sectors | 340                        | 1.3%               | -56%             |
| <b>Sampath Bank PLC</b> - Fastest growing private commercial bank in terms of assets and reach with over 200 branches. Aggressively repositioned itself to capture the growth opportunities   | 301                        | 1.1%               | -35%             |
| <b>Durdans Medical &amp; Surgical Hospital (Private) Limited</b> - Unquoted investment and expansion project of the Ceylon Hospitals Group which is one of the pioneers in private health care in Sri Lanka. Has already commenced operations and was fully operational in the financial year 2011/12   | 281                        | 1.1%               | 0%               |
| <b>Peoples Leasing Company PLC</b> - Largest leasing company in Sri Lanka, majority owned by Peoples Bank. Commands a market share of 21%   | 266                        | 1.0%               | 0%               |
| <b>Nestle Lanka PLC</b> - A leading multinational company engaged in the manufacturing, marketing, selling and distribution of food and beverage products under leading brands such as Milo, Nespray, Maggi, Nestomalt. Also involved in the export of locally manufactured food and beverages products, and is the largest exporter of coconut milk powder in the country                    | 250                        | 0.9%               | 42%              |
| <b>Access Engineering PLC</b> - Engaged in construction and real estate businesses. Leading C1 contractors in the country involved in construction of buildings, roads & highways, water & waste water management, bridges & flyovers, harbors & marine work, dredging & reclamation, telecommunication, irrigation & land drainage, and piling   | 214                        | 0.8%               |                  |
| Non Group Holdings total  | 7,820                      | 29.3%              |                  |
| Top Holdings  | 25,352                     | 95.1%              |                  |
| Other holdings  | 1,319                      | 4.9%               |                  |
| Total Portfolio   | 26,671                     | 100.0%             |                  |
| All Share Index movement 31st March 11 to 31st March 12   |                            |                    | 24.99%           |

## Managers' Review

### Economy and the Equity Market

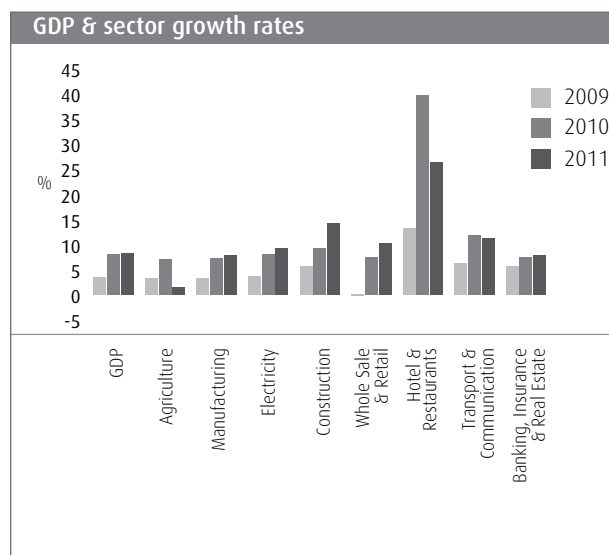
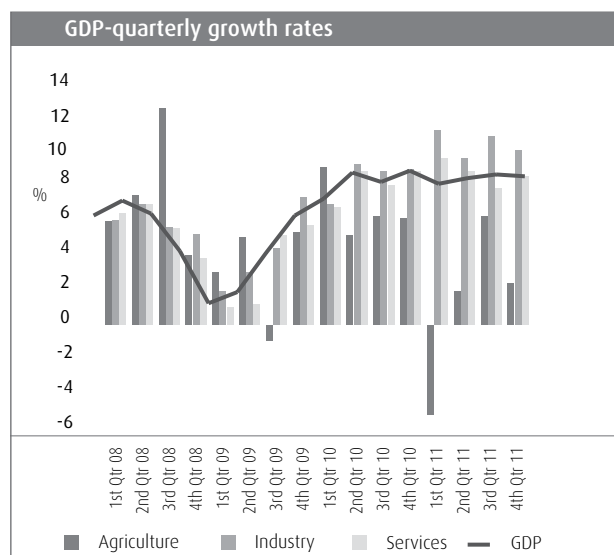
#### Economy in perspective

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

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

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

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

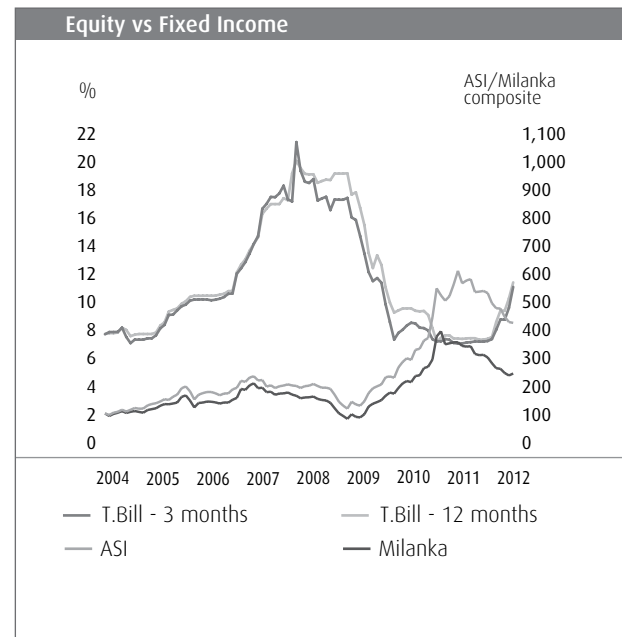
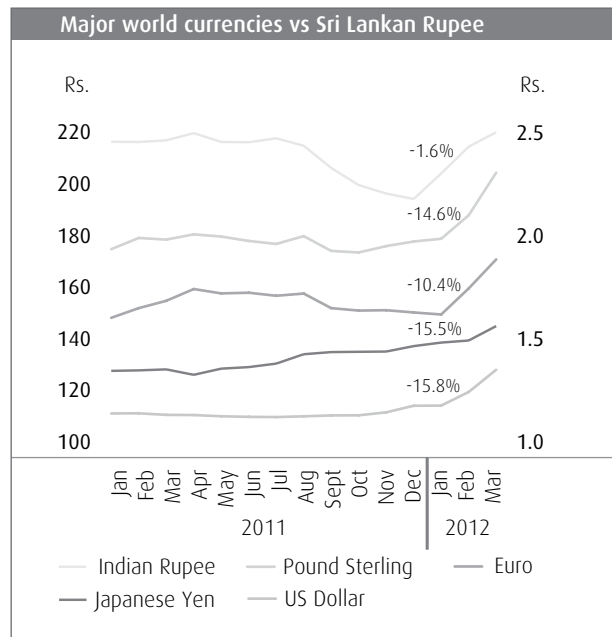


crunch and high interest rates. Banks can lend upto 23% YOY growth, if the extra 5% of funds is raised from overseas.

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

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

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



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

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

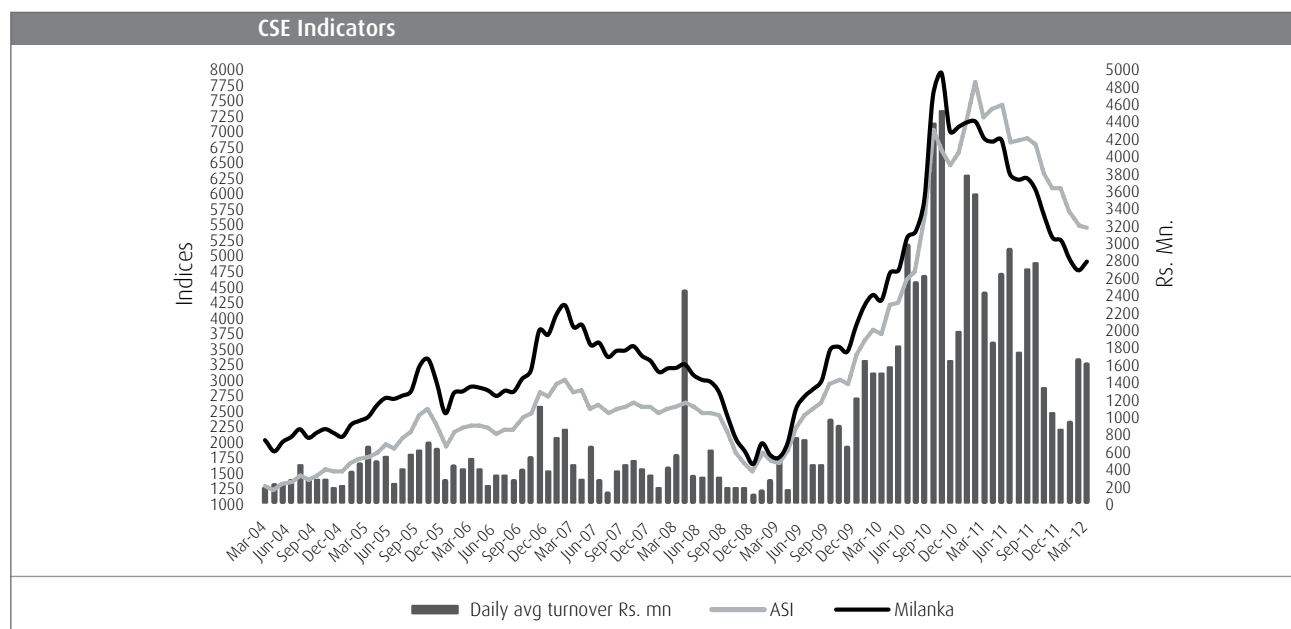
## Managers' Review

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

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

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

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



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

## Equity market in perspective

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

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

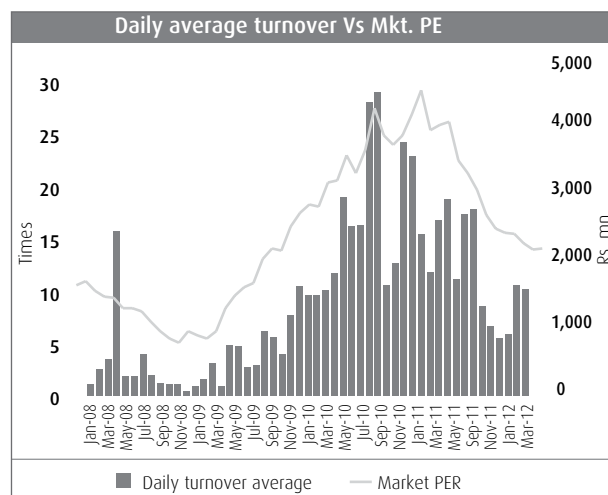
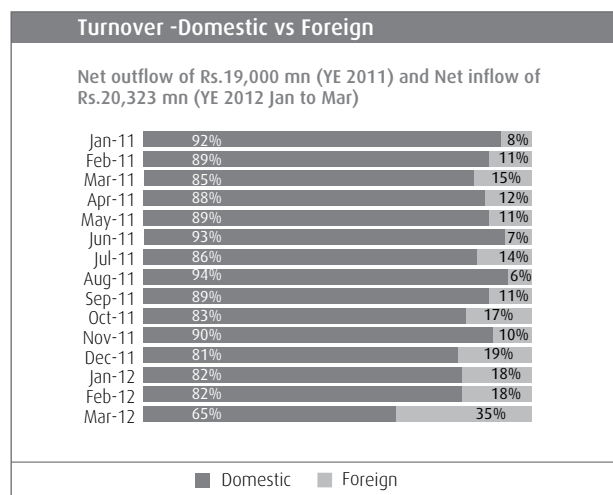
An anomaly continues to exist in the market, with the Milanka index which better represents the blue chips, lagging behind the All Share index attributed to heightened speculative trading in second tier stocks in recent times. This trend seems to be correcting in 2012, with blue chip shares now becoming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

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

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

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

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



## Managers' Review

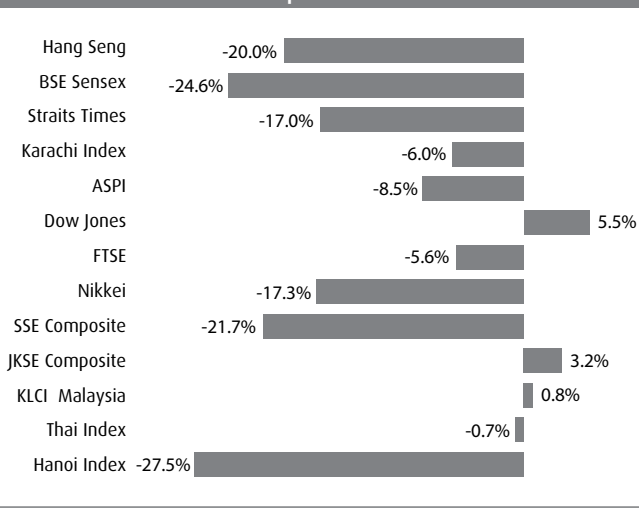
The banking & finance sector which accounts for 21.8% of market cap has depreciated by 29.4% above market depreciation of 25%. The diversified holdings sector the largest, which accounts for 23.1% of the market capitalization of the CSE over-performed the CSE marginally by 24.8%. Other sectors that over-performed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

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

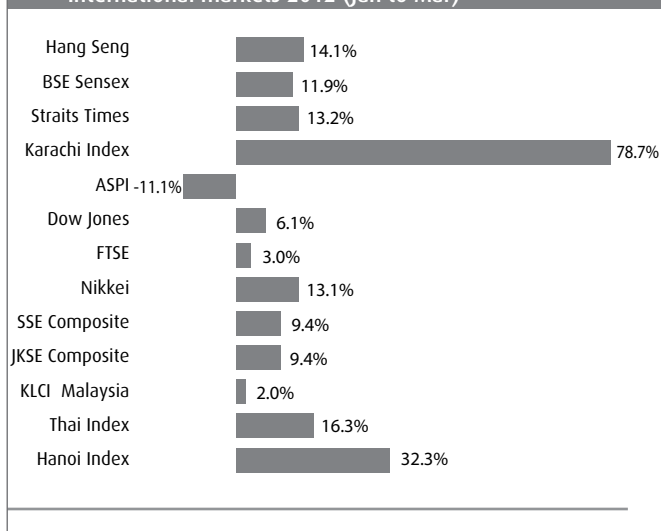
Guardian Fund Management Limited  
Investment Managers

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

### International markets performance 2011



### International markets 2012 (Jan to Mar)





# Profiles of the Directors

## **ISRAEL PAULRAJ**

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

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

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

## **CHANDIMA GUNAWARDENA**

Director of Carson Cumberbatch PLC. He serves as a Director in most of the Carsons Group Companies in Sri Lanka and overseas. Since assuming Non Executive status in the group he currently serves as an advisor to the group's strategic planning and management forums and serves on Board Committees including the Audit Committees of the Group.

Mr. Gunawardena has over four decades of experience in varied fields of business and commercial activities and has held senior positions in the Corporate, Mercantile and State Institutions. He was appointed to the Carsons Group Directorate in 1990. He has served in the Management committee of the Ceylon Chamber of Commerce for over 10

years and was a Founder Council member of the Sri Lanka Institute of Directors (SLID) and continued to serve in the council for over 10 years. He is a Fellow of the Chartered Institute of Management Accountants, UK.

## **ASOKA GUNASEKERA**

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

## **MANILAL FERNANDO**

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

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

## Profiles of the Directors

### ROSE COORAY

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

She also held the position of Vice Chairperson of the Institute of Bankers of Sri Lanka and served as secretary to the Monetary Board. Has over 37 years experience in the financial sector formulating and implementing economic and fiscal policies. Holds a B.A (Hons.) in Economics from the University of Peradeniya and Masters Degree from the University of Strathclyde, UK.

### KRISHNA SELVANATHAN

Director of Carsons Management Services (Private) Limited, Lion Brewery (Ceylon) PLC and the Investment Sector Companies of the Carsons Group. He is also a Director of Carlsberg India (Pvt) Ltd. He holds a BA Degree in Accounting & Finance and Business Administration from the University of Kent, U.K.

### WILLIAM KNIGHT

William Knight is an alternative asset investment specialist who has spent almost his entire career involved with financial development of companies and projects in developing economies. He originally specialized in project finance at Lazard Brothers, following which he spent 18 years in various senior positions in the Lloyds bank group based in London, Hong Kong and Portugal. Since 1991 he has served in a wide range of non-executive positions as an independent director or adviser based in London. Amongst his various board positions, he currently is the Chairman of Abingworth Bio Ventures II, an early stage biotechnology investment company and the JP Morgan Chinese Investment Trust PLC. He is also the Senior independent director of Fidelity Asian Values Trust, the LG India Fund and Axis Fiduciary Ltd, a Mauritius based financial services provider oriented to the African Continent, and served as a board member of funds investing in Russia, Vietnam, Mauritius and Portugal. He is an advisory Board member of Campbell-Lutyens & Co Ltd and Homestrings LLC.

# Management Team Profiles

## Ruvini Fernando

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

## Niloo Jayatilake

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

## Tharinda Jayawardana

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

## Sumith Perera

Fund Manager, Guardian Fund Management Ltd. Has over 6 years experience in the field of Asset Management working as a Fund Manager for CAAM Saudi Fransi LLC (Kingdom of Saudi Arabia) and as an Investment Analyst for Eagle NDB Fund Management (Sri Lanka). He holds a Bsc (Hons) in Economics and Business Finance from Brunel University, UK and is an Associate Member of the Chartered Institute of Management Accountants.

## Vibath Wijesinghe

Financial Controller of Carsons Management Services (Private) Limited the management support service provider to the Carson Cumberbatch Group. He began his career at M/s. KPMG Ford Rhodes, Thornton & Company. He joined the Carson Cumberbatch Group in 2004 as the Sector Accountant for its Real Estate, Leisure and Investment divisions. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka, Chartered Institute of Management Accountants (UK) and of the Society of Certified Management Accountants of Sri Lanka. He also holds a Bachelors Degree in Commerce from the University of Kelaniya, Sri Lanka.

## Pasan Abeygunawardane

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

## Gayan Karunaratna

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

## Management Team Profiles

### **Asanka Jayasekara**

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

### **Lakmal Wickramaarachchi**

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

# Risk Management

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

We believe that risk management is of paramount importance in safeguarding the interest of all stakeholders and have undertaken a comprehensive review to enhance the risk mitigating processes already set in place by the Guardian Fund Management Limited, the fund managers of the Company.

We see risk management not as an effort to eliminate risk but as managing risk given certain risk tolerance levels set by the company. Risks appropriate for a particular portfolio will be assessed against the risk preferences of the investor and overall portfolio strategy. Thus different portfolios within the Ceylon Guardian Group would have differing risk profiles. In the light of new asset classes being added with the consolidation of Guardian Capital Partners PLC, we have extended our risk management process to cover our new line of business in private equity investments. Furthermore, risk management also now covers managing retail regulated unit trust funds marketed by our joint venture Company Guardian Acuity Asset Management Limited.

## 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 for 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.

Ceylon Guardian Group's joint venture with Acuity Partners (Private) Limited to manage and market unit trusts was established with the launch of two mutual fund schemes approved by the Securities and Exchange Commission during the period of review. Hence the group's first initiative to reach the retail segment and offer products via local and international markets have added a new kind of risk to the business. These new risks have been recognized and incorporated into the risk management process.

The Board of Directors of the above Companies have ultimate responsibility for risk management. Hence the Boards are supported by an organization structure that covers the entire risk management framework through an independent Compliance Officer who functions within GFM, as well as the internal audit function of the Carson Cumberbatch Group to which the Ceylon Guardian Group 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

## Risk Management

of our risk management framework and promotes a culture of risk awareness and balanced risk-taking within the company.

### RISK CATEGORIES

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

#### MACRO ENVIRONMENTAL RISKS

##### Country risks

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

This risk is not currently applicable to the Guardian Group as our exposure at present is only to Sri Lankan investments. Hence no risk mitigating systems are required to be in place. However, since the capital account has now been liberalised to the extent of permitting approved overseas investments upto a certain value by listed companies, this is a new risk that we would have to build into our framework if a decision is made to invest in overseas markets.

##### Currency risk

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

This risk is not currently applicable to the Guardian Group as the current exposure of the Guardian group to investments denominated in foreign currencies is nil. Hence no risk mitigating processes are required; but looking ahead we

need to prepare for this due to the gradual exchange control de-regulation that is now taking place. A detailed investment policy would be developed in the year ahead in gaining exposure to new markets.

The exposure however, indirectly exists when managing the Sri Lanka Fund and any 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 Guardian should ideally develop its business model taking into account exposure limits and parameters to sustain itself when faced with market risks that can affect portfolio values temporarily. The only mitigating process is to develop a sound research base to determine changing economic fundamentals of the country and determine its effect on equity vs fixed income investments and the prompt shifting of funds between asset classes. This is of vital importance in

trading portfolio decisions where quick encashment of equities is carried out if macro indicators move adversely leading to a slow down in stock market activity.

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

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

These risks cannot be diversified or mitigated by the company. We as investors in the equity market in Sri Lanka have to live with the risk of international happenings affecting our market adversely. There is an indirect impact of risks of other markets to our domestic market as clearly seen in the past with the spiraling impacts of the global financial crisis spreading to other Western countries and impacting Asian countries and in turn Sri Lanka. In the global world of cross border trade and cross border investment flows, 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 and relative valuations of our market vis-a-vis developed and other comparative Asian markets. Information to monitor and interpret global developments in capital markets is vital to assess and mitigate this risk.

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

### **MARKET RISK – PRIVATE EQUITY**

As an asset class, private equity is not closely correlated with the public equity markets and, therefore, helps diversify market risk from a traditional investment portfolio consisting of publicly traded stocks and bonds. Private equity investments in Sri Lanka also offer exposure to new avenues of businesses that listed companies do not.

#### **Liquidity and valuation risk**

Since private equity investments are unlisted, there is no official market price available for valuing the investment. However we monitor secondary market trades to track traded prices. However this would not be an accurate guide as the volume of trades is a key factor in determining fair price. As we take fairly significant positions in PE investee companies divestment of our stakes is more difficult, bringing a further element of illiquidity to our investments. Also liquidity risk is relatively higher given the longer holding period of 2-3 years. It has been further restricted with a minimum lock in period being imposed at the time of the company going for listing via the IPO route, extending private equity investors holding period and thereby not giving a fair opportunity to divest at times of need.

#### **Exit risk**

The exit from private equity investments can pose a risk whereby company cashflows are tied up due to limited exit options. Finding ready buyers at fair valuation or even at a discount might be a challenge. However, risk mitigating strategies are adopted by way of covenants to create multiple options of exit in the shareholder agreement. These take various forms including listing, buy back and sale to a third party.

Also further guidelines have been imposed by SEC restricting private equity investors selling at the initial listing in order to protect minority investors. This limits the sale of stakes held by private equity investors who take higher risks in funding at the restructuring/growth stage of the investee companies.

# Risk Management

## Monitoring risk

No regular performance reporting requirements are there for unlisted companies and hence private equity investors face the risk of not getting financial statements on a quarterly & yearly basis as is mandatory for listed securities. However we request the investee companies through our shareholder agreement to provide us quarterly & annual financial statements and we also schedule review meetings with management on a regular basis. A rapport with the management is built through time, along with a monitoring process.

## Governance risk

Since unlisted companies don't have a large minority shareholder base, it is difficult to set in place governance practices and also to enforce them, since there is no regulatory framework governing investor interests. However, we request investee companies through the shareholder agreement to get our approval for critical decisions such as divestment of major assets, acquisitions etc. We also require appointment of audit committees and adherence to disclosure requirements of listed companies, so that they may prepare themselves for eventual listing requirements. Where our stake in a company exceeds a particular threshold, we may request board representation to safeguard our interests as investors.

Our risk mitigating strategy for private equity is set in place via a shareholder agreement that is signed at the onset and the close relationship we build with investee companies through the time of investment. The performance monitoring of the investment is done by way of quarterly review meetings with the management of investee companies whereby financials and strategy are discussed. Also covenants are built into the shareholder agreement to protect investor interest in terms of clauses undertaking to list within certain time period, buy back options, borrowing limits, sale of major assets etc.

## PORTFOLIO RISKS

### General Securities risk

Any trading in securities carries inherent investment risks associated with the entity issuing those securities. In particular the price or value of any security can and does fluctuate

and may even become valueless, resulting in possible loss not only of returns and profits, but even also of all or part of the principal sums invested in the case of a fixed income instrument. These risks arise as a result of the overall risks faced by the issuing entity which affects its ability to provide a return to the investors holding the securities issued by it. Particularly in the case of equities, past performance of any investment is not necessarily indicative of future performance. At Guardian our approach focuses on the fact that there is no substitute for fundamental 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.

### Liquidity risk

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



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

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

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

#### **Performance volatility risks**

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

Measuring portfolio volatility through calculation of a portfolio beta is one method of keeping ourselves aware of the sensitivities of the portfolio. In the case of the long term portfolio, we would not attempt to handle market volatility by encashing stocks, but would rather attempt to hold into fundamentally strong stocks and ride out low performing cycles. For this, we ensure adequate cash generation by

way of dividend and other income flows to keep our daily operations running smoothly while we ride out low market periods. On the other hand, in the case of the trading portfolio, it is necessary to keep an even closer tab on market volatility, since it needs to regularly encash its profitable positions to remain a high performing portfolio.

#### **Investment performance risk**

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

At Guardian 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.

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

# Risk Management

## Regulatory Compliance

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

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

## OPERATIONAL RISKS

### Professionalism in operational dealings

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

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

Compliance with the Company Code of Ethics ensures that the conduct of fund managers and other staff do not violate the code of ethics that have been brought in by the company and for which employees are signatories. Some of the areas that have been highlighted include avoiding conflict of interest

between portfolios through coordination of trades between portfolio managers within the company, as well as internal controls and audits to ensure monitoring & compliance.

## Systems and process risks

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

In order to deal with unexpected contingencies, at Guardian Group 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 resorting 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 in the industry, which we benchmark ourselves with. A performance related incentive scheme for the staff is in place and is being reviewed. The networking ability of key staff to source deals is important in running a successful fund management operation by being shown both important buy side and sell side deals by brokers.

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

### **Reputation risk**

As a company which carries out a role of trust between itself and a client, it is vital to safeguard the good name and reputation of the business. Further, now being in the public domain through unit trusts, safeguarding reputation risk is of utmost importance.

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

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

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

## 1 GENERAL

The Directors have pleasure in presenting to the shareholders their report together with the audited financial statements for the year ended 31st March 2012 of Ceylon Guardian Investment Trust PLC, a public limited liability company incorporated in Sri Lanka in 1951.

## 2 THE PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activities of the Company and its subsidiaries are to act as specialised investment vehicles within the investment business to undertake listed, private equity and fixed income investments and engage in fund management activities. Investors would then have a choice of investment companies that suit their different risk appetite. Ceylon Guardian Investment Trust PLC would, as the parent entity, take-up diverse risks of all sub-segments of the investment business.

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

A list of subsidiaries and associate companies are provided in note 21.2.2 to these financial statements.

## 3 REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

The Chairman's Statement and Managers' Review on pages 2 to 14 provide an overall assessment of the business performance of the Company and the Group and its future developments. These reports together with the audited consolidated financial statements reflect the state of affairs of the Company and the Group.

## 4 FINANCIAL STATEMENTS

The consolidated financial statements which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and Notes to the financial statements of the Company and the Group for the year ended 31st March 2012 are set out on pages 38 to 80. These financial statements do comply with the requirements of the Companies Act, No 7 of 2007.

### 4.1 Revenue

The Company and the Group generated revenue of Rs.1,335.9 mn and Rs. 2,081.5 mn (2011-Rs.1,748.8 mn and Rs. 2,525.6 mn). A detailed analysis of the revenue for the period is given in note 11 to the Financial Statements.

### 4.2 Financial results and appropriation

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

| (In Rupees thousands)<br>For the year ended 31st March                  | 2012             | Group<br>2011<br>(Restated) | Company<br>2012  | 2011             |
|---|------------------|-----------------------------|------------------|------------------|
| Profit for the year   | 1,980,240        | 2,962,760                   | 985,620          | 1,710,157        |
| Retained profit brought forward from previous year                      | 4,357,939        | 2,237,038                   | 2,105,214        | 673,782          |
| <b>Profit available for appropriations</b>                              | <b>6,338,179</b> | <b>5,199,798</b>            | <b>3,090,834</b> | <b>2,383,939</b> |
| From which the following appropriations / distributions have been made: |                  |                             |                  |                  |
| Dividend paid   | (131,755)        | (154,798)                   | (131,755)        | (154,798)        |
| Transfers – Market value adjustment reserve                             | 164,295          | 140,044                     | 10,637           | 156,429          |
| Capitalization of reserves  | -                | (280,356)                   | -                | (280,356)        |
| Adjustment on increase in controlling interest over subsidiaries        | -                | (546,749)                   | -                | -                |
| <b>Retained profit carried forward</b>                                  | <b>6,307,719</b> | <b>4,357,939</b>            | <b>2,969,716</b> | <b>2,105,214</b> |

#### 4.3 Significant accounting policies

The accounting policies adopted in the preparation of these financial statements are given on pages 43 to 52. There have been no changes in the accounting policies adopted by the Company and the Group during the year under review.

#### 4.4 Reserves

As at 31st March 2012, the total reserves stood at Rs.4,339.5 mn and Rs.11,219.2 mn (2011-Rs 5,214.9 mn and Rs.12,178.6 mn ) for the Company and the Group respectively.

The movements are set out in the Statement of Changes in Equity, note 25 and note 26 to the financial statements.

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

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

Accordingly, during the year an amount of Rs.10.6 mn and Rs.164.3 mn (2011 - Rs.156.4mn and Rs.140.0mn) was transferred from 'Market value adjustment reserve-short term', being the 'Mark to market value adjustment' on short-term investment portfolios for the Company and the Group respectively as shown in the Statement of Changes in Equity on pages 40 to 41.

#### 4.6 Long-term investment revaluation reserve

During the year, the net negative movement reflected in the 'Long-term investment revaluation reserve' for the Company and the Group was Rs.1,729.2mn and Rs.2,588.2mn (2011 - a net positive movement of Rs.1,488.3mn and Rs. 2,889.9mn) respectively arising out of realized gains and adjustment on mark to market value of long-term investments.

### 5 STATEMENTS OF DIRECTORS' RESPONSIBILITIES

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

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

The financial statements comprise of:

- a balance sheet, which presents a true and fair view of the state of affairs of the company and its subsidiaries as at the end of the financial year;
- an income statement of the company and its subsidiaries, which presents a true and fair view of the profit and loss of the company and its subsidiaries for the financial year. In preparing these financial statements, the Directors are required to ensure that:
- appropriate accounting policies have been selected and applied consistently, while material departures, if any, have been disclosed and explained;
- all applicable accounting standards have been complied with;
- reasonable and prudent judgments and estimates have been made; and
- provides the information required by and otherwise comply with the Colombo Stock Exchange.

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

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

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

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

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

## 6 INDEPENDENT AUDITORS' REPORT

The Independent Auditors' Report on the financial statements is given on page 37 of the Annual Report.

## 7 INTERESTS REGISTER

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

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

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

### 7.1 Remuneration of Directors

Directors' remuneration for the financial year ended 31st March 2012 is given in note 13 to the financial statements on page 54 of the Annual Report.

### 7.2 Directors' Interest in Contracts and Shares

Directors' interests in transactions of the Company and the Group are disclosed in note 33 to these financial statements and have been declared at meetings of the Directors. The Directors have had no direct or indirect interest in contracts or proposed contracts in relation to the business of the Company, while they had the following interests in ordinary shares of the Company.

| Directors                | No of shares as at 31st March 2012 | No of shares as at 01st April 2011 |
|--------------------------|------------------------------------|------------------------------------|
| Mr. I. Paulraj(Chairman) | 255                                | 255                                |
| Mr. D.C.R. Gunawardena   | 255                                | 255                                |
| Mr. A. de Z. Gunasekera  | 255                                | 255                                |
| Mr. V.M. Fernando        | -                                  | -                                  |
| Mrs. M.A.R.C. Cooray     | -                                  | -                                  |
| Mr. K. Selvanathan       | -                                  | -                                  |
| Mr. C.W. Knight          | -                                  | -                                  |

## 8 DIRECTORS

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

### 8.1 Directors to retire by rotation

In terms of Articles 89, 90 and 91 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, 90 and 91 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.

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

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

## 9 AUDITORS

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

A sum of Rs.290,000/- and Rs.930,000/- was paid to them by the Company and the Group respectively as audit fees for the year ended 31st March 2012 (2011 - Rs. 260,000/- and Rs.845,000/-). In addition to the above, the auditors were paid Rs.50,000/- and Rs.180,000/- as audit related fees and a further Rs. 400,000/- as professional fees for non-audit services for the Company and the Group respectively during the year.

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, their effectiveness and its relationship with the Company and its subsidiaries, including the level of audit and non-audit fees paid to the auditor.

### 9.1 Auditors' relationship or any interest with the Company

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

## 10 SIGNIFICANT EVENTS DURING THE YEAR

There were no significant events during the year.

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

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

## 12 CORPORATE GOVERNANCE

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

### 12.1 Board of Directors

The following Directors held office as at the balance sheet date and their brief profiles are given on pages 15 to 16 of the Annual Report.

| Directors                  | Executive/Non executive/<br>Independent |
|----------------------------|---|
| Mr. I. Paulraj (Chairman)* | Non-Executive/ Independent              |
| Mr. D.C.R.Gunawardena      | Non-Executive                           |
| Mr. A. de Z. Gunasekera ** | Non-Executive / Independent             |
| Mr. V.M. Fernando ***      | Non-Executive / Independent             |
| Mrs. M.A.R.C. Cooray ****  | Non-Executive / Independent             |
| Mr. K. Selvanathan         | Executive                               |
| Mr. C.W. Knight            | Non-Executive / Independent             |

\* 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 Investment PLC, in which a majority of other Directors of the Board are also Directors, since he 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 on the Board for more than 9 years and being a Director of Ceylon Investment PLC, in which majority of other

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

Directors of the Board are also Directors, 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 on the Board for more than 9 years and being a Director of Ceylon Investment PLC, in which majority of other Directors of the Board are also Directors, since he is not directly involved in the management of the Company.

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

### 12.2 Remuneration Committee

As per the Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange, the Remuneration Committee of Carson Cumberbatch PLC (CCPLC), the 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. D.C.R. Gunawardena         | 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.

Aggregated remuneration paid to the Non-Executive Directors of the Company is disclosed under note 13 on page 54 of this Annual Report.

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

### 12.3 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 parent Company, functions as the Audit Committee of the Company and comprises the following members;

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

Additionally Mr. T. Rodrigo was the Expert Advisory member for the Investment Sector.

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

The Audit Committee Report is given on pages 34 to 35 of this Annual Report.

### 12.4 Directors Meeting Attendance

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

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



### 13 NOMINATION COMMITTEE

The Company formed a Nomination Committee which also functions as the Nomination Committee for some of its Subsidiaries, with effect from 1st April 2012. The said Nomination Committee comprises of the following members;

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

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

### 14 INTERNAL CONTROL AND RISK MANAGEMENT

The ultimate responsibility to establish, monitor and review a Group-wide internal control system rests with the Board of Directors. The intensity, depth and the tolerance limits for each component of the internal control system would be based on the weight of the element of risk imposed on the sustenance of the business by the respective area of operation. Whilst a strong internal control system would mitigate the crystallization of risk elements to a greater extent, employment of external support structures would also be necessary based on the risk assessments made thereon. Effective maintenance of internal controls and risk identification and mitigation is handed down to the respective members of senior management within the guidelines of benchmark policies, procedures and authority limits clearly laid down.

Group Internal Audit, whose scope of scrutiny is entirely driven by the grading of the risk involved will be monitoring and providing the feedback to the management and the respective Audit Committees. Regular submission of compliance and internal solvency

certificates vouched by the heads of the respective divisions as a mandatory agenda item keeps the Directors abreast of the health of the Company and the Group resource base and governance requirements.

This allows the Board to have total control of the fulfillment of governance requirements by providing opportunity to take timely preventive action in case of potential deterioration of status quo. More detailed description of the risk management strategies of the Company is given on pages 19 to 25.

### 15 HUMAN RESOURCES

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

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

The number of persons employed by GFM as at 31st March 2012 was 14 (31st March 2011 – 09).

### 16 EQUITABLE TREATMENT TO SHAREHOLDERS

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

### 17 DIVIDENDS

Subject to the approval of the shareholders at the Annual General Meeting, a first & final dividend of Rs. 2/- per ordinary share and deferred share is recommended by the Directors for the year ended 31st March 2012.

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

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

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

## 18 SOLVENCY TEST

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

## 19 STATED CAPITAL

The Stated Capital of the Company as at 31st March 2012 was Rs. 953,166,933/- comprising of 82,096,719 ordinary shares and 5,739,770 deferred shares. The movement in Stated Capital of the Company is given in note 24 to the financial statements.

There was no change in the stated capital of the Company during the year.

## 20 INVESTMENTS

Investments represent, investment in subsidiaries associate, joint venture, other long-term investments held for capital appreciation and short term investments held for trading.

- Investment in subsidiaries are detailed in note 21.2.2 on page 64.
- Investment in associate company is explained in detail through 21.1.1 on page 60.
- Investment in joint venture is explained in detail through note 2.1.2 on pages 60 and 61.
- Long-term investments at market value are disclosed in Note 21 D, comprises those investments which are held for a longer tenure, usually over 3-5 years. The market value of long term investment portfolio is Rs.8,356.3 mn and Rs.2,774.7 mn (2011 – Rs. 11,355.2 mn and Rs.4,456.4 mn) for the Group and the Company respectively, as detailed in page 59.

- The short-term portfolio engaged in active trading to realize benefits of the movements in the stock market and is carried in the Balance Sheet at market value as explained in detailed in note 23 in page 67. The carrying value of the short-term portfolio as at 31st March 2012 was Rs.782.4 mn and Rs. 149.1 mn (2011 – Rs. 1,164.0mn and Rs.101.3mn) for Group and the Company respectively.

## 21 CAPITAL EXPENDITURE

The details of capital expenditure of the Group is as follows.

| In Rupees thousands        | Group |      |
|----------------------------|-------|------|
|                            | 2012  | 2011 |
| Property plant & equipment | 1,239 | 602  |
| Intangible assets          | 4,470 | -    |

## 22 STATUTORY PAYMENTS

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

## 23 GOING CONCERN

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

## 24 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, no circumstances have arisen, which would require adjustments to or disclosures in the financial statements, other than those disclosed in note 31 to the financial statements.

## 25 CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The contingent liabilities and commitments made on account of capital expenditure as at 31st March 2012 are given in note 32 to the financial statements.

## 26 CORPORATE DONATIONS

There were no donations granted during the year.

## 27 SHARE INFORMATION

The details relating to earnings, net assets, market value per share and information on share trading is given on pages 81 to 82 and 90 to 91 of the Annual Report.

## 28 TWENTY MAJOR SHAREHOLDERS

The parent company, Carson Cumberbatch PLC holds 67.15% of the total ordinary shares in issue of the Company.

Twenty Major Shareholders with comparatives

| <i>As at 31st March</i>                                  | 2012                   |       | 2011                   |       |
|--|------------------------|-------|------------------------|-------|
| Name of Shareholders                                     | No. of ordinary shares | %     | No. of ordinary shares | %     |
| Carson Cumberbatch PLC A/C No.2                          | 55,130,831             | 67.15 | 55,130,831             | 67.15 |
| Thurston Investments Limited                             | 5,278,174              | 6.43  | 5,520,274              | 6.72  |
| Mr. M. Radhakrishnan                                     | 2,033,186              | 2.48  | 2,033,186              | 2.48  |
| GF Capital Global Limited                                | 1,572,962              | 1.92  | 1,572,962              | 1.92  |
| Employees Trust Fund Board                               | 1,133,770              | 1.38  | 95,770                 | 0.12  |
| Miss. G.I.A. De Silva                                    | 868,275                | 1.06  | 868,275                | 1.06  |
| Mr. G.J.W. De Silva                                      | 867,900                | 1.06  | 948,600                | 1.16  |
| Mrs. M.L. De Silva                                       | 857,616                | 1.04  | 857,616                | 1.04  |
| Mr. K.C. Vignarajah                                      | 609,473                | 0.74  | 604,778                | 0.74  |
| Miss. R.H. Abdulhussein                                  | 485,983                | 0.59  | 502,983                | 0.61  |
| Perpetual Capital (Private) Limited                      | 457,071                | 0.56  | -                      | -     |
| The Ceylon Desiccated Coconut and Oil Company (Pvt) Ltd. | 382,438                | 0.47  | 382,438                | 0.47  |
| Miss. G.N.A. De Silva                                    | 360,493                | 0.44  | 360,493                | 0.44  |
| Waldock Mackenzie Ltd/Mr. M.A.N. Yoosufali               | 359,232                | 0.44  | 344,552                | 0.42  |
| Bartleet Finance PLC                                     | 315,000                | 0.38  | 178,500                | 0.22  |
| Sri Lanka Insurance Corporation Ltd-General Fund         | 272,100                | 0.33  | -                      | -     |
| Mr. O.D. Liyanage  | 263,609                | 0.32  | 263,609                | 0.32  |
| Mrs. S. Vignarajah                                       | 249,233                | 0.30  | 247,833                | 0.30  |
| DFCC Bank A/C 1  | 246,931                | 0.30  | 246,931                | 0.30  |
| Mr. G N Russel   | 232,396                | 0.28  | 232,396                | 0.28  |

## 30 ANNUAL GENERAL MEETING

60th Annual General Meeting of the Company will be held on Wednesday the 4th day of July 2012 at 3.30 p.m. at Taj Samudra Hotel, "Crystal Room" Upper Floor, No. 25, Galle Face Centre Road, Colombo 3. The Notice of the Annual General Meeting is on page 94 of the Annual Report.

## 29 ANNUAL REPORT

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

Signed on behalf of the Board,

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

Colombo.  
24th May 2012

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

# Audit Committee Report

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

The members of the Audit Committee are as follows :

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The interim financial statements of Ceylon Guardian Investment Trust PLC have been reviewed by the Audit Committee Members at Audit Committee Meetings. The draft financial statements of Ceylon Guardian Investment Trust PLC for the year ended 31st March 2012 were also reviewed at a Meeting of the Audit Committee, together with the External Auditors, Messrs. KPMG, prior to release of same to the Regulatory Authorities and to the shareholders. The Audit Committee was provided with confirmations and declarations as required, by the Managers, Carsons Management Services (Private) Limited that the said financial statements were prepared in accordance with the Sri Lanka Accounting Standards and the information required by the Companies Act No. 7 of 2007 therein and presented a true and fair view of the Company's state of affairs as at that date and the Company's activities during the year under review.

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

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

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

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

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

(Sgd).

**Vijaya Malalasekera**

*Chairman – Audit Committee*

Carson Cumberbatch PLC

24th May 2012

# Financial Calendar

|   |                 |
|---|-----------------|
| Financial year end                        | 31st March 2012 |
| 60th Annual General Meeting to be held on | 4th July 2012   |

## **ANNOUNCEMENT OF RESULTS**

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

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

# Independent Auditors' Report



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

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

## TO THE SHAREHOLDERS OF CEYLON GUARDIAN INVESTMENT TRUST PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Ceylon Guardian Investment Trust PLC ("Company"), the consolidated financial statements of the Company and its subsidiaries as at March 31, 2012 which comprise the balance sheet as at March 31, 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set on pages 38 to 80 of this Annual Report.

### Management's Responsibility for the Financial Statements

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

### Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

### Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2012 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) as appropriate of the Companies Act No. 07 of 2007.

**CHARTERED ACCOUNTANTS**

Colombo

24 May 2012

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

|                     |                           |                         |
|---------------------|---------------------------|-------------------------|
| M.R. Mihular FCA    | Ms. M. P. Perera FCA      | P.Y.S. Perera FCA       |
| C.P. Jayatilake FCA | T.J.S. Rajakarier FCA     | W.W.J.C. Perera FCA     |
| Ms. S. Joseph FCA   | Ms. S.M.B. Jayasekara ACA | W.K.D.C. Abeyrathne ACA |
| S.T.D.L. Perera FCA | G.A.U. Karunaratne ACA    | R.M.D.B. Rajapakse ACA  |

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

# Income Statement

(Amounts expressed in Sri Lankan Rupees thousands)

| For the year ended 31 March                               | Note | Group            |                    | Company          |           |
|---|------|------------------|--------------------|------------------|-----------|
|   |      | 2012             | 2011<br>(Restated) | 2012             | 2011      |
| <b>Revenue</b>  | 11   | <b>2,081,510</b> | 2,525,592          | <b>1,335,949</b> | 1,748,753 |
| Unrealized gain/(loss) on mark to market value adjustment | 12   | <b>(692,081)</b> | 199,678            | <b>(309,935)</b> | 10,640    |
| <b>Profit on investment activities</b>                    |      | <b>1,389,429</b> | 2,725,270          | <b>1,026,014</b> | 1,759,393 |
| Other income  |      | -                | 966                | -                | 440       |
| Administrative and other operating expenses               |      | <b>(114,582)</b> | (87,909)           | <b>(31,616)</b>  | (33,959)  |
| <b>Profit from operations</b>                             | 13   | <b>1,274,847</b> | 2,638,327          | <b>994,398</b>   | 1,725,874 |
| Finance expenses  |      | <b>(5,276)</b>   | (23,745)           | <b>(1,683)</b>   | (16,953)  |
| <b>Profit from operations after finance expenses</b>      |      | <b>1,269,571</b> | 2,614,582          | <b>992,715</b>   | 1,708,921 |
| Share of associate company's profit net of taxation       | 14   | <b>882,824</b>   | 713,798            | -                | -         |
| Share of joint venture company's loss net of taxation     | 15   | <b>(2,389)</b>   | -                  | -                | -         |
| <b>Profit before taxation</b>                             |      | <b>2,150,006</b> | 3,328,380          | <b>992,715</b>   | 1,708,921 |
| Income tax (expense)/reversal                             | 16   | <b>(15,696)</b>  | (4,532)            | <b>(7,095)</b>   | 1,236     |
| <b>Profit for the year</b>                                |      | <b>2,134,310</b> | 3,323,848          | <b>985,620</b>   | 1,710,157 |
| <b>Attributable to:</b>                                   |      |                  |                    |                  |           |
| Equity holders of the parent                              |      | <b>1,980,240</b> | 2,962,760          | <b>985,620</b>   | 1,710,157 |
| Non controlling interest                                  |      | <b>154,070</b>   | 361,088            | -                | -         |
|   |      | <b>2,134,310</b> | 3,323,848          | <b>985,620</b>   | 1,710,157 |
| <b>Earnings per share - Rs.</b>                           | 17   | <b>22.54</b>     | 33.73              | <b>11.22</b>     | 19.47     |
| <b>Dividend per share - Rs. *</b>                         | 18   | <b>2.00</b>      | 1.50               | <b>2.00</b>      | 1.50      |

The notes from pages 43 to 80 form an integral part of these financial statements.  
Figures in brackets indicate deductions.

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



# Balance Sheet

(Amounts expressed in Sri Lankan Rupees thousands)

| As at 31 March   | Note | Group             |                    | Company          |                  |
|--|------|-------------------|--------------------|------------------|------------------|
|  |      | 2012              | 2011<br>(Restated) | 2012             | 2011             |
| <b>ASSETS</b>  |      |                   |                    |                  |                  |
| <b>Non-current assets</b>  |      |                   |                    |                  |                  |
| Property, plant and equipment                                    | 19   | 4,667             | 6,447              | -                | -                |
| Intangible assets  | 20   | 239,194           | 237,199            | -                | -                |
| Investment in subsidiaries                                       | 21 A | -                 | -                  | 1,926,441        | 1,926,422        |
| Investment in associate  | 21 B | 3,321,476         | 2,709,481          | -                | -                |
| Investment in joint venture                                      | 21 C | 17,611            | -                  | 20,000           | -                |
| Other long-term investments                                      | 21 D | 8,356,276         | 11,355,188         | 2,774,736        | 4,456,384        |
| <b>Total non-current assets</b>                                  |      | <b>11,939,224</b> | <b>14,308,315</b>  | <b>4,721,177</b> | <b>6,382,806</b> |
| <b>Current assets</b>  |      |                   |                    |                  |                  |
| Trade and other receivables                                      | 22   | 35,719            | 55,691             | 18,570           | 7,741            |
| Current tax recoverable  |      | 20,813            | 14,981             | 14,881           | 10,728           |
| Short-term investments   | 23   | 782,421           | 1,163,989          | 149,078          | 101,324          |
| Short-term deposits  |      | 1,255,363         | 240,644            | 392,373          | -                |
| Cash at bank   |      | 29,250            | 80,953             | 9,079            | 10,649           |
| <b>Total current assets</b>                                      |      | <b>2,123,566</b>  | <b>1,556,258</b>   | <b>583,981</b>   | <b>130,442</b>   |
| <b>Total assets</b>  |      | <b>14,062,790</b> | <b>15,864,573</b>  | <b>5,305,158</b> | <b>6,513,248</b> |
| <b>EQUITY AND LIABILITIES</b>                                    |      |                   |                    |                  |                  |
| <b>Equity</b>  |      |                   |                    |                  |                  |
| Stated capital   | 24   | 953,167           | 953,167            | 953,167          | 953,167          |
| Capital reserves   | 25   | 1,378,976         | 1,598,708          | 208,660          | 208,660          |
| Revenue reserves   | 26   | 9,840,182         | 10,579,883         | 4,130,843        | 5,006,203        |
| <b>Total equity attributable to equity holders of the parent</b> |      | <b>12,172,325</b> | <b>13,131,758</b>  | <b>5,292,670</b> | <b>6,168,030</b> |
| Non controlling interest   |      | 1,823,872         | 2,154,418          | -                | -                |
| <b>Total equity</b>  |      | <b>13,996,197</b> | <b>15,286,176</b>  | <b>5,292,670</b> | <b>6,168,030</b> |
| <b>Non-current liabilities</b>                                   |      |                   |                    |                  |                  |
| Employee benefits  | 27   | 3,564             | 1,720              | -                | -                |
| Deferred tax liability   | 28   | 792               | 1,896              | -                | -                |
| <b>Total non-current liabilities</b>                             |      | <b>4,356</b>      | <b>3,616</b>       | <b>-</b>         | <b>-</b>         |
| <b>Current liabilities</b>                                       |      |                   |                    |                  |                  |
| Trade and other payables   | 29   | 11,561            | 6,522              | 2,000            | 1,174            |
| Current tax liability  |      | 39                | 3,489              | -                | -                |
| Unclaimed dividends  |      | 34,617            | 23,796             | 10,488           | 8,306            |
| Bank overdraft   |      | 16,020            | 540,974            | -                | 335,738          |
| <b>Total current liabilities</b>                                 |      | <b>62,237</b>     | <b>574,781</b>     | <b>12,488</b>    | <b>345,218</b>   |
| <b>Total liabilities</b>   |      | <b>66,593</b>     | <b>578,397</b>     | <b>12,488</b>    | <b>345,218</b>   |
| <b>Total equity and liabilities</b>                              |      | <b>14,062,790</b> | <b>15,864,573</b>  | <b>5,305,158</b> | <b>6,513,248</b> |
| Net assets per ordinary/deferred share - book value (Rs.)        |      | 138.58            | 149.50             | 60.26            | 70.22            |
| Net assets per ordinary/deferred share - market value (Rs.)      |      | 264.81            | 354.68             | 231.49           | 386.15           |

The notes from pages 43 to 80 form an integral part of these financial statements.

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

(Sgd).

**V. R. Wijesinghe**

Financial Controller

**Carsons Management Services (Private) Limited**

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

Approved and signed on behalf of the Investment Managers,

Approved and signed on behalf of the Board,

(Sgd).

**W. Y. R. Fernando (Mrs.)**

Director

**Guardian Fund Management Limited**

Colombo

24th May 2012

(Sgd).

**I. Paulraj**

Chairman

(Sgd).

**D. C. R. Gunawardena**

Director

# Statement of Changes in Equity

(Amounts expressed in Sri Lankan Rupees thousands)

|  | Stated capital | Capital reserves   |                        |   | Revenue reserves                   |   |                 | Total equity attributable to equity holders of parent (Restated) | Non controlling interest | Total equity (Restated) |                              |
|--|----------------|--------------------|------------------------|---|------------------------------------|---|-----------------|--|--------------------------|-------------------------|------------------------------|
|  |                | Investment reserve | Other capital reserves | Associate company's capital reserves (Restated) | Market value adjustment short-term | Long term investments revaluation reserve | General reserve |  |                          |                         | Retained earnings (Restated) |
| Group  |                |                    |                        |   |                                    |   |                 |  |                          |                         |                              |
| Balance as at 1st April 2010   | 672,811        | 7,805              | 316,741                | 930,782   | 304,339                            | 3,135,065                                 | 32,668          | 2,237,038  | 7,637,249                | 1,566,029               | 9,203,278                    |
| Profit for the year*   | -              | -                  | -                      | -   | -                                  | -   | -               | 2,962,760  | 2,962,760                | 361,088                 | 3,323,848                    |
| Dividend for 2010  | -              | -                  | -                      | -   | -                                  | -   | -               | (154,798)  | (154,798)                | (56,748)                | (211,546)                    |
| Movement in associate company's reserves   | -              | -                  | -                      | 343,380   | -                                  | -   | -               | -  | -                        | -                       | 343,380                      |
| Transfer of realised gains and adjustment on mark to market value of long-term investments | -              | -                  | -                      | -   | -                                  | 2,889,916                                 | -               | -  | 2,889,916                | 618,292                 | 3,508,208                    |
| Capitalization of reserves (note 24.3)   | 280,356        | -                  | -                      | -   | -                                  | -   | -               | (280,356)  | -                        | -                       | -                            |
| Adjustment on increase in controlling interest over subsidiaries                           | -              | -                  | -                      | -   | -                                  | -   | -               | (546,749)  | (546,749)                | (415,705)               | (962,454)                    |
| Non controlling interest arising on acquisition of subsidiary                              | -              | -                  | -                      | -   | -                                  | -   | -               | -  | -                        | 81,462                  | 81,462                       |
| Transfers (Note 26.1)  | -              | -                  | -                      | -   | (140,044)                          | -   | -               | 140,044  | -                        | -                       | -                            |
| Balance as at 31st March 2011  | 953,167        | 7,805              | 316,741                | 1,274,162                                       | 164,295                            | 6,024,981                                 | 32,668          | 4,357,939  | 13,131,758               | 2,154,418               | 15,286,176                   |
| Balance as at 1st April 2011   | 953,167        | 7,805              | 316,741                | 1,274,162                                       | 164,295                            | 6,024,981                                 | 32,668          | 4,357,939  | 13,131,758               | 2,154,418               | 15,286,176                   |
| Profit for the year*   | -              | -                  | -                      | -   | -                                  | -   | -               | 1,980,240  | 1,980,240                | 154,070                 | 2,134,310                    |
| Dividend for 2011  | -              | -                  | -                      | -   | -                                  | -   | -               | (131,755)  | (131,755)                | (35,120)                | (166,875)                    |
| Movement in associate company's reserves   | -              | -                  | -                      | (219,732)                                       | -                                  | -   | -               | -  | (219,732)                | -                       | (219,732)                    |
| Transfer of realised gains and adjustment on mark to market value of long-term investments | -              | -                  | -                      | -   | -                                  | (2,588,186)                               | -               | -  | (2,588,186)              | (449,478)               | (3,037,664)                  |
| Adjustment on increase in controlling interest over subsidiary                             | -              | -                  | -                      | -   | -                                  | -   | -               | -  | -                        | (18)                    | (18)                         |
| Transfers (Note 26.1)  | -              | -                  | -                      | -   | (164,295)                          | -   | -               | 164,295  | -                        | -                       | -                            |
| Balance as at 31st March 2012  | 953,167        | 7,805              | 316,741                | 1,054,430                                       | -                                  | 3,436,795                                 | 32,668          | 6,370,719  | 12,172,325               | 1,823,872               | 13,996,197                   |

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

## Restatement of comparative figures

During the last quarter of the financial year, prior year financial statements of the associate company, Bukit Darah PLC had been restated. Accordingly, the 'Share of associate company's profit net of taxation' and the 'Investments in associate' of the Group were restated resulting in an increase of Rs.305.7mn for the year ended 31st March 2011 and Rs.1,020.9mn as at 31st March 2011 respectively.

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

The notes from pages 43 to 80 form an integral part of these financial statements.

Figures in brackets indicate deductions.

| Company  | Stated capital | Capital reserves   |                       | Revenue Reserves                   |   |                 | Retained earnings | Total equity |
|--|----------------|--------------------|-----------------------|------------------------------------|---|-----------------|-------------------|--------------|
|  |                | Investment reserve | Other capital reserve | Market value adjustment short-term | Long term investments revaluation reserve | General reserve |                   |              |
| Balance as at 1st April 2010   | 672,811        | 7,805              | 200,855               | 167,066                            | 1,387,087                                 | 14,961          | 673,782           | 3,124,367    |
| Profit for the year  | -              | -                  | -                     | -                                  | -   | -               | 1,710,157         | 1,710,157    |
| Transfer of realised gains and adjustment on mark to market value of long-term investments | -              | -                  | -                     | -                                  | 1,488,304                                 | -               | -                 | 1,488,304    |
| Capitalization of reserves (Note 24.3)   | 280,356        | -                  | -                     | -                                  | -   | -               | (280,356)         | -            |
| Transfers (Note 26.1)  | -              | -                  | -                     | (156,429)                          | -   | -               | 156,429           | -            |
| Dividend for 2010  | -              | -                  | -                     | -                                  | -   | -               | (154,798)         | (154,798)    |
| Balance as at 31st March 2011  | 953,167        | 7,805              | 200,855               | 10,637                             | 2,875,391                                 | 14,961          | 2,105,214         | 6,168,030    |
| Balance as at 1st April 2011   | 953,167        | 7,805              | 200,855               | 10,637                             | 2,875,391                                 | 14,961          | 2,105,214         | 6,168,030    |
| Profit for the year  | -              | -                  | -                     | -                                  | -   | -               | 985,620           | 985,620      |
| Transfer of realised gains and adjustment on mark to market value of long-term investments | -              | -                  | -                     | -                                  | (1,729,225)                               | -               | -                 | (1,729,225)  |
| Transfers (Note 26.1)  | -              | -                  | -                     | (10,637)                           | -   | -               | 10,637            | -            |
| Dividend for 2011  | -              | -                  | -                     | -                                  | -   | -               | (131,755)         | (131,755)    |
| Balance as at 31st March 2012  | 953,167        | 7,805              | 200,855               | -                                  | 1,146,166                                 | 14,961          | 2,969,716         | 5,292,670    |

The notes from pages 43 to 80 form an integral part of these financial statements.

Figures in brackets indicate deductions.

# Cash Flow Statement

(Amounts expressed in Sri Lankan Rupees thousands)

| For the year ended 31 March                                     | Note    | Group            |                    | Company          |                    |
|---|---------|------------------|--------------------|------------------|--------------------|
|   |         | 2012             | 2011<br>(Restated) | 2012             | 2011               |
| <b>Cash flows from operating activities</b>                     |         |                  |                    |                  |                    |
| Profit before taxation  |         | 2,150,006        | 3,328,380          | 992,715          | 1,708,921          |
| <b>Adjustments for:</b>   |         |                  |                    |                  |                    |
| Share of associate company's profit net of taxation             | 14      | (882,824)        | (713,798)          | -                | -                  |
| Share of joint venture company's loss net of taxation           | 15      | 2,389            | -                  | -                | -                  |
| Depreciation on property, plant and equipment                   | 19      | 3,019            | 2,172              | -                | -                  |
| Amortisation of intangible assets                               | 20      | 2,475            | 1,817              | -                | -                  |
| Provision for employee benefits                                 | 27      | 1,844            | 1,159              | -                | -                  |
| Finance expenses  | 13      | 5,276            | 23,745             | 1,683            | 16,953             |
| Dividend received from associate company                        | 21.1.1  | 51,097           | 15,003             | -                | -                  |
| Unrealized gain/(loss) on mark to market value adjustment       | 12      | 692,081          | (199,678)          | 309,935          | (10,640)           |
| <b>Operating profit before changes in working capital</b>       |         | <b>2,025,363</b> | <b>2,458,800</b>   | <b>1,304,333</b> | <b>1,715,234</b>   |
| (Increase)/decrease in trade and other receivables              |         | 19,972           | (8,307)            | (10,829)         | 16,596             |
| Net (increase)/decrease in investments                          |         | (349,283)        | (1,038,401)        | (405,285)        | 20,946             |
| Increase/(decrease) in trade and other payables                 |         | 5,039            | (63,419)           | 826              | (27,176)           |
| <b>Cash generated from operations</b>                           |         | <b>1,701,091</b> | <b>1,348,673</b>   | <b>889,045</b>   | <b>1,725,600</b>   |
| Finance expenses paid   |         | (5,276)          | (23,745)           | (1,683)          | (16,953)           |
| Income tax paid   |         | (26,082)         | (29,412)           | (11,248)         | (4,136)            |
| <b>Net cash generated from operations</b>                       |         | <b>1,669,733</b> | <b>1,295,516</b>   | <b>876,114</b>   | <b>1,704,511</b>   |
| <b>Cash flows from investing activities</b>                     |         |                  |                    |                  |                    |
| Purchase of property, plant and equipment                       | 19      | (1,239)          | (602)              | -                | -                  |
| Addition to intangible assets                                   | 20      | (4,470)          | -                  | -                | -                  |
| Investment in subsidiaries net of cash acquired                 |         | -                | (1,108,227)        | -                | (1,649,205)        |
| Investment in joint venture company                             | 21.2.1A | (20,000)         | -                  | (20,000)         | -                  |
| <b>Net cash used in investing activities</b>                    |         | <b>(25,709)</b>  | <b>(1,108,829)</b> | <b>(20,000)</b>  | <b>(1,649,205)</b> |
| <b>Cash flows from financing activities</b>                     |         |                  |                    |                  |                    |
| Dividend paid   |         | (129,573)        | (152,462)          | (129,573)        | (152,462)          |
| Dividend paid to minority shareholders                          |         | (26,481)         | (53,046)           | -                | -                  |
| <b>Net cash used in financing activities</b>                    |         | <b>(156,054)</b> | <b>(205,508)</b>   | <b>(129,573)</b> | <b>(152,462)</b>   |
| <b>Net increase / (decrease) in cash &amp; cash equivalents</b> |         | <b>1,487,970</b> | <b>(18,821)</b>    | <b>726,541</b>   | <b>(97,156)</b>    |
| Cash & cash equivalents at the beginning of the year            |         | (219,377)        | (200,556)          | (325,089)        | (227,933)          |
| <b>Cash &amp; cash equivalents at the end of the year</b>       |         | <b>1,268,593</b> | <b>(219,377)</b>   | <b>401,452</b>   | <b>(325,089)</b>   |
| <b>Cash &amp; cash equivalents</b>                              |         |                  |                    |                  |                    |
| Short-term deposits   |         | 1,255,363        | 240,644            | 392,373          | -                  |
| Cash at bank  |         | 29,250           | 80,953             | 9,079            | 10,649             |
| Bank overdrafts   |         | (16,020)         | (540,974)          | -                | (335,738)          |
|   |         | 1,268,593        | (219,377)          | 401,452          | (325,089)          |

The notes from pages 43 to 80 form an integral part of these financial statements.  
Figures in brackets indicate deductions.

# Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

## 1 REPORTING ENTITY

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

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

The consolidated financial statements for the year ended 31st March 2012 comprise the financial information of the Company and its subsidiaries (together referred to as the “Group” and individually “Group entities”) and the Groups interest in associate company and jointly controlled entity.

The principal activities of the Company and its subsidiaries are to act as specialised investment vehicles to undertake listed, private equity and fixed income investments and to engage in fund management activities.

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

A list of subsidiaries, associate company and joint venture company are set out in note 21 to the financial statements. Out of the four subsidiaries, Ceylon Investment PLC and Guardian Capital Partners PLC are listed on the Colombo Stock Exchange.

The Group had 14 (2011 - 09) employees at the end of the financial year. The Company had no employees of its own at the end of the year.

## 2 STATEMENT OF COMPLIANCE

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

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

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

## 3. BASIS OF PREPARATION

### 3.1. Basis of measurement

The consolidated financial statements have been prepared on historical cost basis and applied consistently, except for market value adjustment of investment portfolios as stated in note 5.5.

### 3.2. Functional and presentation currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”), which is Sri Lankan Rupees.

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

Figures in brackets indicate deductions / negative changes.

### 3.3. Materiality and aggregation

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

## 4. USES OF ESTIMATES AND JUDGMENTS

The preparation of financial statements require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities,

# Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

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

In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that 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 relevant tax statutes and regulations which the management believes reflect actual liability. There can be instances where the stand taken by the Company and the Group on transactions is contested by revenue authorities.

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

### 4.3 Value of unquoted investments

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

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

### 4.4 Defined benefit plan - Gratuity

The cost of defined benefit plan is determined using actuarial valuations. The actuarial valuations involve making assumptions on discount rates, future salary increases, mortality rates and future pension increases. Due to long-term nature of these plans, such estimates are subject to uncertainty.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 5.1 Basis of consolidation

#### 5.1.1 Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control exists when the Group has power, directly or indirectly, to govern financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are exercisable presently, are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control ceases.

The Group uses purchase method of accounting to account for business combinations.

The cost of an acquisition is measured at fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In circumstances where the Group acquires the controlling interest over a subsidiary, the excess of cost of acquisition over the fair value of Group's share of identifiable net assets acquired is recognised as goodwill, and is tested for impairment annually. If the cost of acquisition is less than Group's share of identifiable net assets acquired, resulting negative goodwill is credited to the Income Statement immediately.

Intra-group transactions, balances and unrealized gains on transactions arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated.

The carrying amount of investment at the date that such entity ceases to be a subsidiary would be regarded as the cost on initial measurement of a financial asset in accordance with Sri Lanka Accounting Standard 22 - "Accounting for investments".

In the Company's financial statements, investments in subsidiaries are carried at cost less accumulated impairment loss, if any.

A list of subsidiaries within the Group is provided in note 21.2.2.

#### **5.1.2. Transaction with non controlling interests**

Non controlling interest represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the Consolidated Income Statement and within equity in the Consolidated Balance Sheet, separately from the equity attributable to the equity holders of the parent.

Any excess of cost of acquisition over the fair value of Group's share of identifiable net assets acquired at a subsequent increase in the controlling interest over a subsidiary is recognized directly in equity, against the revenue reserves.

Gain or loss on disposal to non controlling interests is recognised in the Consolidated Income Statement.

#### **5.1.3 Investment in associate and jointly controlled entity**

Associates are those enterprises in which the Group has significant influence but not control, over financial and operational policies, generally accompanying a shareholding of between 20% and 50% of voting rights.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investment in associate and jointly controlled entity is accounted for using equity method of accounting and is initially recognised at cost. The Group's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

When the Group's share of losses in an associate / jointly controlled entity equals or exceeds its interest in such company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of such company. The carrying

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

amount of the Group's investments in such company is reduced to the extent of the dividend received.. Unrealised gains on transactions between the Group and its associate and jointly controlled entity are eliminated to the extent of the Group's interest in the associate / jointly controlled entity. Unrealised losses are also eliminated.

In the Company's financial statements, investments in associate and the investment in jointly controlled entity are carried at cost less accumulated impairment loss, if any.

### 5.1.4 Other investments

Investments in companies where the Company's and the Group's holding is less than 20% and where the Company and the Group does not exercise significant influence and/or control over the financial and operating decisions/policies, are accounted on the basis stated in note 5.4 below.

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

### 5.1.5 Financial year end

All companies in the Group have a common financial year which ends on 31st March, except for Guardian Acuity Asset Management Limited which has a financial year ending 31st December.

## 5.2 Foreign currency transactions and translations

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

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

## Assets and bases of their valuation

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

## 5.3 Property, plant and equipment and depreciation

### 5.3.1 Basis of recognition

All items of property, plant and equipment are initially recorded at cost.

The cost of property, plant and equipment is the cost of purchase or construction together with any incidental expenses incurred in bringing the assets to its intended use. Expenditure incurred for the purpose of acquiring, extending or improving assets which are of a permanent nature, enabling to carry on the business or to increase earning capacity of the business are treated as capital expenditure.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within that part will flow to the Company and the Group and its cost can be reliably measured.

Subsequent to the initial recognition, the assets are carried at cost less accumulated depreciation thereon and accumulated impairment losses.

### 5.3.2 Restoration costs

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain future economic benefits expected from originally assessed standard of performance is recognized as an expense when incurred.



### 5.3.3 Depreciation

The provision for depreciation is calculated using straight-line method on cost of different classes of assets and over periods appropriate to the estimated useful lives of each of such different classes of assets.

| Class of asset       | Number of years |
|----------------------|-----------------|
| Motor vehicles       | 4 - 5           |
| Furniture & fittings | 5 - 10          |
| Office equipment     | 5 - 10          |
| Computers equipments | 3 - 5           |

Depreciation of an asset begins when it is available for use whereas depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

### 5.3.4 Disposal

Gains or losses arising on disposal or retirement of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment being disposed/derecognized and are recognized under 'Other income' in the Income Statement.

## 5.4 Intangible assets

### 5.4.1 Basis of recognition

Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

- **Goodwill**

Goodwill represents the excess of cost of an acquisition over the fair value of Group's share of identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Negative goodwill is recognised immediately in the Income Statement.

Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

- **Software**

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and is probable that they will lead to future economic benefits, are included in the Balance Sheet under the category 'Intangible assets' and carried at cost less amortization and accumulated impairment losses.

Computer software are amortised over their estimated useful economic lives over a period between 3 to 10 years, on straight-line basis.

They are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function/nature of the intangible asset.

Amortisation is commenced when an asset is available for use.

## 5.5. Investments

### 5.5.1. Classification

- Investments held for yield or capital appreciation are classified as 'Long-term investments'.
- Investments those deriving from private placements of unlisted securities where the Company and the Group has participated in and held for yield or capital appreciation are classified as 'Private equity investments'. Such are initially categorized under non-current assets. Subsequently, upon obtaining the listing in 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'.

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 5.5.2 Cost

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

### 5.5.3 Valuation

#### • Quoted investments

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

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

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

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

#### • Unquoted investments

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

### 5.5.4 Market value of the investment portfolio

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

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

### 5.6 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 and the Group will not be able to collect all amounts due according to original terms of receivables.

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

### 5.7 Cash and cash equivalents

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

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

## 5.8 Impairment of assets

The Company and the Group 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 and the Group makes an estimate of its recoverable amount. Where carrying amount of an asset or a group of assets exceeds its recoverable amount, the asset or the group of asset is considered to be impaired and is written down to its recoverable amount. The impairment loss is charged to the Income Statement.

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

Previously recognised impairment losses are assessed at each balance sheet date for 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.

An impairment loss in respect of goodwill is not reversed.

## Liabilities and provisions

### 5.9 Liabilities

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

All known liabilities have been accounted for in preparing these financial statements. Liabilities are recognized when the Company and the Group 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.

### 5.10. Provisions

Provisions are recognised when the Company and the Group 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.

### 5.11. Contingent liabilities and contingent assets

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

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

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

In acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any non controlling interest.

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 5.12 Employee benefits

#### 5.12.1 Defined benefit plan - Gratuity

The Company and the Group is liable to pay retirement benefits under the Payment of Gratuity Act, No. 12 of 1983.

Defined benefit plan defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation. The liability recognized in the Balance Sheet in respect of defined benefit plan is the present value of defined benefit obligation at the balance sheet date together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using 'Projected Unit Credit method' as required by Sri Lanka Accounting Standard 16 (Revised 2006) – "Employee benefits".

The present value of defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of long term government bonds or high quality corporate bonds.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in the Income Statement.

#### 5.12.2 Defined contribution plans - Employees' provident fund and Employee' trust fund

All employees who are eligible for provident fund contributions and trust fund contributions are covered by relevant contribution funds in line with the respective statutes. Employer's contributions to the defined contribution plans are recognized as an expense in the Income Statement when incurred. The employer has no further payment obligations once the contributions have been paid.

### 5.13 Stated capital

The Company carries two classes of shares;

- Ordinary shares and
- Deferred shares.

Both the classes of shares are classified as equity.

Deferred Shares rank pari passu for all other purposes, except for voting rights and dividend rights as detailed in note 24.7.

### Income statement

#### 5.14 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the Group, 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 Group. The following specific criteria are used for the purpose of recognition of revenue:

##### 5.14.1 Gains / (losses) from disposal of investments

On the date of the transaction

##### 5.14.2 Dividend income

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

##### 5.14.3 Interest income

On accrual basis.

##### 5.14.4 Management fee income

On accrual basis.

##### 5.14.5 Other income

On accrual basis.

### 5.15 Expenditure recognition

#### 5.15.1 Operating expenses

All expenses incurred in day-to-day operations of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged against income in arriving at the profit or loss for the year. Provision has also been made for bad and doubtful debts, all known liabilities and depreciation on property, plant and equipment.

### 5.15.2 Finance expenses

Interest expenses are recognized on accrual basis.

### 5.15.3 Current and deferred income tax

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

#### 5.15.3.1 Current Taxation

The provision for current tax is based on 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.

#### 5.15.3.2 Deferred Taxation

Deferred taxation is provided based on liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The balance in deferred taxation account represents tax applicable to the difference between written down values of the assets for tax purposes on which tax depreciation has been claimed and the net book values of such assets, offset by provision for employee benefits which is deductible for current tax purposes only upon payment.

Deferred tax assets are recognized for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carried forward unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the assets is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

#### 5.15.3.3 Economic Service Charge (ESC)

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

#### 5.15.3.4 Social Responsibility Levy (SRL)

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

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

### Earnings per share

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

### Cash flow

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

### Related party transactions

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

# Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

## Events after the balance sheet date

All material and significant events which occurred after the balance sheet date have been considered and disclosed in note 31.

## 6 DIVIDENDS ON ORDINARY AND DEFERRED SHARES

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

## 7 PRESENTATION

### 7.1 Offsetting income and expenses

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

### 7.2 Offsetting assets and liabilities

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

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

## 8 COMPARATIVE FIGURES

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

## 9 DIRECTORS' RESPONSIBILITY

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

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

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1 January 2012. Accordingly, these Standards have not been applied in

preparing these financial statements as they were not effective for the period ended 31 March 2012.

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

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

## 11 Revenue

| For the year ended 31st March                    | Group     |           | Company   |           |
|--|-----------|-----------|-----------|-----------|
|  | 2012      | 2011      | 2012      | 2011      |
| Dividend income                                  | 410,896   | 293,890   | 178,516   | 158,085   |
| Interest income                                  | 95,880    | 15,356    | 41,410    | 284       |
| Net gain from disposal of short-term investments | 217,550   | 376,902   | 168,618   | 7,613     |
| Net gain from disposal of long-term investments  | 1,545,595 | 892,322   | 947,405   | 788,500   |
| Net gain from disposal of strategic investments  | -         | 1,104,258 | -         | 794,271   |
| Management fees                                  | 44,487    | 37,218    | -         | -         |
|  | 2,314,408 | 2,719,946 | 1,335,949 | 1,748,753 |
| Intra-group transactions                         | (232,898) | (194,354) | -         | -         |
|  | 2,081,510 | 2,525,592 | 1,335,949 | 1,748,753 |

### 11.1 Revenue and profit before taxation - Group

| For the year ended 31st March                         | Revenue   |           | Profit before taxation |                    |
|---|-----------|-----------|------------------------|--------------------|
|   | 2012      | 2011      | 2012                   | 2011<br>(Restated) |
| Ceylon Guardian Investment Trust PLC                  | 1,335,949 | 1,748,753 | 992,715                | 1,708,921          |
| Ceylon Investment PLC                                 | 837,018   | 648,582   | 481,398                | 721,070            |
| Guardian Capital Partners PLC                         | 13,835    | -         | (21,283)               | -                  |
| Rubber Investment Trust Limited                       | 82,909    | 274,646   | 22,327                 | 331,755            |
| Guardian Fund Management Limited                      | 44,697    | 47,965    | (6,115)                | 8,745              |
| Share of associate company's profit net of taxation   | -         | -         | 882,824                | 713,798            |
| Share of joint venture company's loss net of taxation | -         | -         | (2,389)                | -                  |
|   | 2,314,408 | 2,719,946 | 2,349,477              | 3,484,289          |
| Intra-group transactions / consolidation adjustments  | (232,898) | (194,354) | (199,471)              | (155,909)          |
|   | 2,081,510 | 2,525,592 | 2,150,006              | 3,328,380          |

Details of restatement are given in the note to the Statement of Changes in Equity on page 40 to the financial statements.

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

| For the year ended 31st March | Group     |         | Company   |        |
|-------------------------------|-----------|---------|-----------|--------|
|                               | 2012      | 2011    | 2012      | 2011   |
| On long-term investments      | (574,323) | 7,485   | (287,146) | 7,485  |
| On short-term investments     | (117,758) | 192,193 | (22,789)  | 3,155  |
|                               | (692,081) | 199,678 | (309,935) | 10,640 |

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 13 Profit from operations

|  | Group  |        | Company |       |
|--|--------|--------|---------|-------|
| For the year ended 31st March  | 2012   | 2011   | 2012    | 2011  |
| <b>Profit from operations is stated after charging all expenses which include the following:</b> |        |        |         |       |
| Directors' fees  | 7,285  | 4,637  | 5,500   | 3,197 |
| Directors' emoluments  | 12,868 | 5,216  | -       | -     |
| Management fees  | 22,384 | 25,800 | 6,353   | 8,894 |
| Audit Committee fees   | 200    | 200    | 200     | 200   |
| Auditors' remuneration - audit fees  | 930    | 845    | 290     | 260   |
| Auditors' remuneration - audit related fees  | 180    | 843    | 50      | 250   |
| Auditors' remuneration - non audit services  | 400    | -      | 400     | -     |
| Depreciation   | 3,019  | 2,172  | -       | -     |
| Amortisation   | 2,475  | 1,817  | -       | -     |
| Personnel cost (Note 13.1)   | 18,478 | 14,552 | -       | -     |

#### 13.1 Personnel cost

|  |        |        |   |   |
|--|--------|--------|---|---|
| Salaries, wages and other related expenses | 15,162 | 12,160 | - | - |
| Defined benefit plan cost                  | 1,844  | 1,159  | - | - |
| Defined contribution plan cost             | 1,472  | 1,233  | - | - |
|  | 18,478 | 14,552 | - | - |

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

|                               | Revenue    |            | Profit after taxation |                    | Group's share of profit net of taxation |                    |
|-------------------------------|------------|------------|-----------------------|--------------------|---|--------------------|
| For the year ended 31st March | 2012       | 2011       | 2012                  | 2011<br>(Restated) | 2012                                    | 2011<br>(Restated) |
| Bukit Darah PLC               | 69,074,225 | 36,008,053 | 10,705,656            | 9,974,476          | 882,824                                 | 713,798            |
|                               | 69,074,225 | 36,008,053 | 10,705,656            | 9,974,476          | 882,824                                 | 713,798            |

Details of restatement are given in the note to the Statement of Changes in Equity on page 40 to the financial statements.

### 15 Share of joint venture company's loss net of taxation

|                               | Revenue |      | Loss after taxation |      | Group's share of loss net of taxation |      |
|-------------------------------|---------|------|---------------------|------|---------------------------------------|------|
| For the year ended 31st March | 2012    | 2011 | 2012                | 2011 | 2012                                  | 2011 |
| Guardian Acuity               | -       | -    | 4,778               | -    | 2,389                                 | -    |
| Asset Management Limited      | -       | -    | 4,778               | -    | 2,389                                 | -    |



## 16 Income tax expense

| For the year ended 31st March   | Group       |             | Company     |             |
|---|-------------|-------------|-------------|-------------|
|   | 2012        | 2011        | 2012        | 2011        |
| <b>16.1 Current tax expense</b>   |             |             |             |             |
| Company (Note 16.2)   | 7,045       | -           | 7,045       | -           |
| Subsidiaries (Note 16.2)  | 9,422       | 5,165       | -           | -           |
| (Over) / under provision for previous year  | 333         | (2,779)     | 50          | (1,236)     |
|   | 16,800      | 2,386       | 7,095       | (1,236)     |
| Deferred tax charge/(reversal) (Note 28)  | (1,104)     | 2,146       | -           | -           |
| Income tax expense for the year   | 15,696      | 4,532       | 7,095       | (1,236)     |
| <b>16.2 Reconciliation of accounting profit and taxable profit for the period</b> |             |             |             |             |
| Profit before taxation  | 2,150,006   | 3,328,380   | 992,715     | 1,708,921   |
| <b>Less:</b> Profit not liable for taxation                                       |             |             |             |             |
| Exempt profits on sale of quoted public shares                                    | (1,763,145) | (2,373,482) | (1,116,023) | (1,590,384) |
| Dividend income   | (410,896)   | (293,890)   | (178,516)   | (158,085)   |
| Allowable claims  | (3,290)     | (3,458)     | (7)         | -           |
| <b>Add:</b> Mark to market value adjustment                                       | 692,081     | (199,678)   | 309,935     | (10,640)    |
| Expenses attributable to excluded profits   | 71,192      | 77,598      | 27,782      | 28,257      |
| Disallowable expenses   | 27,683      | 25,413      | 2,822       | 5,257       |
|   | 763,631     | 560,883     | 38,708      | (16,674)    |
| Inter company transactions  | 199,471     | 155,909     | -           | -           |
| Share of associate company's profit net of taxation (Note 14)                     | (882,824)   | (713,798)   | -           | -           |
| Share of joint venture company's loss net of taxation (Note 15)                   | 2,389       | -           | -           | -           |
| Adjustments on losses   | 1,555       | 16,674      | -           | -           |
| Utilisation of tax losses (Note 16.3)   | (23,480)    | (5,129)     | (13,548)    | -           |
| <b>Tax adjusted profit/(loss)</b>   | 60,742      | 14,539      | 25,160      | (16,674)    |
| <b>Income tax liability</b>   |             |             |             |             |
| Income tax expense (Note 16.4 (a))  | 16,467      | 5,089       | 7,045       | -           |
| Social Responsibility Levy (Note 16.4 (e))  | -           | 76          | -           | -           |
|   | 16,467      | 5,165       | 7,045       | -           |

Income tax expense for the Group is based on the taxable profit of individual companies within the Group. At present, the tax laws in Sri Lanka do not provide for Group taxation.

## 16.3 Analysis of tax losses

| For the year ended 31st March                      | Group    |         | Company  |        |
|--|----------|---------|----------|--------|
|  | 2012     | 2011    | 2012     | 2011   |
| Tax losses brought forward                         | 77,614   | 64,038  | 67,590   | 49,171 |
| Adjustment on finalization of income tax liability | (92)     | 2,031   | -        | 1,745  |
| Tax losses incurred during the year                | 6,282    | 16,674  | -        | 16,674 |
| Utilization of tax losses during the year          | (23,480) | (5,129) | (13,548) | -      |
| Tax losses carried forward                         | 60,324   | 77,614  | 54,042   | 67,590 |

Utilization of tax losses is restricted to 35% of the Statutory Income. Unabsorbed tax losses can be carried forward indefinitely.

# Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

## 16.4 Summary of provision applicable under relevant tax legislation (Company and subsidiaries)

- (a) In accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments thereto, the Company and all other companies of the Group other than those disclosed in note 16.4 (b) & (c) are liable to income tax at the standard rate of 28% (2011 - 35%).
- (b) In terms of section 13 (t) of the Inland Revenue Act, No.10 of 2006 and amendments thereto, profits derived on sale of shares on which Share Transaction Levy (STL) has been paid is exempt from income tax.
- (c) In terms of section 59B of the Inland Revenue Act, the profits of entities engaged in the manufacture or in the provision of services where the turnover is less than Rs. 300 mn is chargeable at the rate of 10%. However, the amendment to the Inland Revenue Act in 2012 removes the applicability of this provision for Groups of companies.
- (d) Economic Service Charge (ESC) paid by the Company and its subsidiaries are available as income tax credit over a period of four subsequent years. In instances where recoverability is not possible due to tax status, sums paid are written-off to the Income Statement.
- (e) Social Responsibility Levy (SRL) was abolished with effect from 1 April 2011 (2011-1.5% of income tax expenses).

## 17 Earnings per share

The Company's and the Group's earnings per share is calculated on the profit attributable to the shareholders of Ceylon Guardian Investment Trust PLC over the weighted average number of ordinary/deferred shares in issue during the year, as required by Sri Lanka Accounting Standard 34 (Revised 2005) - "Earnings per share".

The weighted average number of ordinary/deferred shares in issue during the financial year 2010/11 was adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources.

The following reflect the income and share data used for the computation of earnings per ordinary/deferred share;

| For the year ended 31st March  | Group<br>2012 | 2011<br>(Restated) | Company<br>2012 | 2011      |
|--|---------------|--------------------|-----------------|-----------|
| <b>Amount used as the numerator</b>  |               |                    |                 |           |
| Profit for the year attributable to the shareholders of Ceylon Guardian Investment Trust PLC | 1,980,240     | 2,962,760          | 985,620         | 1,710,157 |
| <b>Amount used as denominator (in thousands)</b>   |               |                    |                 |           |
| Number of ordinary and deferred shares at the beginning of the year                          | 87,837        | 17,224             | 87,837          | 17,224    |
| Addition to the number of shares in issue due to:  |               |                    |                 |           |
| Sub-division of shares (Note 24.3)   | -             | 68,894             | -               | 68,894    |
| Capitalization of reserves (Note 24.3)   | -             | 1,719              | -               | 1,719     |
| Weighted average number of ordinary and deferred shares in issue during the year             | 87,837        | 87,837             | 87,837          | 87,837    |
| <b>Earnings per share (Rs.)</b>  | <b>22.54</b>  | 33.73              | <b>11.22</b>    | 19.47     |

Details of restatement are given in the note to the Statement of Changes in Equity on page 40 to the financial statements.

Each deferred share has been considered to be made up of equivalent number of ordinary shares in arriving at the weighted average number of shares in issue.

## 18 Dividend per share

| For the year ended 31st March | Group   |         | Company |         |
|-------------------------------|---------|---------|---------|---------|
|                               | 2012    | 2011    | 2012    | 2011    |
| <b>Dividend paid</b>          |         |         |         |         |
| On ordinary shares            | 123,145 | 144,876 | 123,145 | 144,876 |
| On deferred shares            | 8,610   | 9,922   | 8,610   | 9,922   |
|                               | 131,755 | 154,798 | 131,755 | 154,798 |
| <b>Dividend proposed *</b>    |         |         |         |         |
| On ordinary shares            | 164,193 | 123,145 | 164,193 | 123,145 |
| On deferred shares            | 11,480  | 8,610   | 11,480  | 8,610   |
|                               | 175,673 | 131,755 | 175,673 | 131,755 |
| <b>Dividend per share</b>     | 2.00    | 1.50    | 2.00    | 1.50    |

\* The proposed dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting. According to the Sri Lanka Accounting Standard No.12 (Revised 2005) - "Events after the balance sheet date", this liability has not been provided for in the financial statements.

## 19 Property, plant and equipment - Group

|   | Office equipments | Computer equipments | Furniture & fittings | Motor vehicle | Total as at 31st March 2012 | Total as at 31st March 2011 |
|---|-------------------|---------------------|----------------------|---------------|-----------------------------|-----------------------------|
| <b>Cost</b>                                 |                   |                     |                      |               |                             |                             |
| Balance as at the beginning of the year     | 187               | 919                 | 2,094                | 9,675         | 12,875                      | 12,273                      |
| Additions                                   | -                 | 1,043               | 196                  | -             | 1,239                       | 602                         |
| Transfers                                   | (134)             | -                   | 134                  | -             | -                           | -                           |
| Balance at the end of the year              | 53                | 1,962               | 2,424                | 9,675         | 14,114                      | 12,875                      |
| <b>Depreciation</b>                         |                   |                     |                      |               |                             |                             |
| Balance as at the beginning of the year     | 187               | 445                 | 475                  | 5,321         | 6,428                       | 4,256                       |
| Charge for the year                         | -                 | 441                 | 642                  | 1,936         | 3,019                       | 2,172                       |
| Transfers                                   | (134)             | -                   | 134                  | -             | -                           | -                           |
| Balance at the end of the year              | 53                | 886                 | 1,251                | 7,257         | 9,447                       | 6,428                       |
| <b>Net book value as at 31st March 2012</b> | -                 | 1,076               | 1,173                | 2,418         | 4,667                       |                             |
| Net book value as at 31st March 2011        | -                 | 474                 | 1,619                | 4,354         |                             | 6,447                       |

19.1 Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs.443,388/- (2011 - Rs.187,453/-).

19.2 No borrowing costs were capitalized during the year (2011 - Nil).

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 20 Intangible assets - Group

|   | Goodwill on consolidation | Computer software | Total as at 31st March 2012 | Total as at 31st March 2011 |
|---|---------------------------|-------------------|-----------------------------|-----------------------------|
| <b>Cost</b>                                 |                           |                   |                             |                             |
| Balance as at the beginning of the year     | 231,917                   | 10,880            | <b>242,797</b>              | 10,880                      |
| Arising on business acquisitions            | -                         | -                 | -                           | 231,917                     |
| Additions                                   | -                         | 4,470             | <b>4,470</b>                | -                           |
| Balance at the end of the year              | 231,917                   | 15,350            | <b>247,267</b>              | 242,797                     |
| <b>Amortisation</b>                         |                           |                   |                             |                             |
| Balance as at the beginning of the year     | -                         | 5,598             | <b>5,598</b>                | 3,781                       |
| Charge for the year                         | -                         | 2,475             | <b>2,475</b>                | 1,817                       |
| Balance at the end of the year              | -                         | 8,073             | <b>8,073</b>                | 5,598                       |
| <b>Net book value as at 31st March 2012</b> | <b>231,917</b>            | <b>7,277</b>      | <b>239,194</b>              |                             |
| Net book value as at 31st March 2011        | 231,917                   | 5,282             |                             | 237,199                     |

**20.1** Intangible assets do not include fully amortized assets as at the balance sheet date.

### 20.2 Impairment assessment on goodwill

#### Goodwill arising on business combinations - Guardian Capital Partners PLC

Based on prevailing published market price at the end of the year and forecasted growth of its investment portfolio, the management is confident that the recoverable amount of goodwill arising on consolidation is higher than its corresponding carrying amount as at the balance sheet date.

## 21 Long-term investments

|   | Group                                       |  |  |  | Company                                     |  |   |  |
|---|---|--|--|--|---|--|---|--|
|   | Carrying value / cost as at 31st March 2012 | Market value / valuation as at 31st March 2012 | Carrying value / cost as at 31st March 2011 (Restated) | Market value / valuation as at 31st March 2011 | Carrying value / cost as at 31st March 2012 | Market value / valuation as at 31st March 2012 | Carrying value / cost as at 31st March 2011 | Market value / valuation as at 31st March 2011 |
| <b>21 A Investment in subsidiaries</b>  |   |  |  |  |   |  |   |  |
| Quoted                                  | -   | -  | -  | -  | 21.2.2(a) 1,897,895                         | 6,487,644                                      | 1,897,895                                   | 15,878,463                                     |
| Unquoted                                | -   | -  | -  | -  | 21.2.2(b) 28,546                            | 10,479,101                                     | 28,527                                      | 13,797,734                                     |
| Total investment in subsidiaries        | -   | -  | -  | -  | 1,926,441                                   | 16,966,745                                     | 1,926,422                                   | 29,676,197                                     |
| <b>21 B Investment in associate</b>     |   |  |  |  |   |  |   |  |
| Quoted                                  | 21.1.1 3,321,475                            | 17,531,931                                     | 2,709,480  | 23,982,243                                     | -   | -  | -   | -  |
| Unquoted                                | 21.1.1 1                                    | 1  | 1  | 1  | -   | -  | -   | -  |
| Total investments in associate          | 3,321,476                                   | 17,531,932                                     | 2,709,481  | 23,982,244                                     | -   | -  | -   | -  |
| <b>21 C Investment in joint venture</b> |   |  |  |  |   |  |   |  |
| Unquoted                                | 21.1.2 17,611                               | 20,000   | -  | -  | 21.2.3 20,000                               | 20,000   | -   | -  |
| Total investment in joint venture       | 17,611                                      | 20,000   | -  | -  | 20,000                                      | 20,000   | -   | -  |
| <b>21 D Other long-term investments</b> |   |  |  |  |   |  |   |  |
| <b>Investment in equity securities</b>  |   |  |  |  |   |  |   |  |
| Quoted                                  | 21.1.3(a) 3,906,462                         | 7,689,885                                      | 2,911,986  | 10,250,380                                     | 21.2.4(a) 1,590,257                         | 2,447,433                                      | 1,216,034                                   | 4,060,957                                      |
| Unquoted                                | 21.1.3(b) 17,334                            | 17,334   | 17,334   | 17,334   | 21.2.4(b) 16,257                            | 16,257   | 16,257                                      | 16,257   |
| Private equity (unlisted)               | 21.1.3(c) 320,802                           | 320,802  | 802,418  | 802,418  | 21.2.4(c) 146,920                           | 146,920  | 236,644                                     | 236,644  |
| Total investment in equity securities   | 4,244,598                                   | 8,028,021                                      | 3,731,738  | 11,070,132                                     | 1,753,434                                   | 2,610,610                                      | 1,468,935                                   | 4,313,858                                      |
| <b>Investment in debentures</b>         |   |  |  |  |   |  |   |  |
| Unquoted                                | 21.1.4 5                                    | 5  | 5  | 5  | 21.2.5 1                                    | 1  | 1   | 1  |
| Total investment in debentures          | 5   | 5  | 5  | 5  | 1   | 1  | 1   | 1  |
| <b>Investment in unit trusts</b>        |   |  |  |  |   |  |   |  |
| Unquoted                                | 21.1.5 324,560                              | 328,250  | 224,564  | 285,051  | 21.2.6 162,280                              | 164,125  | 112,282                                     | 142,525  |
| Total investment in unit trusts         | 324,560                                     | 328,250  | 224,564  | 285,051  | 162,280                                     | 164,125  | 112,282                                     | 142,525  |
| Total other long-term investments       | 4,569,163                                   | 8,356,276                                      | 3,956,307  | 11,355,188                                     | 1,915,715                                   | 2,774,736                                      | 1,581,218                                   | 4,456,384                                      |
| <b>Total long-term investments</b>      | <b>7,908,250</b>                            | <b>25,908,208</b>                              | <b>6,665,788</b>                                       | <b>35,337,432</b>                              | <b>3,862,156</b>                            | <b>19,761,481</b>                              | <b>3,507,640</b>                            | <b>34,132,581</b>                              |

Details of restatement are given in the note to the Statement of Changes in Equity on page 40 to the financial statements.

Note: Investment portfolio excludes cash and cash equivalents.

\* The market value of quoted investments are based on the official valuation list published by the Colombo Stock Exchange as at 31st March 2012.

\* The market value of investment in unit trusts are based on "net assets values" published by the custodian bank and the management company as at 31st March 2012

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

\* The Directors' valuation of Guardian Fund Management Limited and Guardian Acuity Asset Management Limited are based on the cost.

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 21.1.1 Investment in associate - Group

|   | No. of<br>shares | Cost<br>as at<br>31st March<br>2012              | Directors'<br>Valuation<br>as at<br>31st March<br>2012 | No. of<br>shares | Cost<br>as at<br>31st March<br>2011                            | Directors'<br>Valuation<br>as at<br>31st March<br>2011 |
|---|------------------|--|--|------------------|--|--|
| <b>Quoted</b>   |                  |  |  |                  |  |  |
| <b>On ordinary shares</b>   |                  |  |  |                  |  |  |
| Bukit Darah PLC   | 20,438,250       | 1,927  | 17,531,931   | 20,438,250       | 1,927  | 23,982,243   |
| <b>Unquoted</b>   |                  |  |  |                  |  |  |
| <b>On preference shares</b>   |                  |  |  |                  |  |  |
| Bukit Darah PLC<br>(8% participative cumulative<br>preference shares) | 31,875           | 1  | 1  | 31,875           | 1  | 1  |
|   |                  | 1,928  | 17,531,932   |                  | 1,928  | 23,982,244   |
|   | %<br>Holding     | Carrying<br>value<br>as at<br>31st March<br>2012 | Directors'<br>valuation<br>as at<br>31st March<br>2012 | %<br>Holding     | Carrying<br>value<br>as at<br>31st March<br>2011<br>(Restated) | Directors'<br>valuation<br>as at<br>31st March<br>2011 |
| <b>Investors' share of net assets</b>                                 |                  |  |  |                  |  |  |
| At the beginning of the year  | 16.47%           | 2,707,553  |  | 16.47%           | 1,665,378  |  |
| Appreciation/(depreciation)<br>of associate company's reserves        |                  | (219,732)  |  |                  | 343,380  |  |
| Dividend  |                  | (51,097)   |  |                  | (15,003)   |  |
| Share of profit for the year (net of taxation)                        |                  | 882,824  |  |                  | 713,798  |  |
| At the end of the year  |                  | 3,319,548  |  |                  | 2,707,553  |  |
| <b>Total investments in<br/>associate on equity basis</b>             |                  | 3,321,476  | 17,531,932   |                  | 2,709,481  | 23,982,244   |

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

### 21.1.1 (a) Summarized financial information of the associate

|                 | Total assets |                    | Total liabilities |            |
|-----------------|--------------|--------------------|-------------------|------------|
|                 | 2012         | 2011<br>(Restated) | 2012              | 2011       |
| Bukit Darah PLC | 103,209,235  | 77,228,623         | 52,085,924        | 31,023,814 |
|                 | 103,209,235  | 77,228,623         | 52,085,924        | 31,023,814 |

### 21.1.2 Investment in joint venture - Group

|   | No. of<br>shares | Cost<br>as at<br>31st March<br>2012 | Directors'<br>valuation<br>as at<br>31st March<br>2012 | No. of<br>shares | Cost<br>as at<br>31st March<br>2011 | Directors'<br>valuation<br>as at<br>31st March<br>2011 |
|---|------------------|-------------------------------------|--|------------------|-------------------------------------|--|
| <b>Unquoted</b>                             |                  |                                     |  |                  |                                     |  |
| Guardian Acuity Asset<br>Management Limited | 2,000,000        | 20,000                              | 17,611   | -                | -                                   | -  |
|   |                  | 20,000                              | 17,611   |                  | -                                   | -  |

|  | %<br>Holding | Carrying<br>value<br>as at<br>31st March<br>2012 | Directors'<br>valuation<br>as at<br>31st March<br>2012 | %<br>Holding | Carrying<br>value<br>as at<br>31st March<br>2011 | Directors'<br>valuation<br>as at<br>31st March<br>2011 |
|--|--------------|--|--|--------------|--|--|
| <b>Investors' share of net assets</b>        |              |  |  |              |  |  |
| At the beginning of the year                 | 50%          | -  |  | -            | -  | -  |
| Share of loss for the year (net of taxation) |              | (2,389)  |  | -            | -  | -  |
| At the end of the year                       |              | (2,389)  |  |              | -  | -  |
| <b>Total investment in joint venture</b>     |              | <b>17,611</b>                                    | <b>17,611</b>  |              | -  | -  |

#### 21.1.2 (a) Summarized financial information of the joint venture

|  | Total assets  |      | Total liabilities |      |
|--|---------------|------|-------------------|------|
|  | 2012          | 2011 | 2012              | 2011 |
| Guardian Acuity Asset Management Limited | 35,800        | -    | 578               | -    |
|  | <b>35,800</b> | -    | <b>578</b>        | -    |

The Company entered in to a Joint Venture Agreement with Acuity Partners (Pvt) Limited and formed "Guardian Acuity Asset Management Limited", a company incorporated in Sri Lanka, to set up and carry out unit trust business. Ceylon Guardian Investment Trust PLC and Acuity Partners (Pvt) Limited hold 50% each of the issued share capital in the said joint venture company.

#### 21.1.3A Movement in other long-term investments - Group

|  | Note   | Carrying<br>value<br>as at<br>1st April | Additions        | Transfers        | Disposals        | Mark to<br>market<br>value<br>adjustment | Carrying<br>value<br>as at<br>31st March |
|--|--------|---|------------------|------------------|------------------|--|--|
| <b>Year 2011/12</b>                    |        |   |                  |                  |                  |  |  |
| <b>Investment in equity securities</b> | 21.1.3 | 11,070,132                              | 1,731,886        | (252,194)        | (966,831)        | (3,554,972)                              | 8,028,021                                |
| <b>Investment in debentures</b>        | 21.1.4 | 5                                       | -                | -                | -                | -  | 5  |
| <b>Investment in unit trusts</b>       | 21.1.5 | 285,051                                 | 100,000          | -                | -                | (56,801)                                 | 328,250                                  |
|  |        | <b>11,355,188</b>                       | <b>1,831,886</b> | <b>(252,194)</b> | <b>(966,831)</b> | <b>(3,611,773)</b>                       | <b>8,356,276</b>                         |
| <b>Year 2010/11</b>                    |        |   |                  |                  |                  |  |  |
| Investment in equity securities        |        | 7,121,058                               | 1,269,907        | -                | (775,872)        | 3,455,040                                | 11,070,132                               |
| Investment in debentures               |        | 5                                       | -                | -                | -                | -  | 5  |
| Investment in unit trusts              |        | -                                       | 224,564          | -                | -                | 60,487                                   | 285,051                                  |
|  |        | <b>7,121,063</b>                        | <b>1,494,471</b> | <b>-</b>         | <b>(775,872)</b> | <b>3,515,527</b>                         | <b>11,355,188</b>                        |

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 21.1.3 Other long-term investments in equity securities - Group

#### (a) Quoted

|   | No. of<br>shares | Cost<br>as at<br>31st March<br>2012 | Market value<br>as at<br>31st March<br>2012 | No. of<br>shares | Cost<br>as at<br>31st March<br>2011 | Market value<br>as at<br>31st March<br>2011 |
|---|------------------|-------------------------------------|---|------------------|-------------------------------------|---|
| <b>Banks, Finance &amp; Insurance</b>                 |                  |                                     |   |                  |                                     |   |
| Commercial Bank of Ceylon PLC                         | 11,415,548       | 748,440                             | 1,141,555                                   | 4,484,335        | 463,946                             | 1,191,936                                   |
| Hatton National Bank PLC                              | -                | -                                   | -   | 2,000,000        | 341,368                             | 760,000                                     |
| HNB Assurance PLC                                     | 2,000,000        | 106,360                             | 91,600                                      | 1,500,000        | 90,735                              | 120,000                                     |
| People's Leasing Company PLC                          | 22,907,300       | 412,332                             | 265,725                                     | -                | -                                   | -   |
| Sampath Bank PLC                                      | 1,679,593        | 495,704                             | 301,991                                     | 1,604,500        | 479,421                             | 462,577                                     |
|   |                  | 1,762,836                           | 1,800,871                                   |                  | 1,375,470                           | 2,534,513                                   |
| <b>Beverage, Food &amp; Tobacco</b>                   |                  |                                     |   |                  |                                     |   |
| Cargills (Ceylon) PLC                                 | 6,650,300        | 197,372                             | 1,157,152                                   | 6,650,300        | 197,372                             | 1,518,263                                   |
| Nestle Lanka PLC                                      | 274,500          | 185,386                             | 250,015                                     | 100,000          | 32,590                              | 64,080                                      |
|   |                  | 382,758                             | 1,407,167                                   |                  | 229,962                             | 1,582,343                                   |
| <b>Construction &amp; Engineering</b>                 |                  |                                     |   |                  |                                     |   |
| Access Engineering PLC                                | 8,000,000        | 200,280                             | 213,600                                     | -                | -                                   | -   |
|   |                  | 200,280                             | 213,600                                     |                  | -                                   | -   |
| <b>Diversified</b>                                    |                  |                                     |   |                  |                                     |   |
| Aitken Spence PLC                                     | -                | -                                   | -   | 10,245,000       | 299,555                             | 1,662,764                                   |
| Expolanka Holdings PLC                                | 50,600,000       | 380,493                             | 313,720                                     | -                | -                                   | -   |
| John Keells Holdings PLC                              | 16,629,878       | 531,727                             | 3,425,752                                   | 12,491,159       | 532,790                             | 3,567,475                                   |
|   |                  | 912,220                             | 3,739,472                                   |                  | 832,345                             | 5,230,239                                   |
| <b>Hotels &amp; Travel</b>                            |                  |                                     |   |                  |                                     |   |
| Aitken Spence Hotel Holdings PLC                      | 3,000,000        | 197,730                             | 210,000                                     | 6,447,050        | 252,935                             | 631,811                                     |
|   |                  | 197,730                             | 210,000                                     |                  | 252,935                             | 631,811                                     |
| <b>HealthCare</b>                                     |                  |                                     |   |                  |                                     |   |
| Asiri Hospitals PLC                                   | 8,677,800        | 84,779                              | 65,951                                      | -                | -                                   | -   |
| Ceylon Hospitals PLC                                  | 756,915          | 39,942                              | 54,876                                      | 756,915          | 39,942                              | 75,692                                      |
|   |                  | 124,721                             | 120,827                                     |                  | 39,942                              | 75,692                                      |
| <b>Manufacturing</b>                                  |                  |                                     |   |                  |                                     |   |
| Textured Jersey Lanka PLC                             | 2,343,300        | 35,325                              | 16,872                                      | -                | -                                   | -   |
| Tokyo Cement PLC (Non Voting)                         | 6,706,500        | 290,592                             | 181,076                                     | 4,449,600        | 181,332                             | 195,782                                     |
|   |                  | 325,917                             | 197,948                                     |                  | 181,332                             | 195,782                                     |
| <b>Total Investment in equity securities - Quoted</b> |                  | <b>3,906,462</b>                    | <b>7,689,885</b>                            |                  | <b>2,911,986</b>                    | <b>10,250,380</b>                           |



**(b) Unquoted**

|   | No. of shares | Cost as at 31st March 2012 | Directors' valuation as at 31st March 2012 | No. of shares | Cost as at 31st March 2011 | Directors' valuation as at 31st March 2011 |
|---|---------------|----------------------------|--|---------------|----------------------------|--|
| DFCC Vardhana Bank                                      | 128,925       | 1,600                      | 1,600                                      | 128,925       | 1,600                      | 1,600                                      |
| Kandy Private Hospitals Limited                         | 1,200         | 20                         | 20   | 1,200         | 20                         | 20   |
| Lanka Communications Limited                            | 1,428,496     | 15,714                     | 15,714                                     | 1,428,496     | 15,714                     | 15,714                                     |
| <b>Total investment in equity securities - Unquoted</b> |               | <b>17,334</b>              | <b>17,334</b>                              |               | <b>17,334</b>              | <b>17,334</b>                              |

**(c) Private equity (unlisted)**

|   | No. of shares | Cost as at 31st March 2012 | Directors' valuation as at 31st March 2012 | No. of shares | Cost as at 31st March 2011 | Directors' valuation as at 31st March 2011 |
|---|---------------|----------------------------|--|---------------|----------------------------|--|
| Durdans Medical & Surgical Hospital (Private) Limited                 | 22,285,715    | 280,797                    | 280,797                                    | 21,000,000    | 262,797                    | 262,797                                    |
| hSenid Business Solutions (Pvt) Ltd.                                  | 163,419       | 40,005                     | 40,005                                     | -             | -                          | -  |
| Expolanka Holdings Limited  | 41,600,000    | -                          | -  | 41,600,000    | 252,102                    | 252,102                                    |
| Softlogic Holdings (Private) Limited                                  | 27,770,000    | -                          | -  | 27,770,000    | 199,944                    | 199,944                                    |
| Textured Jersey Lanka (Pvt) Limited                                   | 2,343,300     | -                          | -  | 2,343,300     | 35,325                     | 35,325                                     |
| Vallibel One Limited  | 52,250,000    | -                          | -  | 2,090,000     | 52,250                     | 52,250                                     |
| <b>Total investment equity securities - Private equity (unlisted)</b> |               | <b>320,802</b>             | <b>320,802</b>                             |               | <b>802,418</b>             | <b>802,418</b>                             |

**21.1.4 Other long-term investments in debentures - Group**

|  | No. of debentures | Cost as at 31st March 2012 | valuation as at 31st March 2012 | No. of debentures | Cost as at 31st March 2011 | valuation as at 31st March 2011 |
|--|-------------------|----------------------------|---------------------------------|-------------------|----------------------------|---------------------------------|
| <b>Redeemable unsecured</b>                  |                   |                            |                                 |                   |                            |                                 |
| Tangerine Beach Hotels Limited - Zero Coupon | 56                | 1                          | 1                               | 56                | 1                          | 1                               |
| Ocean View Limited - 6%                      | 360               | 4                          | 4                               | 360               | 4                          | 4                               |
| <b>Total investment in debentures</b>        |                   | <b>5</b>                   | <b>5</b>                        |                   | <b>5</b>                   | <b>5</b>                        |

**21.1.5 Other long-term investments in unit trusts - Group**

|  | No. of units | Cost as at 31st March 2012 | Market value as at 31st March 2012 | No. of units | Cost as at 31st March 2011 | Market value as at 31st March 2011 |
|--|--------------|----------------------------|------------------------------------|--------------|----------------------------|------------------------------------|
| Guardian Acuity Equity Fund            | 2,500,000    | 25,000                     | 25,126                             | -            | -                          | -                                  |
| Guardian Acuity Fixed Income Fund      | 7,500,000    | 75,000                     | 75,750                             | -            | -                          | -                                  |
| Sri Lanka Fund                         | 2,531,646    | 224,560                    | 227,374                            | 2,531,646    | 224,564                    | 285,051                            |
| <b>Total investment in unit trusts</b> |              | <b>324,560</b>             | <b>328,250</b>                     |              | <b>224,564</b>             | <b>285,051</b>                     |

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 21.2.1A Movement in long-term investments - Company

|                                    | Note      | Carrying value as at 1st April | Additions | Transfers | Disposals | Mark to market value adjustment | Carrying value as at 31st March |
|------------------------------------|-----------|--------------------------------|-----------|-----------|-----------|---------------------------------|---------------------------------|
| <b>Year 2011/12</b>                |           |                                |           |           |           |                                 |                                 |
| <b>Investment in subsidiaries</b>  |           |                                |           |           |           |                                 |                                 |
| Quoted                             | 21.2.2(a) | 1,897,895                      | -         | -         | -         | -                               | 1,897,895                       |
| Unquoted                           | 21.2.2(b) | 28,527                         | 19        | -         | -         | -                               | 28,546                          |
|                                    |           | 1,926,422                      | 19        | -         | -         | -                               | 1,926,441                       |
| <b>Investment in joint venture</b> |           |                                |           |           |           |                                 |                                 |
| Unquoted                           | 21.2.3    | -                              | 20,000    | -         | -         | -                               | 20,000                          |
|                                    |           | -                              | 20,000    | -         | -         | -                               | 20,000                          |
| <b>Other investments</b>           |           |                                |           |           |           |                                 |                                 |
| Investment in equity securities    | 21.2.4    | 4,313,858                      | 809,993   | (99,144)  | (426,347) | (1,987,750)                     | 2,610,610                       |
| Investment in debentures           | 21.2.5    | 1                              | -         | -         | -         | -                               | 1                               |
| Investment in unit trusts          | 21.2.6    | 142,525                        | 50,000    | -         | -         | (28,400)                        | 164,125                         |
|                                    |           | 4,456,384                      | 859,993   | (99,144)  | (426,347) | (2,016,150)                     | 2,774,736                       |
|                                    |           | 6,382,806                      | 880,012   | (99,144)  | (426,347) | (2,016,150)                     | 4,721,177                       |
| <b>Year 2011/12</b>                |           |                                |           |           |           |                                 |                                 |
| <b>Investments in subsidiaries</b> |           |                                |           |           |           |                                 |                                 |
| Quoted                             |           | 276,920                        | -         | 1,669,835 | (48,860)  | -                               | 1,897,895                       |
| Unquoted                           |           | 297                            | -         | 28,230    | -         | -                               | 28,527                          |
|                                    |           | 277,217                        | -         | 1,698,065 | (48,860)  | -                               | 1,926,422                       |
| <b>Other investments</b>           |           |                                |           |           |           |                                 |                                 |
| Investment in equity securities    |           | 3,047,975                      | -         | 471,408   | (670,849) | 1,465,324                       | 4,313,858                       |
| Investment in debentures           |           | 1                              | -         | -         | -         | -                               | 1                               |
| Investment in unit trusts          |           | -                              | -         | 112,282   | -         | 30,243                          | 142,525                         |
|                                    |           | 3,047,976                      | -         | 583,690   | (670,849) | 1,495,567                       | 4,456,384                       |
|                                    |           | 3,325,193                      | -         | 2,281,755 | (719,709) | 1,495,567                       | 6,382,806                       |

### 21.2.2 Investments in subsidiaries - Company

|   | No. of shares | Cost as at 31st March 2012 | Market value/Directors' valuation as at 31st March 2012 | No. of shares | Cost as at 31st March 2011 | Market value/Directors' valuation as at 31st March 2011 |
|---|---------------|----------------------------|---|---------------|----------------------------|---|
| <b>(a) Quoted investments</b>           |               |                            |   |               |                            |   |
| Ceylon Investment PLC                   | 63,407,518    | 1,239,234                  | 4,964,809   | 63,407,518    | 1,239,234                  | 9,574,535   |
| Guardian Capital Partners PLC           | 21,692,800    | 658,661                    | 1,522,835   | 21,692,800    | 658,661                    | 6,303,928   |
|   |               | 1,897,895                  | 6,487,644   |               | 1,897,895                  | 15,878,463  |
| <b>(b) Unquoted investments</b>         |               |                            |   |               |                            |   |
| Rubber Investment Trust Limited         | 3,955,609     | 316                        | 10,450,871  | 3,955,579     | 297                        | 13,769,504  |
| Guardian Fund Management Limited        | 1,045,012     | 28,230                     | 28,230  | 1,045,012     | 28,230                     | 28,230  |
|   |               | 28,546                     | 10,479,101  |               | 28,527                     | 13,797,734  |
| <b>Total investment in subsidiaries</b> |               | <b>1,926,441</b>           | <b>16,966,745</b>                                       |               | <b>1,926,422</b>           | <b>29,676,197</b>                                       |

### 21.2.3 Investments in joint venture - Company

|  | No. of shares | Cost as at 31st March 2012 | Directors' valuation as at 31st March 2012 | No. of shares | Cost as at 31st March 2011 | Directors' valuation as at 31st March 2011 |
|--|---------------|----------------------------|--|---------------|----------------------------|--|
| <b>Unquoted investments</b>              |               |                            |  |               |                            |  |
| Guardian Acuity                          |               |                            |  |               |                            |  |
| Asset Management Limited                 | 2,000,000     | 20,000                     | 20,000                                     | -             | -                          | -  |
| <b>Total investment in joint venture</b> |               | <b>20,000</b>              | <b>20,000</b>                              |               | <b>-</b>                   | <b>-</b>                                   |

The Company entered in to a Joint Venture Agreement with Acuity Partners (Pvt) Limited and formed "Guardian Acuity Asset Management Limited", a company incorporated in Sri Lanka, to set up and carry on unit trust business. Ceylon Guardian Investment Trust PLC and Acuity Partners (Pvt) Limited hold 50% each of the issued share capital in the said joint venture company.

### 21.2.4 Other long-term investments in equity securities - Company

#### (a) Quoted

|   | No. of shares | Cost as at 31st March 2012 | Market value as at 31st March 2012 | No. of shares | Cost as at 31st March 2011 | Market value as at 31st March 2011 |
|---|---------------|----------------------------|------------------------------------|---------------|----------------------------|------------------------------------|
| <b>Banks, Finance &amp; Insurance</b>                 |               |                            |                                    |               |                            |                                    |
| Commercial Bank of Ceylon PLC                         | 5,843,200     | 418,904                    | 584,320                            | 2,304,264     | 275,612                    | 612,473                            |
| Hatton National Bank PLC                              | -             | -                          | -                                  | 500,000       | 96,151                     | 190,000                            |
| HNB Assurance PLC                                     | 2,000,000     | 106,360                    | 91,600                             | 1,500,000     | 90,735                     | 120,000                            |
| People's Leasing Company PLC                          | 13,086,600    | 235,559                    | 151,805                            | -             | -                          | -                                  |
| Sampath Bank PLC                                      | 842,570       | 246,707                    | 151,494                            | 804,900       | 238,539                    | 232,053                            |
|   |               | <b>1,007,530</b>           | <b>979,219</b>                     |               | <b>701,037</b>             | <b>1,154,526</b>                   |
| <b>Beverage, Food &amp; Tobacco</b>                   |               |                            |                                    |               |                            |                                    |
| Cargills (Ceylon) PLC                                 | 6,650,300     | 197,372                    | 1,157,152                          | 6,650,300     | 197,372                    | 1,518,263                          |
| Nestle Lanka PLC                                      | 129,900       | 103,812                    | 118,313                            | 15,400        | 3,891                      | 9,868                              |
|   |               | <b>301,184</b>             | <b>1,275,465</b>                   |               | <b>201,263</b>             | <b>1,528,131</b>                   |
| <b>Diversified</b>                                    |               |                            |                                    |               |                            |                                    |
| Aitken Spence PLC                                     | -             | -                          | -                                  | 6,919,500     | 218,045                    | 1,123,035                          |
| Expolanka Holdings PLC                                | 10,000,000    | 134,451                    | 62,000                             | -             | -                          | -                                  |
|   |               | <b>134,451</b>             | <b>62,000</b>                      |               | <b>218,045</b>             | <b>1,123,035</b>                   |
| <b>HealthCare</b>                                     |               |                            |                                    |               |                            |                                    |
| Asiri Hospitals PLC                                   | 4,050,700     | 39,567                     | 30,785                             | -             | -                          | -                                  |
|   |               | <b>39,567</b>              | <b>30,785</b>                      |               | <b>-</b>                   | <b>-</b>                           |
| <b>Hotels &amp; Travels</b>                           |               |                            |                                    |               |                            |                                    |
| Aitken Spence Hotel Holdings PLC                      | 1,181,200     | 78,060                     | 82,684                             | 2,604,750     | 95,689                     | 255,265                            |
|   |               | <b>78,060</b>              | <b>82,684</b>                      |               | <b>95,689</b>              | <b>255,265</b>                     |
| <b>Manufacturing</b>                                  |               |                            |                                    |               |                            |                                    |
| Tokyo Cement PLC (Non Voting)                         | 640,000       | 29,465                     | 17,280                             | -             | -                          | -                                  |
|   |               | <b>29,465</b>              | <b>17,280</b>                      |               | <b>-</b>                   | <b>-</b>                           |
| <b>Total investment in equity securities - Quoted</b> |               | <b>1,590,257</b>           | <b>2,447,433</b>                   |               | <b>1,216,034</b>           | <b>4,060,957</b>                   |

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### (b) Unquoted

|   | No. of shares | Cost as at 31st March 2012 | Directors' valuation as at 31st March 2012 | No. of shares | Cost as at 31st March 2011 | Directors' valuation as at 31st March 2011 |
|---|---------------|----------------------------|--|---------------|----------------------------|--|
| DFCC Vardhana Bank                                      | 42,975        | 533                        | 533  | 42,975        | 533                        | 533  |
| Kandy Private Hospitals Limited                         | 600           | 10                         | 10   | 600           | 10                         | 10   |
| Lanka Communications Limited                            | 1,428,496     | 15,714                     | 15,714                                     | 1,428,496     | 15,714                     | 15,714                                     |
| <b>Total investment in equity securities - unquoted</b> |               | <b>16,257</b>              | <b>16,257</b>                              |               | <b>16,257</b>              | <b>16,257</b>                              |

### (c) Private equity (unlisted)

|  | No. of shares | Cost as at 31st March 2012 | Directors' valuation as at 31st March 2012 | No. of shares | Cost as at 31st March 2011 | Directors' valuation as at 31st March 2011 |
|--|---------------|----------------------------|--|---------------|----------------------------|--|
| Durdans Medical & Surgical Hospital (Private) Limited                    | 11,672,857    | 146,920                    | 146,920                                    | 11,000,000    | 137,500                    | 137,500                                    |
| Softlogic Holdings (Private) Limited                                     | -             | -                          | -  | 13,770,000    | 99,144                     | 99,144                                     |
| <b>Total investment in equity securities - Private equity (unlisted)</b> |               | <b>146,920</b>             | <b>146,920</b>                             |               | <b>236,644</b>             | <b>236,644</b>                             |

### 21.2.5 Other long-term investments in debentures - Company

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

### 21.2.6 Other long-term investments in unit trusts - Company

|  | No. of units | Cost as at 31st March 2012 | Market value as at 31st March 2012 | No. of units | Cost as at 31st March 2011 | Market value as at 31st March 2011 |
|--|--------------|----------------------------|------------------------------------|--------------|----------------------------|------------------------------------|
| Guardian Acuity Equity Fund            | 1,250,000    | 12,500                     | 12,563                             | -            | -                          | -                                  |
| Guardian Acuity Fixed Income Fund      | 3,750,000    | 37,500                     | 37,875                             | -            | -                          | -                                  |
| Sri Lanka Fund                         | 1,265,823    | 112,280                    | 113,687                            | 1,265,823    | 112,282                    | 142,525                            |
| <b>Total investment in unit trusts</b> |              | <b>162,280</b>             | <b>164,125</b>                     |              | <b>112,282</b>             | <b>142,525</b>                     |

## 22 Trade and other receivables

| As at 31st March     | Group  |        | Company |       |
|----------------------|--------|--------|---------|-------|
|                      | 2012   | 2011   | 2012    | 2011  |
| Trade receivables    | 1,974  | 43,137 | -       | 237   |
| Interest receivables | 3,628  | 226    | 1,620   | -     |
| Dividends receivable | 28,811 | 11,113 | 16,284  | 6,907 |
| Pre-payments         | 1,306  | 1,215  | 666     | 597   |
|                      | 35,719 | 55,691 | 18,570  | 7,741 |

## 23 Short-term investments

|                                       | Note   | Group                              |                                    | Note   | Company                            |                                    |
|---------------------------------------|--------|------------------------------------|------------------------------------|--------|------------------------------------|------------------------------------|
|                                       |        | Market value as at 31st March 2012 | Market value as at 31st March 2011 |        | Market value as at 31st March 2012 | Market value as at 31st March 2011 |
| Investment in equity securities       |        |                                    |                                    |        |                                    |                                    |
| Quoted                                | 23.1.1 | 782,421                            | 1,163,989                          | 23.1.2 | 149,078                            | 101,324                            |
| Total investment in equity securities |        | 782,421                            | 1,163,989                          |        | 149,078                            | 101,324                            |
| <b>Total short-term investments</b>   |        | <b>782,421</b>                     | <b>1,163,989</b>                   |        | <b>149,078</b>                     | <b>101,324</b>                     |

### 23.1A Movement in short-term investments - Group

|   | Note          | Carrying value as at 1st April | Additions      | Transfers      | Disposals        | Mark to market value adjustment | Carrying value as at 31st March |
|---|---------------|--------------------------------|----------------|----------------|------------------|---------------------------------|---------------------------------|
| <b>Year 2011/2012</b>                   |               |                                |                |                |                  |                                 |                                 |
| <b>Investments in equity securities</b> |               |                                |                |                |                  |                                 |                                 |
| <b>Quoted</b>                           | <b>23.1.1</b> | <b>1,163,989</b>               | <b>506,407</b> | <b>252,194</b> | <b>(889,299)</b> | <b>(250,870)</b>                | <b>782,421</b>                  |
|   |               | 1,163,989                      | 506,407        | 252,194        | (889,299)        | (250,870)                       | 782,421                         |
| <b>Year 2010/2011</b>                   |               |                                |                |                |                  |                                 |                                 |
| <b>Investments in equity securities</b> |               |                                |                |                |                  |                                 |                                 |
| Quoted                                  |               | 651,826                        | 1,408,333      | -              | (919,687)        | 23,517                          | 1,163,989                       |
|   |               | 651,826                        | 1,408,333      | -              | (919,687)        | 23,517                          | 1,163,989                       |

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

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 23.1.1 Short-term investments in equity securities - Group Quoted

|   | No. of<br>shares | Market value<br>as at<br>31st March<br>2012 | No. of<br>shares | Market value<br>as at<br>31st March<br>2011 |
|---|------------------|---|------------------|---|
| <b>Bank, Finance and Insurance</b>                                |                  |   |                  |   |
| Central Finance PLC   | -                | -   | 40,000           | 50,948                                      |
| Commercial Bank of Ceylon PLC                                     | 2,371,099        | 237,110                                     | 153,881          | 40,902                                      |
| Hatton National Bank PLC  | -                | -   | 100,000          | 38,000                                      |
| Lanka Orix Leasing Company PLC                                    | -                | -   | 100,000          | 11,960                                      |
| LB Finance PLC  | -                | -   | 53,800           | 9,420                                       |
| Merchant Bank of Sri Lanka PLC                                    | -                | -   | 450,000          | 20,790                                      |
| National Development Bank PLC                                     | 387,200          | 47,548                                      | 193,600          | 65,901                                      |
| Sampath Bank PLC  | -                | -   | 480,884          | 138,639                                     |
|   |                  | 284,658                                     |                  | 376,560                                     |
| <b>Beverage, Food &amp; Tobacco</b>                               |                  |   |                  |   |
| Distilleries Company of Sri Lanka PLC                             | 902,000          | 130,790                                     | 852,000          | 153,360                                     |
|   |                  | 130,790                                     |                  | 153,360                                     |
| <b>Diversified</b>  |                  |   |                  |   |
| Expolanka Holdings PLC  | 4,198,600        | 26,032                                      | -                | -   |
| CT Holdings PLC   | 521,512          | 78,279                                      | 512,200          | 102,440                                     |
| John Keells Holdings PLC  | 1,001,700        | 206,349                                     | 1,136,600        | 324,613                                     |
| Richard Peiris PLC  | -                | -   | 2,000,000        | 27,200                                      |
|   |                  | 310,660                                     |                  | 454,253                                     |
| <b>Land &amp; Property</b>  |                  |   |                  |   |
| Colombo Land & Development Company PLC                            | 87,500           | 3,413                                       | -                | -   |
|   |                  | 3,413                                       |                  | -   |
| <b>Hotels &amp; Travels</b>                                       |                  |   |                  |   |
| Trans Asia Hotels PLC   | -                | -   | 187,600          | 36,732                                      |
|   |                  | -   |                  | 36,732                                      |
| <b>Manufacturing</b>  |                  |   |                  |   |
| Ceylon Glass Company PLC  | -                | -   | 1,400,000        | 15,540                                      |
| Lanka Floortiles PLC  | -                | -   | 431,900          | 56,622                                      |
| Royal Ceramic Lanka PLC   | 460,000          | 52,900                                      | 200,000          | 31,400                                      |
|   |                  | 52,900                                      |                  | 103,562                                     |
| <b>Plantations</b>  |                  |   |                  |   |
| Kegalle Plantations PLC   | -                | -   | 107,900          | 22,389                                      |
| Namunukula Plantations PLC  | -                | -   | 149,500          | 17,133                                      |
|   |                  | -   |                  | 39,522                                      |
| <b>Total short-term Investments in equity securities - Quoted</b> |                  | 782,421                                     | -                | 1,163,989                                   |

### 23.2A Movement in short-term investments - Company

|                               | Note          | Carrying value as at 1st April | Additions      | Transfers     | Disposals        | Mark to market value adjustment | Carrying value as at 31st March |
|-------------------------------|---------------|--------------------------------|----------------|---------------|------------------|---------------------------------|---------------------------------|
| <b>Year 2011/2012</b>         |               |                                |                |               |                  |                                 |                                 |
| <b>Short-term investments</b> |               |                                |                |               |                  |                                 |                                 |
| <b>Quoted</b>                 | <b>23.2.1</b> | <b>101,324</b>                 | <b>149,451</b> | <b>99,144</b> | <b>(172,182)</b> | <b>(28,659)</b>                 | <b>149,078</b>                  |
|                               |               | <b>101,324</b>                 | <b>149,451</b> | <b>99,144</b> | <b>(172,182)</b> | <b>(28,659)</b>                 | <b>149,078</b>                  |
| <b>Year 2010/2011</b>         |               |                                |                |               |                  |                                 |                                 |
| <b>Short-term investments</b> |               |                                |                |               |                  |                                 |                                 |
| <b>Quoted</b>                 |               | 31,734                         | 155,176        | -             | (76,646)         | (8,940)                         | 101,324                         |
|                               |               | 31,734                         | 155,176        | -             | (76,646)         | (8,940)                         | 101,324                         |

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

### 23.2.1 Short-term investments in equity securities - Company Quoted

|   | No. of shares | Market value as at 31st March 2012 | No. of shares | Market value as at 31st March 2011 |
|---|---------------|------------------------------------|---------------|------------------------------------|
| <b>Banks Finance &amp; Insurance</b>                              |               |                                    |               |                                    |
| Commercial Bank of Ceylon PLC                                     | 1,017,751     | 101,775                            | -             | -                                  |
| Merchant Bank of Sri Lanka PLC                                    | -             | -                                  | 200,000       | 9,240                              |
|   |               | <b>101,775</b>                     |               | <b>9,240</b>                       |
| <b>Diversified</b>  |               |                                    |               |                                    |
| John Keells Holdings PLC  | 76,433        | 15,744                             | 125,000       | 35,700                             |
| CT Holdings PLC   | 100,800       | 15,130                             | 99,000        | 19,800                             |
| Expolanka Holdings PLC  | 2,099,300     | 13,016                             | -             | -                                  |
|   |               | <b>43,890</b>                      |               | <b>55,500</b>                      |
| <b>Land &amp; Property</b>  |               |                                    |               |                                    |
| Colombo Land & Development Company PLC                            | 87,500        | 3,413                              | -             | -                                  |
|   |               | <b>3,413</b>                       |               | <b>-</b>                           |
| <b>Manufacturing</b>  |               |                                    |               |                                    |
| Lanka Floortiles PLC  | -             | -                                  | 70,000        | 9,177                              |
|   |               |                                    |               | <b>9,177</b>                       |
| <b>Plantations</b>  |               |                                    |               |                                    |
| Kegalle Plantations PLC   | -             | -                                  | 87,900        | 18,239                             |
| Namunukula Plantations PLC  | -             | -                                  | 80,000        | 9,168                              |
|   |               |                                    |               | <b>27,407</b>                      |
| <b>Total short-term investments in equity securities - Quoted</b> |               | <b>149,078</b>                     |               | <b>101,324</b>                     |

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 24 Stated capital

| As at 31st March                         | 2012              |                | 2011              |                |
|--|-------------------|----------------|-------------------|----------------|
|  | Number of shares  | Value          | Number of shares  | Value          |
| <b>24.1 Ordinary shares</b>              |                   |                |                   |                |
| <b>Issued and fully paid</b>             |                   |                |                   |                |
| Balance as at the beginning of the year  | 82,096,719        | 879,607        | 16,097,396        | 617,220        |
| Sub division of shares (Note 24.3)       | -                 | -              | 64,389,584        | -              |
| Capitalization of reserves (Note 24.3)   | -                 | -              | 1,609,739         | 262,387        |
| <b>Balance as at the end of the year</b> | <b>82,096,719</b> | <b>879,607</b> | <b>82,096,719</b> | <b>879,607</b> |

### 24.2 Deferred shares

| As at 31st March                        | 2012             |                | 2011             |                |
|---|------------------|----------------|------------------|----------------|
|   | Number of shares | Value          | Number of shares | Value          |
| Balance as at the beginning of the year |                  |                |                  |                |
| Fully paid shares                       | 5,739,770        | 73,560         | 8,669            | 10,199         |
| Partly paid shares*                     | -                | -              | 2,593            | 45,392         |
| Sub division of shares (Note 24.3)      |                  |                |                  |                |
| Fully paid shares                       | -                | -              | 4,325,831        | -              |
| Partly paid shares                      | -                | -              | 1,293,907        | -              |
| Capitalization of reserves (Note 24.3)  |                  |                |                  |                |
| Fully paid shares                       | -                | -              | 86,690           | 14,131         |
| Partly paid shares                      | -                | -              | 22,080           | 3,838          |
| Balance as at the end of the year       | 5,739,770        | 73,560         | 5,739,770        | 73,560         |
| <b>Total</b>                            |                  | <b>953,167</b> |                  | <b>953,167</b> |

\* The partly paid deferred shares (issued price of Rs. 1,000 per share) at the beginning of the financial year 2010/11 represent a paid up capital of Rs. 908/- per share and an unpaid capital of Rs. 92/- per share.

### 24.3 Sub-division of shares and capitalization of reserves

After obtaining the approval from the shareholders at an Extraordinary General Meeting held on 12th November 2010, the Company made the following changes to the stated capital of the Company during the financial year 2010/11.

- a) Sub-division of existing ordinary shares, fully paid deferred shares and partly paid deferred shares of the Company in the following manner:

| Description                             | Existing Number of shares | Subdivision ratio               | No. of shares after the sub-division |
|---|---------------------------|---------------------------------|--------------------------------------|
| Ordinary shares                         | 16,097,396                | 5 : 1                           | 80,486,980                           |
| Deferred shares – fully paid Rs.1,000/- | 8,669                     | 500 : 1                         | 4,334,500                            |
| Deferred shares – partly paid Rs.908/-  | 2,593                     | 500 : 1                         | 1,296,500                            |
|   |                           | (Rs. 238,556/- pending call up) | (Rs. 238,556/- pending call up)      |

The sub-division of shares did not result in increasing the value of the stated capital of the Company.

- b) The Company, by capitalizing part of the Company's revenue reserves, issued new ordinary shares, deferred shares and settle un-called amount of partly paid deferred shares in the proportion of 1:50 based on the number of ordinary shares / deferred shares after above sub-division detailed in note 24.3 (a). Total of the revenue reserves capitalized amounted to Rs. 280,355,523/-.



| Description                   | Ratio | No. of shares issued by capitalization of reserves  | Consideration for shares issued |
|-------------------------------|-------|---|---------------------------------|
| Ordinary shares               | 1:50  | 1,609,739   | Rs.163/- per share              |
| Deferred shares – fully paid  | 1:50  | 86,690  | Rs.163/- per share              |
| Deferred shares – partly paid | 1:50  | Credit of the uncalled capital amount of Rs.238,556/- on 1,296,500 partly paid deferred shares and issue further 22,080 fully paid deferred shares. | Rs.3,837,596/-                  |

**24.4** The Company issued a total of 108,770 new deferred shares and 1,609,739 ordinary shares from the capitalization of reserves.

**24.5** After the sub-division and capitalization of reserves, the total stated capital of the Company amounted to Rs. 953 mn which consists of 82,096,719 ordinary shares and 5,739,770 fully paid deferred shares.

**24.6** The holders of ordinary shares and deferred shares are entitled to receive dividends as declared from time to time.

**24.7 Superior voting rights attached to the deferred shares**

The Company has in issue 5,739,770 shares titled “Deferred shares”. The deferred shares are subordinated to the ordinary shares in respect of dividend entitlement and right to a dividend does not arise unless and until the ordinary shareholders have been paid a dividend. The deferred shares confer on the holders present in person, by proxy or by attorney the right to as many votes as the number of votes conferred by all other shares for the time being issued and each holder as aforesaid present in person, proxy or attorney at any such meeting shall be entitled to such proportion of the votes conferred by the deferred shares collectively as the number of his deferred shares bears to the full number of the deferred shares. The deferred shares rank pari passu for all other purposes including capitalization of reserves with the ordinary shares of the Company, except for voting rights and dividend rights.

**25 Capital reserves**

| As at 31st March                    | Group<br>2012 | 2011<br>(Restated) | Company<br>2012 | 2011    |
|-------------------------------------|---------------|--------------------|-----------------|---------|
| Investment reserve                  | 7,805         | 7,805              | 7,805           | 7,805   |
| Other capital reserve               | 316,741       | 316,741            | 200,855         | 200,855 |
| Associate company's capital reserve | 1,054,430     | 1,274,162          | -               | -       |
|                                     | 1,378,976     | 1,598,708          | 208,660         | 208,660 |

Details of restatement are given in the note to the Statement of Changes in Equity on page 40 to the financial statements.

**25.1 Investment reserve and other capital reserve**

These amounts have been reserved for future development of the Company.

**25.2 Associate company's capital reserve**

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

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### 26 Revenue reserves

| As at 31st March                             | Group            |                    | Company          |           |
|--|------------------|--------------------|------------------|-----------|
|  | 2012             | 2011<br>(Restated) | 2012             | 2011      |
| Market value adjustment reserve - short-term | -                | 164,295            | -                | 10,637    |
| Long-term investments revaluation reserve    | <b>3,436,795</b> | 6,024,981          | <b>1,146,166</b> | 2,875,391 |
| General reserve                              | <b>32,668</b>    | 32,668             | <b>14,961</b>    | 14,961    |
| Retained earnings                            | <b>6,370,719</b> | 4,357,939          | <b>2,969,716</b> | 2,105,214 |
|  | <b>9,840,182</b> | 10,579,883         | <b>4,130,843</b> | 5,006,203 |

Details of restatement are given in the note to the Statement of Changes in Equity on page 40 to the financial statements

#### 26.1 Market value adjustment reserve - short-term

Any gains arising from market value adjustment will be transferred from retained earnings to 'Market value adjustment reserve - short-term' at balance sheet date and any realised gains/losses arising will be transferred from 'Market value adjustment reserve - short-term' to retained earnings to the extent that the loss does not exceed the balance held in the said reserve as at the date.

An amount of Rs. 164.3 mn and Rs. 10.6 mn (2011 - Rs.140.0 mn and Rs.156.4mn) was transferred from "Market value adjustment reserve - short-term" resulting from the movements in unrealized mark to market value adjustment of short-term investments as shown in the Statement of Changes in Equity.

#### 26.2 Revaluation of long-term investments reserve

This consists of unrealised surplus on revaluation of long-term investments.

#### 26.3 General reserve

These represents the amounts set aside by the Directors to meet any contingencies.

### 27 Employee benefits

| As at 31st March   | Group        |       | Company |      |
|--|--------------|-------|---------|------|
|  | 2012         | 2011  | 2012    | 2011 |
| Balance as at the beginning of the year                    | <b>1,720</b> | 561   | -       | -    |
| Provision for the year                                     | <b>1,844</b> | 1,159 | -       | -    |
| Payments made during the year                              | -            | -     | -       | -    |
| <b>Balance as at the end of the year</b>                   | <b>3,564</b> | 1,720 | -       | -    |
|  | -            | -     | -       | -    |
| <b>27.1 The amounts recognised in the Income Statement</b> |              |       |         |      |
| Interest cost  | <b>172</b>   | 68    | -       | -    |
| Current service cost                                       | <b>854</b>   | 353   | -       | -    |
| Actuarial losses   | <b>818</b>   | 738   | -       | -    |
| <b>Balance as at the end of the year</b>                   | <b>1,844</b> | 1,159 | -       | -    |

The gratuity liability as at 31st March 2012 amounting to Rs.3,564,156/- (2011 - Rs. 1,720,639/-) for the Group is made based on an actuarial valuation carried out by Mr. M. Poopalanathan (AIA) of Messrs Actuarial & Management Consultants (Pvt) Ltd. As recommended by the Sri Lanka Accounting Standards No. 16 (Revised 2006) - "Employee benefits", the "Projected Unit Credit (PUC)" method has been used in this valuation.

The principal assumptions made are given below :

- Rate of discount 10% p.a.
- Rate of pay increase 12% p.a.
- Retirement age 55 years
- Mortality A 67/70 mortality table, issued by the Institute of Actuaries, London was used.
- Withdrawal rate 5% for age up to 49 and Zero thereafter.
- The Company is a going concern.

The above liability is not externally funded.

## 28 Deferred tax liability

| As at 31st March                          | Group        |              | Company  |          |
|---|--------------|--------------|----------|----------|
|   | 2012         | 2011         | 2012     | 2011     |
| Balance as at the beginning of the year   | 1,896        | (250)        | -        | -        |
| Charge /(reversal) for the year           | (1,104)      | 2,146        | -        | -        |
| <b>Balance as at the end of the year</b>  | <b>792</b>   | <b>1,896</b> | <b>-</b> | <b>-</b> |
| <b>Deferred tax assets</b>                |              |              |          |          |
| Tax effect on defined benefit plan        | 998          | 482          | -        | -        |
| <b>Total deferred tax assets</b>          | <b>998</b>   | <b>482</b>   | <b>-</b> | <b>-</b> |
| <b>Deferred tax liabilities</b>           |              |              |          |          |
| Tax effect on property, plant & equipment | 1,790        | 2,378        | -        | -        |
| <b>Total deferred tax liabilities</b>     | <b>1,790</b> | <b>2,378</b> | <b>-</b> | <b>-</b> |
| <b>Net deferred tax liability</b>         | <b>792</b>   | <b>1,896</b> | <b>-</b> | <b>-</b> |

# Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

## 29 Trade and other payables

| As at 31st March            | Group  |       | Company |       |
|-----------------------------|--------|-------|---------|-------|
|                             | 2012   | 2011  | 2012    | 2011  |
| Trade payables              | 438    | 2,613 | 44      | 272   |
| Other payables and accruals | 11,123 | 3,909 | 1,956   | 902   |
|                             | 11,561 | 6,522 | 2,000   | 1,174 |

## 30 Comparative figures

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

## 31 Events after the balance sheet date

### 31.1 Ceylon Guardian Investment Trust PLC

#### First and final dividend for the financial year ended 31st March 2012

After satisfying the Solvency Test in accordance with Section 57 of Companies Act, No. 7 of 2007, the Directors recommend a first and final dividend of Rs. 2/00 per share (2011 – Rs. 1/50) on ordinary and deferred shares for the year ended 31st March 2012 amounting to Rs. 175.7 mn (2011 – Rs. 131.8 mn), which is to be approved at the forthcoming Annual General Meeting. In accordance with Sri Lanka Accounting Standard No. 12 (Revised 2005) "Events After the Balance Sheet date" the proposed dividend has not been recognized as a liability as at 31st March 2012.

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

## 32 Commitments and contingencies

### 32.1 Capital expenditure commitments

No material capital commitments exist as at the balance sheet date.

### 32.2 Contingencies

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

## 33 Related party transactions

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

### 33.1 Parent and ultimate controlling party

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

### 33.2 Transactions with Related Companies

| Name of the related company   | Nature of the relationship | Name/s of the common Director/s  | Nature of transactions  | Value of the transaction |           |
|---|----------------------------|--|---|--------------------------|-----------|
|   |                            |  |   | 2012                     | 2011      |
| 33.2.1 Ceylon Guardian Investment Trust PLC   |                            |  |   |                          |           |
| Carson Cumberbatch PLC  | Ultimate Parent            | I. Paulraj<br>D.C.R. Gunawardena<br>K. Selvanathan<br>(Alternate to Mr. M Selvanathan)                               | Short-term advances provided  | 50,000                   | -         |
|   |                            |  | Interest earned on short-term advances  | 40                       | -         |
|   |                            |  | Settlements made on the short term advances provided  | 50,000                   | -         |
|   |                            |  | Dividends paid  |                          |           |
|   |                            |  | Amounts paid on acquisition of rights to subscribe for ordinary shares of the Guardian Capital Partners PLC | 94,177                   | 107,211   |
|   |                            |  |   | -                        | 233,436   |
|   |                            |  | Amounts paid on acquisition of shares in Ceylon Investment PLC  | -                        | 1,010,059 |
| Amounts received on disosal of shares in Lion Brewery (Ceylon) PLC and Ceylon Beverage Holdings PLC | -                          | 602,475  |   |                          |           |
| Ceylon Investment PLC   | Subsidiary                 | I. Paulraj<br>D.C.R. Gunawardena<br>A. de Z.Gunasekera<br>V. M. Fernando<br>Mrs. M. A. R. C Cooray<br>K. Selvanathan | Dividends received  | 62,854                   | 72,832    |
| Guardian Capital Partners PLC   | Subsidiary                 | I. Paulraj<br>D.C.R. Gunawardena   | Subscription paid at the rights issue of shares   | -                        | 433,856   |
| Rubber Investment Trust Limited   | Subsidiary                 | I. Paulraj<br>D.C.R. Gunawardena   | Dividends received  | 41,043                   | 25,239    |
|   |                            |  | Amounts paid on acquisition of Guardian Fund Management Limited   | -                        | 28,090    |
| Guardian Fund Management Limited  | Subsidiary                 | I. Paulraj**<br>D.C.R. Gunawardena**<br>K. Selvanathan***  | Portfolio management fees paid  | 6,829                    | 7,397     |
| Carsons Management Services (Private) Limited (CMSL)  | Affiliate                  | D.C.R. Gunawardena*<br>K. Selvanathan  | Management fees paid  | 5,680                    | 8,894     |
|   |                            |  | Computer fees paid  | 420                      | 420       |
|   |                            |  | Secretarial fees paid   | 300                      | 60        |
|   |                            |  | Secretarial expenses paid   | 40                       | 31        |
| Guardian Acuity Asset Management Limited  | Jointly controlled entity  | D.C.R. Gunawardena****<br>K. Selvanathan****   | Subscription to shares  | 20,000                   | -         |

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

| Name of the related company                        | Nature of the relationship | Name/s of the common Director/s  | Nature of transactions   | Value of the transaction |         |
|--|----------------------------|--|--|--------------------------|---------|
|  |                            |  |  | 2012                     | 2011    |
| Durdans Medical & Surgical Hospitals (Pvt) Limited |                            | D.C.R. Gunawardena   | Subscription paid at the rights issue of shares  | 9,420                    | -       |
| The Sri Lanka Fund                                 |                            | D.C.R. Gunawardena   | Acquisition of units   | -                        | 112,280 |
| <b>33.2.2 Ceylon Investment PLC</b>                |                            |  |  |                          |         |
| Carson Cumberbatch PLC                             | Ultimate Parent            | I. Paulraj   | Dividends paid   | -                        | 13,741  |
|  |                            | D.C.R. Gunawardena<br>K. Selvanathan<br>(Alternate to Mr. M Selvanathan)   | Amounts received on disposal of shares in Lion Brewery (Ceylon) PLC and Ceylon Beverage Holdings PLC | -                        | 349,971 |
| Ceylon Guardian Investment Trust PLC               | Parent                     | I. Paulraj<br>D.C.R. Gunawardena<br>Mrs.M.A.R.C Cooray<br>A. de Z. Gunasekera<br>V.M. Fernando<br>K. Selvanathan | Dividend paid  | 62,854                   | 72,833  |
| Guardian Capital Partners PLC                      | Affiliate                  | I. Paulraj<br>D.C.R. Gunawardena   | Amounts received on transfer of investment in Expolanka Holdings Limited                             | -                        | 250,848 |
|  |                            |  | Interest paid  | -                        | 5,718   |
| Rubber Investment Trust Limited                    | Associate                  | I. Paulraj<br>D.C.R. Gunawardena<br>A.P. Weeratunge  | Dividends received   | 40,969                   | 25,194  |
| Guardian Fund Management Limited (GFM)             | Affiliate                  | I. Paulraj**<br>D.C.R. Gunawardena**<br>K. Selvanathan***<br>A.P. Weeratunge***                                  | Portfolio management fees paid   | 12,813                   | 12,023  |
| Carsons Management Services (Private) Limited      | Affiliate                  | D.C.R. Gunawardena*<br>A.P. Weeratunge<br>K. Selvanathan   | Management fees paid   | 6,072                    | 9,229   |
|  |                            |  | Computer fees paid   | 420                      | 420     |
|  |                            |  | Secretarial fees paid  | 300                      | 60      |
|  |                            |  | Secretarial expenses paid  | 58                       | 35      |

| Name of the related company                                  | Nature of the relationship | Name/s of the common Director/s      | Nature of transactions   | Value of the transaction |         |
|--|----------------------------|--------------------------------------|--|--------------------------|---------|
|  |                            |                                      |  | 2012                     | 2011    |
| Durdans Medical & Surgical Hospitals (Pvt) Limited           |                            | D.C.R. Gunawardena                   | Subscription paid at the rights issue of shares                      | 9,420                    | -       |
| The Sri Lanka Fund   |                            | D.C.R. Gunawardena                   | Acquisition of units   | -                        | 112,280 |
| <b>33.2.3 Guardian Capital Partners PLC</b>                  |                            |                                      |  |                          |         |
| Carson Cumberbatch PLC                                       | Ultimate Parent            | I. Paulraj<br>D.C.R. Gunawardena     | Divident paid  | -                        | 69,169  |
| Ceylon Guardian Investment Trust PLC                         | Parent                     | I. Paulraj<br>D.C.R. Gunawardena     | Subscription received at the rights issue of shares                  | -                        | 433,856 |
| Ceylon Investment PLC  | Affiliate                  | I. Paulraj<br>D.C.R. Gunawardena     | Amounts paid on transfer of investment in Expolanka Holdings Limited | -                        | 250,848 |
|  |                            |                                      | Interest paid  | -                        | 5,718   |
| Guardian Fund Management Limited<br>Management Limited (GFM) | Affiliate                  | I. Paulraj**<br>D.C.R. Gunawardena** | Portfolio management fees paid                                       | 7,000                    | -       |
|  |                            |                                      | Reimbursement of fees on professional services                       | 1,500                    | -       |
| Carsons Management Services (Private) Limited                | Affiliate                  | D.C.R. Gunawardena*                  | Management fees paid   | 2,333                    | 308     |
|  |                            |                                      | Computer fees paid   | 300                      | 30      |
|  |                            |                                      | Secretarial fees paid  | 30                       | 15      |
|  |                            |                                      | Secretarial expenses paid  | 88                       | 2       |

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

| Name of the related company                   | Nature of the relationship | Name/s of the common Director/s   | Nature of transactions   | Value of the transaction |                         |
|---|----------------------------|---|--|--------------------------|-------------------------|
|   |                            |   |  | 2012                     | 2011                    |
| 33.2.4 Rubber Investment Trust Limited        |                            |   |  |                          |                         |
| Ceylon Guardian Investment Trust PLC          | Parent                     | I. Paulraj<br>D.C.R. Gunawardena  | Amounts received on disposal of shares in Guardian Fund Management Limited<br>Dividend paid      | -<br>41,043              | 28,090<br>25,239        |
| Bukit Darah PLC                               | Associate                  | I. Paulraj<br>D.C.R. Gunawardena  | Dividend received on ordinary shares<br>Dividend received on 8% cumulative preference shares     | 51,097<br>636            | 15,003<br>3,257         |
| Ceylon Investment PLC                         | Affiliate                  | I. Paulraj<br>D.C.R. Gunawardena<br>A.P. Weeratunge                             | Dividend paid  | 40,969                   | 25,194                  |
| Guardian Fund Management Limited              | Affiliate                  | I. Paulraj**<br>D.C.R. Gunawardena**<br>A.P. Weeratunge***                      | Portfolio management fees  | 10,294                   | 8,576                   |
| Carsons Management Services (Private) Limited | Affiliate                  | D.C.R. Gunawardena*<br>A.P. Weeratunge  | Management fees paid<br>Computer fees paid<br>Secretarial fees paid<br>Secretarial expenses paid | 5,891<br>420<br>90<br>1  | 7,369<br>420<br>60<br>3 |
| 33.2.5 Guardian Fund Management Limited       |                            |   |  |                          |                         |
| Ceylon Guardian Investment Trust PLC          | Parent                     | I. Paulraj**<br>D.C.R. Gunawardena**<br>K. Selvanathan***                       | Portfolio management fees received   | 6,829                    | 7,397                   |
| Ceylon Investment PLC                         | Affiliate                  | I. Paulraj**<br>D.C.R. Gunawardena**<br>K. Selvanathan***<br>A.P. Weeratunge*** | Portfolio management fees received   | 12,813                   | 12,023                  |
| Rubber Investment Trust Limited               | Affiliate                  | I. Paulraj**<br>D.C.R. Gunawardena**<br>A.P. Weeratunge***                      | Portfolio management fees received   | 10,294                   | 8,576                   |
| Guardian Capital Partners PLC (GCP)           | Affiliate                  | I. Paulraj**<br>D.C.R. Gunawardena**  | Portfolio management fees received<br>Reimbursement of fees on professional services             | 7,000<br>1,500           | -<br>-                  |



| Name of the related company                            | Nature of the relationship | Name/s of the common Director/s   | Nature of transactions  | Value of the transaction |                    |
|--|----------------------------|---|---|--------------------------|--------------------|
|  |                            |   |   | 2012                     | 2011               |
| Carsons Management Services (Private) Limited          | Affiliate                  | I. Paulraj**<br>D.C.R. Gunawardena**<br>K. Selvanathan***<br>A.P. Weeratunge*** | Computer fees paid<br>Secretarial fees paid<br>Secretarial expenses paid<br>Fees on professional services | 150<br>30<br>7<br>1,500  | 30<br>36<br>3<br>- |
| Guardian Acuity Asset Management Limited               | Affiliate                  | D.C.R. Gunawardena****<br>K. Selvanathan****<br>Mrs. W.Y.R. Fernando            | Reimbursement of costs  | 1,350                    | -                  |
| Equity Two PLC   | Affiliate                  | D.C.R. Gunawardena**<br>A.P. Weeratunge***                                      | Rental charges paid   | 741                      | 594                |
| The Sri Lanka Fund                                     | Affiliate                  | D.C.R. Gunawardena**<br>Mrs. W.Y.R. Fernando                                    | Portfolio management fees received  | 4,075                    | 1,039              |
| <b>33.2.6 Guardian Acuity Asset Management Limited</b> |                            |   |   |                          |                    |
| Ceylon Guardian Investment Trust PLC                   | Joint parent               | D.C.R. Gunawardena****<br>K. Selvanathan****                                    | Subscription to shares  | 20,000                   | -                  |
| Guardian Fund Management Limited                       | Affiliate                  | D.C.R. Gunawardena****<br>K. Selvanathan****                                    | Reimbursement of costs  | 1,350                    | -                  |

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

\*\* Mr. I. Paulraj and Mr. D.C.R. Gunawardena resigned from the Board of GFM with effect from 19th April 2011 and 15th April 2011 respectively.

\*\*\* Mr. K. Selvanathan and Mr. A.P. Weeratunge were appointed to the Board of GFM with effect from 19th April 2011.

\*\*\*\* Mr. D.C.R. Gunawardena and Mr. K. Selvanathan were appointed to the Board of GAAM with effect from 17th June 2011.

## Notes to the Financial Statements

(Amounts expressed in Sri Lankan Rupees thousands)

### **33.3 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 Company and the Group. Accordingly, the Directors of the Company and its parent company (including executive and non-executive directors) have been classified as Key Management Personnel of the Company.

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

### **34 Directors' responsibility statement**

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

# Five Year Summary

(Amounts expressed in Sri Lankan Rupees thousands)

| For the year ended 31st March                                 | 2012              | 2011<br>(Restated) | 2010               | 2009             | 2008             |
|---|-------------------|--------------------|--------------------|------------------|------------------|
| <b>Financial highlights - Group</b>                           |                   |                    |                    |                  |                  |
| <b>Income Statement</b>                                       |                   |                    |                    |                  |                  |
| Dividend income   | 410,896           | 293,890            | 398,324            | 241,580          | 216,563          |
| Realized gain on disposal of investments                      | 1,763,145         | 2,373,482          | 2,012,807          | 789,304          | 54,636           |
| Interest income   | 95,880            | 15,356             | 135,482            | 38,122           | 3,817            |
| Management fee  | 44,487            | 37,218             | 13,981             | 10,807           | 13,648           |
|   | 2,314,408         | 2,719,946          | 2,560,594          | 1,079,813        | 288,664          |
| Less: Inter-group transactions                                | (232,898)         | (194,354)          | (1,463,679)        | (91,707)         | (38,801)         |
|   | 2,081,510         | 2,525,592          | 1,096,915          | 988,106          | 249,863          |
| Mark to market value adjustment - unrealized                  | (692,081)         | 199,678            | 304,339            | (356,284)        | (41,445)         |
| <b>Profit on investment activities</b>                        | <b>1,389,429</b>  | <b>2,725,270</b>   | <b>1,401,254</b>   | <b>631,822</b>   | <b>208,418</b>   |
| <b>Profit before taxation</b>                                 | <b>2,150,006</b>  | <b>3,328,380</b>   | <b>1,714,685</b>   | <b>660,632</b>   | <b>370,470</b>   |
| Income tax expense  | (15,696)          | (4,532)            | (35,106)           | (7,463)          | (2,119)          |
| <b>Profit for the year</b>                                    | <b>2,134,310</b>  | <b>3,323,848</b>   | <b>1,679,579</b>   | <b>653,169</b>   | <b>368,351</b>   |
| Non controlling interest                                      | (154,070)         | (361,088)          | (359,206)          | (360,442)        | (51,564)         |
| <b>Profit attributable to the equityholders of</b>            |                   |                    |                    |                  |                  |
| <b>Ceylon Guardian Investment Trust PLC</b>                   | <b>1,980,240</b>  | <b>2,962,760</b>   | <b>1,320,373</b>   | <b>292,727</b>   | <b>316,787</b>   |
| Dividend paid   | (131,755)         | (154,798)          | (232,702)          | (35,411)         | (30,352)         |
| <b>Balance Sheet</b>  |                   |                    |                    |                  |                  |
| <b>Capital employed</b>                                       |                   |                    |                    |                  |                  |
| Stated capital  | 953,167           | 953,167            | 672,811            | 672,811          | 672,811          |
| Reserves  | 11,219,158        | 12,178,591         | 6,964,438          | 3,879,095        | 5,343,307        |
| <b>Total equity attributable to equity holders of</b>         |                   |                    |                    |                  |                  |
| <b>Ceylon Guardian Investment Trust PLC</b>                   | <b>12,172,325</b> | <b>13,131,758</b>  | <b>7,637,249</b>   | <b>4,551,906</b> | <b>6,016,118</b> |
| Non controlling interest                                      | 1,823,872         | 2,154,418          | 1,566,029          | 1,053,800        | 1,210,710        |
|   | 13,996,197        | 15,286,176         | 9,203,278          | 5,605,706        | 7,226,828        |
| <b>Assets employed</b>  |                   |                    |                    |                  |                  |
| Current assets  | 2,123,566         | 1,556,258          | 746,646            | 2,170,024        | 304,860          |
| Current liabilities   | (62,237)          | (574,781)          | (346,542)          | (69,041)         | (143,559)        |
| <b>Net current assets</b>                                     | <b>2,061,329</b>  | <b>981,477</b>     | <b>400,104</b>     | <b>2,100,983</b> | <b>161,301</b>   |
| Non-current assets  | 11,939,224        | 14,308,315         | 8,803,735          | 3,505,084        | 7,065,770        |
| Non-current liabilities                                       | (4,356)           | (3,616)            | (561)              | (361)            | (243)            |
|   | 13,996,197        | 15,286,176         | 9,203,278          | 5,605,706        | 7,226,828        |
| <b>Cash Flow Statements</b>                                   |                   |                    |                    |                  |                  |
| Net cash generated from/(used in)                             |                   |                    |                    |                  |                  |
| from operating activities                                     | 1,669,733         | 1,295,516          | (321,393)          | 1,383,420        | 180,299          |
| Net cash generated from/(used in)                             |                   |                    |                    |                  |                  |
| investing activities  | (25,709)          | (1,108,829)        | (291)              | 707,908          | (4)              |
| Net cash generated from/                                      |                   |                    |                    |                  |                  |
| (used in) financing activities                                | (156,054)         | (205,508)          | (1,856,358)        | (63,051)         | (46,719)         |
| <b>Net (decrease)/increase in cash &amp; cash equivalents</b> | <b>1,487,970</b>  | <b>(18,821)</b>    | <b>(2,178,042)</b> | <b>2,028,277</b> | <b>133,576</b>   |

## Five Year Summary

(Amounts expressed in Sri Lankan Rupees thousands)

| Year ended 31st March                     | 2012              | 2011       | 2010       | 2009      | 2008      |
|---|-------------------|------------|------------|-----------|-----------|
| <b>Ratios &amp; statistics</b>            |                   |            |            |           |           |
| <b>Operational ratio</b>                  |                   |            |            |           |           |
| Return on ordinary shareholders funds (%) | <b>16.27</b>      | 22.56      | 17.29      | 6.43      | 5.27      |
| <b>Liquidity ratio</b>                    |                   |            |            |           |           |
| Current ratio (Times)                     | <b>34.12</b>      | 2.71       | 2.15       | 31.43     | 2.12      |
| <b>Investor ratio</b>                     |                   |            |            |           |           |
| Earnings per share (adjusted) (Rs.)       | <b>22.54</b>      | 33.73      | 14.52      | 14.47     | 15.66     |
| Dividend per share proposed (Rs.) *       | <b>2.00</b>       | 1.50       | 9.00       | 11.50     | 1.75      |
| Dividend cover (times)                    | <b>11.27</b>      | 22.49      | 7.63       | 1.26      | 8.95      |
| Dividend growth (%)                       | <b>33</b>         | (83)       | (22)       | 557       | 17        |
| Dividend yield (%)                        | <b>0.87</b>       | 0.41       | 1.79       | 11.03     | 1.06      |
| Dividend payout ratio (%)                 | <b>8.87</b>       | 4.45       | 13.11      | 79.49     | 11.18     |
| Net assets per share - book value (Rs.)   | <b>138.58</b>     | 149.50     | 444.03     | 224.95    | 297.31    |
| Net assets per share - market value (Rs.) | <b>264.81</b>     | 354.68     | 620.33     | 252.95    | 457.47    |
| Market value per share (Rs.) **           | <b>231.00</b>     | 369.50     | 501.50     | 104.25    | 165.00    |
| Price earning ratio (times)               | <b>10.25</b>      | 10.95      | 34.54      | 7.21      | 10.54     |
| Price to book value ratio (times)         | <b>1.67</b>       | 2.47       | 1.13       | 0.46      | 0.55      |
| Market capitalisation                     | <b>18,964,342</b> | 30,334,738 | 8,072,844  | 1,974,287 | 3,124,770 |
| Additions to investment portfolio (Rs.)   | <b>2,338,293</b>  | 4,746,288  | 2,909,925  | 957,382   | 244,591   |
| Market value of investments (Rs.)         | <b>27,939,223</b> | 36,282,044 | 13,784,140 | 6,135,154 | 9,815,594 |
| Milanka Price Index (points)              | <b>4,892</b>      | 6,875      | 4,271      | 1,736     | 3,181     |
| All Share Price Index (points)            | <b>5,420</b>      | 7,226      | 3,725      | 1,638     | 2,550     |

\* Proposed dividends of Rs 2/- per share for the current year is not provided for in the financial statements.

\*\* As at 31st March.

## US\$ Financials

# Preparation of US Dollar Financial Statements

The Financial Statements of the Company are stated in Sri Lankan Rupees. 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.

# Group at a Glance

(Amounts expressed in United States Dollars)

|   | 2012               | 2011<br>(Restated) | %    |
|---|--------------------|--------------------|------|
| Group revenue   | <b>18,555,090</b>  | 22,523,785         | (18) |
| Profit from operations                                      | <b>11,364,298</b>  | 23,529,180         | (52) |
| Share of associate company's profits net of tax             | <b>7,869,709</b>   | 6,365,808          | 24   |
| Profit before taxation                                      | <b>19,165,679</b>  | 29,683,225         | (35) |
| Profit for the year   | <b>19,025,762</b>  | 29,642,808         | (36) |
| Profit attributable to equity holders of the parent company | <b>17,652,344</b>  | 26,422,545         | (33) |
| Shareholders' funds   | <b>95,022,063</b>  | 118,947,232        | (20) |
| Net assets  | <b>109,259,937</b> | 138,461,730        | (21) |
| Total assets  | <b>109,779,789</b> | 143,700,843        | (24) |
| Return on ordinary shareholders' funds (%)                  | <b>18.58</b>       | 22.21              | (16) |
| Earnings per share (USD)                                    | <b>0.20</b>        | 0.30               | (33) |
| Dividend per share (USD) *                                  | <b>0.02</b>        | 0.01               | 15   |
| Net assets per ordinary/deferred share - book value (Rs)    | <b>1.08</b>        | 1.35               | (20) |
| Net assets per ordinary/deferred share - market value (Rs)  | <b>2.07</b>        | 3.21               | (36) |
| Guardian fund value **                                      | <b>218,104,785</b> | 328,641,703        | (34) |

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

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

# Income Statement

(Amounts expressed in United States Dollars)

| For the year ended 31 March                                 | 2012               | Group<br>2011<br>(Restated) |
|---|--------------------|-----------------------------|
| <b>Revenue</b>  | <b>18,555,090</b>  | 22,523,785                  |
| Unrealized gain / (loss) on mark to market value adjustment | <b>(6,169,380)</b> | 1,780,772                   |
| <b>Profit on investment activities</b>                      | <b>12,385,710</b>  | 24,304,557                  |
| Other income  | -                  | 8,615                       |
| Administrative and other operating expenses                 | <b>(1,021,412)</b> | (783,992)                   |
| <b>Profit from operations</b>                               | <b>11,364,298</b>  | 23,529,180                  |
| Finance expenses  | <b>(47,032)</b>    | (211,763)                   |
| <b>Profit from operations after finance expenses</b>        | <b>11,317,266</b>  | 23,317,417                  |
| Share of associate company's profit net of taxation         | <b>7,869,709</b>   | 6,365,808                   |
| Share of joint venture company's loss net of taxation       | <b>(21,296)</b>    | -                           |
| <b>Profit before taxation</b>                               | <b>19,165,679</b>  | 29,683,225                  |
| Income tax expense  | <b>(139,917)</b>   | (40,417)                    |
| <b>Profit for the year</b>                                  | <b>19,025,762</b>  | 29,642,808                  |
| <b>Attributable to:</b>                                     |                    |                             |
| Equity holders of the parent                                | <b>17,652,344</b>  | 26,422,545                  |
| Non controlling interest                                    | <b>1,373,418</b>   | 3,220,263                   |
|   | <b>19,025,762</b>  | 29,642,808                  |
| <b>Earnings per share - USD</b>                             | <b>0.20</b>        | 0.30                        |
| <b>Dividend per share - USD *</b>                           | <b>0.02</b>        | 0.01                        |

Figures in brackets indicate deductions.

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

# Balance Sheet

(Amounts expressed in United States Dollars)

| As at 31 March   | 2012               | Group<br>2011<br>(Restated) |
|--|--------------------|-----------------------------|
| <b>ASSETS</b>  |                    |                             |
| <b>Non-current assets</b>  |                    |                             |
| Property, plant and equipment                                    | 36,432             | 58,397                      |
| Intangible assets  | 1,867,244          | 2,148,542                   |
| Investment in subsidiaries                                       | -                  | -                           |
| Investment in associate  | 25,928,774         | 24,542,400                  |
| Investment in joint venture                                      | 137,479            | -                           |
| Other long-term investments                                      | 65,232,443         | 102,854,964                 |
| <b>Total non-current assets</b>                                  | <b>93,202,372</b>  | <b>129,604,303</b>          |
| <b>Current assets</b>  |                    |                             |
| Trade and other receivables                                      | 278,846            | 504,447                     |
| Current tax recoverable  | 162,475            | 135,698                     |
| Short-term investments   | 6,107,892          | 10,543,379                  |
| Short-term deposits  | 9,799,867          | 2,179,746                   |
| Cash at bank   | 228,337            | 733,270                     |
| <b>Total current assets</b>                                      | <b>16,577,417</b>  | <b>14,096,540</b>           |
| <b>Total assets</b>  | <b>109,779,789</b> | <b>143,700,843</b>          |
| <b>EQUITY AND LIABILITIES</b>                                    |                    |                             |
| <b>Equity</b>  |                    |                             |
| Stated capital   | 8,834,775          | 8,834,775                   |
| Capital reserves   | 9,003,497          | 10,962,242                  |
| Revenue reserves   | 77,183,791         | 99,150,215                  |
| <b>Total equity attributable to equity holders of the parent</b> | <b>95,022,063</b>  | <b>118,947,232</b>          |
| Non controlling interest   | 14,237,874         | 19,514,498                  |
| <b>Total equity</b>  | <b>109,259,937</b> | <b>138,461,730</b>          |
| <b>Liabilities</b>   |                    |                             |
| <b>Non-current liabilities</b>                                   |                    |                             |
| Employee benefits  | 27,822             | 15,589                      |
| Deferred tax liability   | 6,183              | 17,174                      |
| <b>Total non-current liabilities</b>                             | <b>34,005</b>      | <b>32,763</b>               |
| <b>Current liabilities</b>                                       |                    |                             |
| Trade and other payables   | 90,250             | 59,076                      |
| Income tax payable   | 304                | 31,604                      |
| Unclaimed dividend   | 270,234            | 215,543                     |
| Bank overdraft   | 125,059            | 4,900,127                   |
| <b>Total current liabilities</b>                                 | <b>485,847</b>     | <b>5,206,350</b>            |
| <b>Total liabilities</b>   | <b>519,852</b>     | <b>5,239,113</b>            |
| <b>Total equity and liabilities</b>                              | <b>109,779,789</b> | <b>143,700,843</b>          |
| Net assets per ordinary/deferred share - book value (Rs)         | 1.08               | 1.35                        |
| Net assets per ordinary/deferred share - market value (Rs)       | 2.07               | 3.21                        |



# Notes to the Financial Statements

(Amounts expressed in United States Dollars)

## 1 Basis of conversion

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

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

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

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

## 2 Revenue reserve

|                              | 2012                | Group<br>2011 |
|------------------------------|---------------------|---------------|
| Beginning of the year        | <b>99,150,215</b>   | 49,607,998    |
| Net movement during the year | <b>17,652,344</b>   | 26,410,768    |
|                              | <b>116,802,559</b>  | 76,018,766    |
| Currency fluctuations        | <b>(39,618,768)</b> | 23,131,449    |
| As at the end of the year    | <b>77,183,791</b>   | 99,150,215    |

# Five Year Summary

(Amounts expressed in United States Dollars)

| Year ended 31st March   | 2012              | 2011<br>(Restated) | 2010                | 2009              | 2008              |
|---|-------------------|--------------------|---------------------|-------------------|-------------------|
| <b>Financial highlights - Group</b>                           |                   |                    |                     |                   |                   |
| <b>Income Statement</b>                                       |                   |                    |                     |                   |                   |
| Dividend income   | 3,662,828         | 2,620,976          | 3,467,003           | 2,103,439         | 1,962,510         |
| Realized gain on disposal of investments                      | 15,717,106        | 21,167,234         | 17,519,427          | 6,872,477         | 495,116           |
| Interest income   | 854,698           | 136,948            | 1,179,232           | 331,929           | 37,663            |
| Management fee  | 396,568           | 331,918            | 121,682             | 94,097            | -                 |
|   | 20,631,200        | 24,257,076         | 22,287,344          | 9,401,942         | 2,495,289         |
| Less: Inter-group transactions                                | (2,076,110)       | (1,733,291)        | (12,739,829)        | (798,494)         | (351,618)         |
|   | 18,555,090        | 22,523,785         | 9,547,515           | 8,603,448         | 2,143,671         |
| <b>Profit before taxation</b>                                 | <b>19,165,679</b> | <b>29,683,225</b>  | <b>14,924,580</b>   | <b>5,752,129</b>  | <b>4,320,151</b>  |
| Income tax expense  | (139,917)         | (40,417)           | (305,558)           | (64,980)          | (1,102,075)       |
| <b>Profit for the year</b>                                    | <b>19,025,762</b> | <b>29,642,808</b>  | <b>14,619,022</b>   | <b>5,687,149</b>  | <b>3,218,076</b>  |
| Non controlling interest                                      | (1,373,418)       | (3,220,263)        | (3,126,522)         | (3,138,372)       | (531,282)         |
| <b>Profit attributable to the equityholders of</b>            |                   |                    |                     |                   |                   |
| <b>Ceylon Guardian Investment Trust PLC</b>                   | <b>17,652,344</b> | <b>26,422,545</b>  | <b>11,492,500</b>   | <b>2,548,777</b>  | <b>2,686,794</b>  |
| Dividends paid  | (1,174,496)       | (1,379,907)        | (1,261,002)         | (1,896,285)       | (281,427)         |
| <b>Balance Sheet</b>  |                   |                    |                     |                   |                   |
| <b>Capital employed</b>                                       |                   |                    |                     |                   |                   |
| Stated capital  | 8,834,775         | 8,834,775          | 6,334,507           | 6,334,507         | 6,334,507         |
| Reserves  | 86,187,288        | 110,112,457        | 60,611,923          | 33,007,809        | 31,235,414        |
| <b>Total equity attributable to equity holders of</b>         |                   |                    |                     |                   |                   |
| <b>Ceylon Guardian Investment Trust PLC</b>                   | <b>95,022,063</b> | <b>118,947,232</b> | <b>66,946,430</b>   | <b>39,342,316</b> | <b>37,569,921</b> |
| Non controlling interest                                      | 14,237,874        | 19,514,498         | 13,727,464          | 9,108,038         | 5,988,150         |
|   | 109,259,937       | 138,461,730        | 80,673,894          | 48,450,354        | 43,558,071        |
| <b>Assets employed</b>  |                   |                    |                     |                   |                   |
| Current assets  | 16,577,417        | 14,096,540         | 6,547,121           | 18,757,770        | 2,826,713         |
| Current liabilities   | (485,847)         | (5,206,350)        | (3,037,710)         | (596,724)         | (1,331,117)       |
| <b>Net current assets</b>                                     | <b>16,091,570</b> | <b>8,890,190</b>   | <b>3,509,411</b>    | <b>18,161,046</b> | <b>1,495,596</b>  |
| Non-current assets  | 93,202,372        | 129,604,303        | 77,169,401          | 30,292,428        | 42,064,710        |
| Non-current liabilities                                       | (34,005)          | (32,763)           | (4,918)             | (3,120)           | (2,235)           |
|   | 109,259,937       | 138,461,730        | 80,673,894          | 48,450,354        | 43,558,071        |
| <b>Cash Flow Statements</b>                                   |                   |                    |                     |                   |                   |
| Net cash generated from/(used in)                             |                   |                    |                     |                   |                   |
| from operating activities                                     | 11,523,426        | 11,553,696         | (2,797,398)         | 12,045,451        | 1,689,086         |
| Net cash generated from/(used in)                             |                   |                    |                     |                   |                   |
| investing activities  | (229,176)         | (9,888,781)        | (2,533)             | 6,163,761         | (37)              |
| Net cash generated from/                                      |                   |                    |                     |                   |                   |
| (used in) financing activities                                | (1,391,104)       | (1,832,766)        | (16,157,699)        | (548,986)         | (450,514)         |
| <b>Net (decrease)/increase in cash &amp; cash equivalents</b> | <b>9,903,146</b>  | <b>(167,850)</b>   | <b>(18,957,630)</b> | <b>17,660,226</b> | <b>1,238,535</b>  |

| Year ended 31st March                      | 2012  | 2011  | 2010  | 2009  | 2008 |
|--|-------|-------|-------|-------|------|
| <b>Ratios &amp; statistics</b>             |       |       |       |       |      |
| <b>Operating ratio</b>                     |       |       |       |       |      |
| Return on ordinary shareholders' funds (%) | 18.58 | 22.21 | 21.84 | 14.46 | 8.57 |
| <b>Liquidity ratio</b>                     |       |       |       |       |      |
| Current ratio (times)                      | 34.12 | 2.71  | 2.16  | 31.43 | 2.12 |
| <b>Investor ratios</b>                     |       |       |       |       |      |
| Earnings per share (US\$)                  | 0.20  | 0.30  | 0.13  | 0.13  | 0.16 |

# Information to Shareholders and Investors

## 1 Stock Exchange Listing

Ceylon Guardian Investment Trust PLC is a public listed company, the ordinary Shares of which are listed on the main board of the Colombo Stock Exchange.

Stock exchange code for Ceylon Guardian Investment Trust PLC shares is "GUAR".

## 2 Share Valuation

The market price of the company's shares as at 31st March 2012 was Rs.231/- per share (2011 - Rs.369/50).

## 3 Ordinary Shareholders

| As at 31st March       | 2012  | 2011  |
|------------------------|-------|-------|
| Number of Shareholders | 1,705 | 1,741 |

The number of ordinary shares held by non-residents as at 31st March, 2012 was 8,098,559 (2011 - 10,050,196) which amounts to 9.86% (2011 - 12.24%).

| Distribution of shares | Residents            |               |       | Non-Residents        |               |      | Total                |               |        |
|------------------------|----------------------|---------------|-------|----------------------|---------------|------|----------------------|---------------|--------|
|                        | No. of share-holders | No. of shares | %     | No. of share-holders | No. of shares | %    | No. of share-holders | No. of shares | %      |
| 1-1,000                | 1,120                | 259,477       | 0.31  | 16                   | 6,098         | 0.01 | 1,136                | 265,575       | 0.32   |
| 1,001-10,000           | 359                  | 1,247,753     | 1.52  | 22                   | 37,481        | 0.05 | 381                  | 1,285,234     | 1.57   |
| 10,001-100,000         | 118                  | 3,694,174     | 4.50  | 22                   | 664,014       | 0.81 | 140                  | 4,358,188     | 5.31   |
| 100,001-1,000,000      | 40                   | 10,498,969    | 12.79 | 3                    | 539,830       | 0.66 | 43                   | 11,038,799    | 13.45  |
| Above 1,000,000        | 3                    | 58,297,787    | 71.01 | 2                    | 6,851,136     | 8.34 | 5                    | 65,148,923    | 79.35  |
| Total                  | 1,640                | 73,998,160    | 90.13 | 65                   | 8,098,559     | 9.87 | 1,705                | 82,096,719    | 100.00 |

| Categories of shareholders | No. of shareholders | No. of shares | %      |
|----------------------------|---------------------|---------------|--------|
| Individuals                | 1,531               | 13,207,231    | 16.09  |
| Institutions               | 174                 | 68,889,488    | 83.91  |
| Total                      | 1,705               | 82,096,719    | 100.00 |

## 4 Market performance - ordinary shares

| For the year                  | 2012          | 2011        |
|-------------------------------|---------------|-------------|
| As at 31 March                | 231.00        | 369.50      |
| Highest (Rs.)                 | 402.00        | 478.00      |
| Lowest (Rs.)                  | 231.00        | 230.10      |
| Value of shares traded (Rs.)  | 1,490,213,227 | 565,676,030 |
| No. of shares traded          | 4,621,453     | 1,492,700   |
| Volume of transactions (Nos.) | 3,279         | 2,876       |

**5 Market capitalization**

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.18,964,342,089/- as at 31st March, 2012 (2011 - Rs. 30,334,737,671/-).

**6 Record of Bonus issues, Rights issues, Repurchase and subdivision of shares**

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

| Year ended       | Issue                      | Basis | No. of shares | Cumulative No. of shares |
|------------------|----------------------------|-------|---------------|--------------------------|
| 1951 -           | Initial Capital            | -     | 757,525       | 757,525                  |
| 1990 -           | Bonus                      | 01:01 | 757,525       | 1,515,050                |
| 1992 -           | Bonus                      | 01:08 | 189,381       | 1,704,431                |
| 1999 -           | Bonus                      | 01:04 | 426,108       | 2,130,539                |
| 2000 -           | Bonus                      | 01:04 | 532,634       | 2,663,173                |
| 2002 - April     | Rights                     | 01:07 | 380,453       | 3,043,626                |
| - May            | Bonus                      | 01:04 | 760,906       | 3,804,532                |
| 2003 - July      | Rights                     | 01:05 | 760,906       | 4,565,438                |
| - August         | Bonus                      | 01:06 | 760,906       | 5,326,344                |
| 2004 - July      | Rights                     | 01:02 | 2,663,172     | 7,989,516                |
| 2004 - September | Bonus                      | 01:03 | 2,663,172     | 10,652,688               |
| 2005 - March     | Rights                     | 01:03 | 3,550,896     | 14,203,584               |
| - June           | Bonus                      | 01:03 | 4,734,528     | 18,938,112               |
| 2009 - October   | Repurchase                 | 03.20 | 2,840,716     | 16,097,396               |
| 2010 - November  | Subdivision                | 05:01 | 16,097,396    | 80,486,980               |
|                  | Capitalisation of Reserves | 01:50 | 1,609,739     | 82,096,719               |

**7 Public Holding**

The percentage of ordinary shares held by the public as at 31st March 2012 was 32.84% (2011 - 32.84%)

**8 Dividend**

The Directors have recommended a first and final dividend of Rs.2.00 per Ordinary share and Deferred share for the year ended 31st March 2012 (2011 - Rs.1/50).

**9 Number of employees**

The Company had no employees at the balance sheet date (2011 - Nil). The Group has 14 (2011 - 9) employees as at the balance sheet date.

**10 Major shareholders**

A list of major shareholders of the Company as at the balance sheet date is provided in the Annual Report of the Board of Directors, on page 33.

# Glossary of Financial Terms

## **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 of Meeting

NOTICE IS HEREBY GIVEN that the SIXTIETH Annual General Meeting of CEYLON GUARDIAN INVESTMENT TRUST PLC will be held on Wednesday the 4th day of July 2012 at 3.30 p.m. at Taj Samudra Hotel, "Crystal Room", Upper Floor, No. 25, Galle Face Center Road, Colombo 3 for the following purposes :

1. To receive and adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2012, together with the Independent Auditors' Report thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr. D.C.R. Gunawardena who retires in terms of Articles 89,90 and 91 of the Articles of Association of the Company.
4. To re-elect Mrs. M.A.R.C. Cooray who retires in terms of Articles 89,90 and 91 of the Articles of Association of the Company.
5. To re-appoint Mr. I. Paulraj as a Director of the Company who is over Seventy years of age and to consider and if deemed fit to pass the following resolution :  
  
"IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act No. of 2007 shall not be applicable to Mr. I. Paulraj who is 75 years of age and that he be re-appointed a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year."
6. To re-appoint Mr. A. de Z. Gunasekera as a Director of the Company who is over Seventy years of age and to consider and if deemed fit to pass the following resolution :

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

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

By Order of the Board

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

Colombo,  
24th May 2012

## Notes

1. A member is entitled to appoint a proxy to attend and vote instead of him/her. 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 3.30 p.m. on 2nd July 2012.
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.
4. The transfer books of the Company will remain open.
5. Security Check  
We shall be obliged if the shareholders/proxies attending the Annual General Meeting, produce their National Identity Card to the security personnel stationed at the entrance lobby.



# Form of Proxy

\*I/ We.....  
of.....  
being \*a Member/Members of CEYLON GUARDIAN INVESTMENT TRUST 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, |
| Asoka De Z. Gunasekera                       | or failing him, |
| Vernon Manilal Fernando                      | or failing him, |
| Mirihana Arachchige Rose Chandralatha Cooray | or failing her, |
| Krishna Selvanathan                          | or failing him, |
| Christopher William Knight                   |                 |

as \*my/our proxy to attend the Annual General Meeting of the Company to be held on Wednesday, the 4th day of July 2012 at 3.30 p.m., at Taj Samudra Hotel, "Crystal Room", Upper Floor, No. 25, Galle Face Center Road, Colombo 3 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

|       |  | For                      | Against                  |
|-------|--|--------------------------|--------------------------|
| (i)   | To adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2012, together with the Independent Auditors' Report thereon.                                  | <input type="checkbox"/> | <input type="checkbox"/> |
| (ii)  | To declare Rs.2.00 per Ordinary share and Deferred share as a First & Final dividend for the financial year ended 31st March 2012 as recommended by the Directors.   | <input type="checkbox"/> | <input type="checkbox"/> |
| (iii) | 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.  | <input type="checkbox"/> | <input type="checkbox"/> |
| (iv)  | To re-elect Mrs. M.A.R.C. Cooray who retires in terms of Articles 89,90 and 91 of the Articles of Association of the Company.  | <input type="checkbox"/> | <input type="checkbox"/> |
| (v)   | To re-appoint Mr. I. Paulraj who is over Seventy years of age as a Director of the Company.  | <input type="checkbox"/> | <input type="checkbox"/> |
| (vi)  | To re-appoint Mr. A. de Z. Gunasekera who is over Seventy years of age as a Director of the Company.   | <input type="checkbox"/> | <input type="checkbox"/> |
| (vii) | To re-appoint Messrs.KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act. No. 07 of 2007 and to authorize the Directors to determine their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |

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

.....  
*Signature /s*

Note:

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

## Form of Proxy

### 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 3.30 p.m. on 2nd July 2012.

Please fill in the following details

**Name** : .....

**Address** : .....

.....

**Jointly with** : .....

**Share folio no.** : .....

# Corporate Information

## **Name of Company**

Ceylon Guardian Investment Trust PLC  
(A Carson Cumberbatch Company)

## **Company Registration No.**

PQ 52

## **Domicile and Legal Form**

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

The Company was incorporated in Sri Lanka in 1951.

## **Principal Activity and Nature of Operations**

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

## **Parent Company**

The Company's parent Company and controlling entity is Carson Cumberbatch PLC, which is incorporated in Sri Lanka.

## **Directors**

Mr. I. Paulraj (Chairman)  
Mr. D.C.R. Gunawardena  
Mr. A. De. Z. Gunasekera  
Mr. V.M. Fernando  
Mrs. M.A.R.C. Cooray  
Mr. K. Selvanathan  
Mr. C.W. Knight

## **Number of Employees**

The Company did not have any employees of its own as at the end of the year.

## **Bankers**

Standard Chartered Bank  
HSBC  
Commercial Bank of Ceylon PLC  
Deutsche Bank A.G.

## **Auditors**

Messrs. KPMG  
Chartered Accountants,  
No. 32A, Sir Mohamed Macan Markar Mawatha,  
Colombo 3.

## **Investment Managers**

Guardian Fund Management Limited  
No. 61, Janadhipathi Mawatha, Colombo 1, Sri Lanka.  
Tele: +94-11-4739200  
Fax: +94-11-4739385

## **Managers & Secretaries**

Carsons Management Services (Private) Limited  
No. 61, Janadhipathi Mawatha, Colombo 1.  
Tele: +94-11-4739200  
Fax: +94-11-4739300

## **Registered Office and Principal Place of Business**

No. 61, Janadhipathi Mawatha, Colombo 1.  
Tele: +94-11-4739200  
Fax: +94-11-4739300

## **Corporate Website**

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

The Company is a member of the Carson Cumberbatch Group of companies

This report has been  
produced by Emagewise  
(Pvt) Limited, a Certified  
Carbon Neutral Company



Designed & produced by [emagewise](http://emagewise.com)  
Digital Plates by Imageline (Pvt) Ltd  
Printed by Gunaratne Offset Ltd



**CEYLON GUARDIAN INVESTMENT TRUST PLC - PQ 52**

**ADDITIONAL INFORMATION TO SHAREHOLDERS**

We are herewith circulating the investment portfolio of the Company's subsidiary, Rubber Investment Trust Limited.

**INVESTMENT PORTFOLIO OF RUBBER INVESTMENT TRUST LIMITED**

(Amounts expressed in Sri Lankan Rupee thousands)

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

**1 Investment in associate**

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

**2 Other long-term Investments**

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

### 3 Short-term investments

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