

< global reach >

Confident in our inherent strength and unmatched excellence as a diversified blue chip in Sri Lanka for the past 140 years, we have boldly spread the light of our expertise and experience, beyond our shores; returning with rich dividends - in profits and progress. Widening our regional presence, we have ventured afar to pioneer and nurture global projects while consolidating our interests at home. Facets that truly set us apart at Aitken Spence, helping us to bask in the glow of yet another successful financial year.



> local returns <



# Our Vision

To achieve excellence in all our activities, establish high growth businesses in Sri Lanka and across new frontiers, and become a globally competitive market leader in the region.

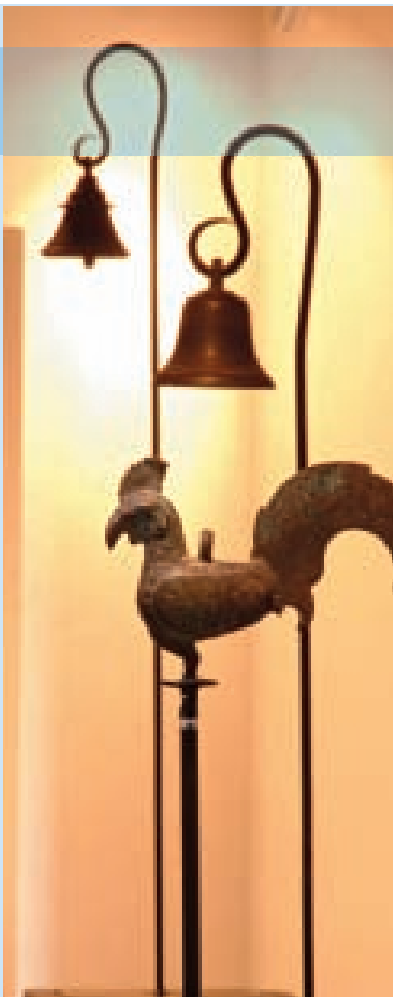
# Our Governing Principles

- We will focus on creating value because that is the foundation of economic growth.
- We will exceed the expectations of our customers in all our transactions.
- We will link rewards and recognition with ability, performance and contribution.
- We will place the highest value on integrity and loyalty.
- We will make environmental management a high priority in all our operations.
- We will contribute towards the social and economic uplift of our nation.

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→ Group records the highest ever profits despite a challenging operating environment.

## Tourism Sector



→ Legacy of service and product excellence in the hotel sector, combined with the Heritance brand facilitates the move into the Indian hospitality industry.



## Logistics Sector

- The first Sri Lankan company to extend port management expertise outside Sri Lanka.



## Strategic Investments Sector

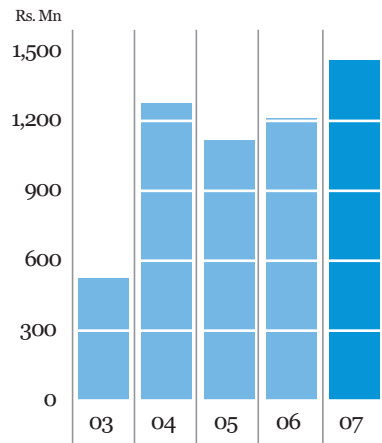
- Invests into Sri Lanka's US\$ 2.3 billion inward remittance market with a strategic stake in MMBL Money Transfer (Pvt) Ltd., a principal agent for Western Union Money Transfer.

## > Financial Highlights

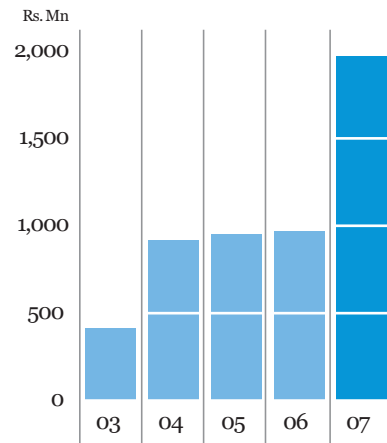
For the year	2006/2007 Rs. '000	2005/2006 Rs. '000 Restated	% Change
<b>Results</b>			
Group Revenue with associates	21,296,013	15,414,371	38.2
Group Revenue	19,765,632	13,593,263	45.4
Profit from operations	3,231,441	2,223,332	45.3
Profit before taxation	2,595,938	1,921,558	35.1
Profit after taxation	2,284,071	1,712,492	33.4
Profit attributable to equity shareholders of the company	1,459,775	1,213,661	20.3
<b>Dividends</b>			
Interim 30% ( 2005/2006 - 30%) paid on 10th April 2007	81,199	81,199	-
Final 35% ( 2005/2006 - 35%) proposed and payable on 5th July 2007	94,732	94,732	-
<b>At the year end</b>			
Total equity	13,124,832	11,208,197	17.1
Total assets	26,327,883	23,206,694	13.4
Total investments	2,359,284	3,012,691	(21.7)
Non - current liabilities	6,832,112	5,815,540	17.5
Economic value added	1,969,737	966,459	103.8
<b>Per Ordinary Share - (Rs.)</b>			
Earnings per share	53.93	44.85	20.2
Dividends per share	6.50	6.50	-
Net assets per share - as at 31st March	366.92	315.09	16.4
Market value per share - as at 31st March	380.00	339.00	12.1
Market capitalization (in millions)	10,285.23	9,175.51	12.1
<b>Ratios</b>			
Price earnings ratio	7.05	7.56	(6.7)
Debt: Equity ratio	0.49	0.48	2.1
ROE (%)	15.82	15.08	4.9

## > Key Results

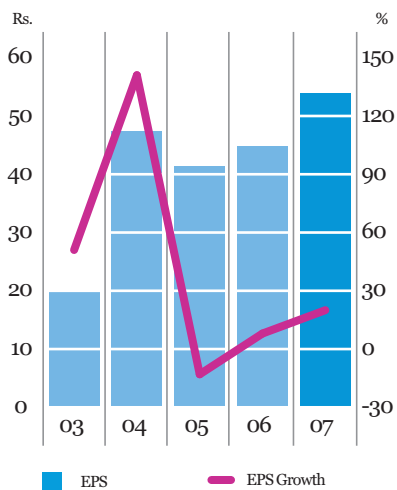
**Net Profit Attributable** For the year ended 31st March



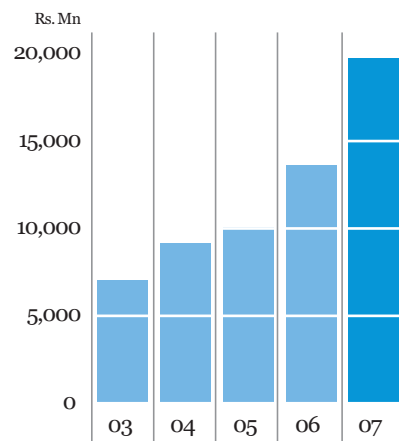
**Economic Value Added**



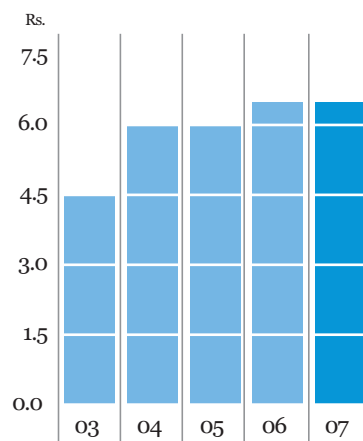
**EPS & EPS Growth** for the year ended 31st March



**Revenue** For the year ended 31st March



**Dividend per Share** For the year ended 31st March





We at Aitken Spence & Company offer the industry and the government, our unstinting support and participation towards realising a common identity for Sri Lanka.

## Strengthening Global Prospects

2006/2007 has been a year that witnessed your Company perform with admirable resilience to achieve the highest ever profits recorded despite the vagaries of an unhealthy security situation and spiraling economic effects. The year became one in which the Company concertedly progressed into strengthening its prospects in the global arena thereby expanding its operational purview to cross border business activity. I am pleased to present the Annual Report and the audited financial statements for the year.

## Economic Outlook

Despite adverse global forces and an increasingly tense security situation, in economic terms Sri Lanka consolidated a strong growth and performance with a GDP growth of 7.4%. Despite this there was a downturn in the tourism industry thereby limiting the profitability of the Company for the year.

Inflation continues to remain high in comparison to other developing countries and is mainly due to high oil prices and the continuing depreciation of the Sri Lankan Rupee against major currencies.

The global demand for crude oil exceeding the supply and the aggravated security situation in the Middle East has driven oil prices progressively upwards. The expenditure on oil imports by Sri Lanka shows a consistent

upward movement during the past years. In 2006, the increase is estimated to be 33% to reach a high of USD 2.2 billion resulting in increasing costs in economic activities related to transport, energy and industrial activity. As a direct result of escalating oil prices Sri Lanka's export earnings for 2006 has been off-set by approximately 30% and has been one of the fundamental reasons for the rising cost of living and has adversely affected the local economy. Despite all these adverse factors, the country managed to record the lowest unemployment rate in its history of 6.3% during the last financial year.

Sri Lanka's economy is highly dependant on the growth of the service sector. The service sector contributes more than 56% to the GDP. During the year 2006, the growth in the information technology industry gave a welcome boost to the economy.

## Corporate Performance

Your Company had an excellent year and recorded the highest ever profits, despite the various challenges that came its way.

The Company posted profit before tax of Rs. 2.60 billion for the year, which is a growth of 35% from the previous year. The net profit attributable to shareholders which was the highest ever recorded by the Company was Rs. 1.46 billion, and is a 20% increase from the previous year.

Consistently prudent policies have enabled the Company to achieve a positive Economic Value Addition of Rs. 1.97 billion. Earning per Share stood at Rs. 53.93 while the Return on Equity was a commendable 16%.

In acknowledgement of our excellent results and in line with our policy of providing an attractive return to the shareholders, the Board recommends a final dividend of Rs 3.50 per share. This together with the interim dividend already paid of Rs 3.00 per share will amount to a total dividend of Rs 6.50 per share.

I am certain that our shareholders are aware of the depth of uncertainty that has affected the Sri Lankan tourism industry. The travel advisories issued by some countries has drastically reduced the number of arrivals to Sri Lanka which has resulted in all segments of the industry struggling to survive. As a Company that has invested heavily in tourism, our profitability and potential returns have been contained during the year on account of this situation. The growing incidents of intensified tension, is propelling the industry and our businesses in the sector, into serious difficulties. Whilst challenging times have been the norm for the industry, recourse to full recovery of the industry will no doubt be protracted. However, I am pleased to note that innovative strategies in our overseas tourism ventures as well as tapping into new markets for the Sri Lankan hotels have enabled the posting of healthy

profit levels in our overall tourism sector. We have taken a positive view of the future of the Sri Lankan tourism industry by refurbishing our Sri Lankan hotels to international standards, second to none.

From an overall business perspective, other external factors aggravated the complications. The rising fuel costs in the global market throughout the year 2006/2007 increased the pricing and cost structure for air travel thus discouraging the long haul traveller. With air travel costs accounting for as much as two thirds of the total cost of an average holiday, long haul holidays dipped in popularity, thereby impacting tourism industries such as that of Sri Lanka. Rising transportation costs created a heavy cost base for all businesses especially in respect of the Logistics sector.

Debt servicing cost on money's expended for the refurbishment of the hotels in Sri Lanka has put pressure on the cash flows of the Group as the expected revenue streams have not been achieved from these hotels. Our cash flows are further hampered by the inability to obtain the VAT refunds from the Revenue Authorities due to delays in processing of the VAT refunds by the authorities and the non availability of funds to release the processed VAT refunds.

## Clarion Call for a Destination Management Strategy

The most important requirement of the Tourism industry is the decisive need for a common identity for Sri Lanka as a destination. A comprehensive communications campaign aimed at international destination management and identity creation is a vital need for the future health of the industry. A consolidated tourism drive by harnessing international advertising strategies aimed at both the consumer and trade markets will assist in erasing the association of crisis with that of the destination. A strong proposition for the destination will help elevate awareness and counter negativity. We hope that the Government will take note of this need of the tourism industry.

We at Aitken Spence & Company, offer the industry and the government, our unstinting support and participation towards realizing a common identity for Sri Lanka.

Lastly, it is pertinent for me to make note that although Sri Lanka has experienced a change in the structure of its source markets with arrivals from the region posting positive growth over an above traditional European markets, it is crucial that those expounding the viability of regional traffic bear in mind that Sri Lanka's tourism product is geared essentially for the

European traveller. Moreover, regional traffic fails to yield equivalent returns to those posted by European travellers simply based on average room nights consumed. With shorter holiday durations – on average three nights as opposed to conventional ten nights – reduced earnings will be a key outcome of this shift in focus.

## Future Factors for Business Stability

Cargo Logistics continues to be a key contributor to the Company's performance. Increased activity in import and export volumes at the Colombo Port created an opportunity for greater growth in integrated logistics, thereby fostering an improved scenario for enhanced performance. However, the Company reassessed its interests in ship ownership consequent to a decline in shipping and charter line prospects. A strategic decision was made during the year to divest.

The Strategic Investment sector continued to post encouraging results during the year. The power sector significantly contributed to the profits of the Company in the year under review. The Group has successfully taken over the operation and management of the Horana and Matara power plants. The exposure and the experience we have gained will be harnessed for our future power projects in Sri Lanka and overseas.

Through the investment made by the Company in MMBL Money Transfer (Pvt) Ltd, we have now ventured into the business of instant money transfer. We are one of the principal Agents for Western Union Money Transfer Services in Sri Lanka. With the worker remittances continuing to increase we see tremendous potential for this company due to the low cost and efficient service provided which is gaining popularity amongst the migrant workers.

The Plantation sector continues to diversify looking at new opportunities as the Group realizes that it is essential that we diversify from traditional agricultural crops. With that in mind we ventured into a palm oil processing mill where the total processed palm oil is exported.

Strategic expansion of the tourism sector to a global operating environment is expected to yield

tremendous returns for the Company. Current forays into the region – India and the Maldives - will not only off-set the dip in performance in the Sri Lankan market but fuel expeditious growth within the sector, in the future.

Our prospects therefore, remain very positive and our committed efforts to maintain shareholder returns at a consistent level even in the face of external challenges augurs well for the Company's growth.

I must note that we remain committed to the Principles of United Nations Global Compact and operate within the perimeter of its principles across all functions of the Company. We espouse the principles of promotion of human rights, advancement of labour standards, protection of the environment and corporate integrity in an effort to herald a more inclusive and

sustainable global economy. These same principles echo the values of the Aitken Spence work ethic.

## In Conclusion

I wish to thank the Board of Directors, Management and the entire team of Aitken Spence that has ridden the waves of adversity with vision and commitment to reach another year of commendable performance.



**D.H.S. Jayawardena**  
*Chairman*

25th May 2007



In the current year our vision to explore global prospects became a reality. A reality borne through fortitude and an attitude attuned to accomplishment.

## Exploring Global Prospects

As a conglomerate, Aitken Spence has been in the forefront promoting commercial and economic growth in Sri Lanka. Investing into a multitude of sectors, the Group has been a key driver of commercial activity across the nation for many decades. Now entering another era, the Group seeks to grow with greater momentum, vying against larger contenders in the expansive global marketplace. Infusing investment into global growth industries, the Group's sole intention remains in refueling the Sri Lankan economy and in creating greater wealth for its shareholders and repatriating its returns to benefit the people of Sri Lanka.

I am pleased to note that in the current year our vision to explore global prospects became a reality. A reality borne through fortitude and an attitude attuned to accomplishment. Innovation and transformational changes in attitude have been the hallmarks that characterized this change in the organizations future outlook.

Commitment across the Group to an ambitious vision to be globally competitive has seen the first seeds of global expansion take shape this year.

## Strategic Shift in Tourism

From a strategic standpoint, our shareholders, will be pleased to note that the Company undertook initiatives to sustain the growth and the stability of Aitken Spence & Company into the future. Whilst not diluting our interests in Sri Lanka, the Company looked to a strategy of cross border expansion

within the sphere of hospitality management. Entering the growth market India with a concerted strategy to own and manage properties that are representative of the Aitken Spence hotel persona in quality and individuality, the Company implemented an accelerated plan that aimed to first manage a number of properties in diverse tourism spots in the country.

To this effect, the Company in the year under review successfully sourced and finalized management contracts with five properties in India whilst negotiations are currently underway to finalise agreements for further properties. These properties will be located in South India and the Andaman Islands. One of the properties will shortly commence operations under the flagship of the "Heritage brand" while the other located in the backwaters of Kerala will commence operations in 2008 also under the purview of the brand "Heritage".

Our interests in the Maldives continued to be focal. In fact, in an effort to benefit from the growth of the Maldivian tourism traffic, we intensified our operations in this market. Taking on board a new resort in close proximity to Male, Aitken Spence reiterated its strategy for overseas expansion to mitigate the effects of an adverse industry scenario in Sri Lanka. Having worked well for the company, shareholders will be relieved to note that the continued financial success of the Hotels sector has been dependent on the foresight of

the management to broaden its scope of activities to a larger periphery. Now operating within three markets, we are confident that our continued pursuit of a strategy of expansion will pave for more balanced and lucrative prospects in the future.

From a Sri Lankan tourism industry standpoint, I reiterate my observations on the need for a common identity for Sri Lanka's tourism product in the global marketplace. The expeditious implementation of the Tourism Promotion Act will no doubt augment the execution of a destination management strategy. This remains vital and the industry remains hopeful that progressive steps will be taken during the coming year. The critical nature of this issue is greater than ever before given the circumstances of the precarious nature in which Sri Lanka is being projected on the global stage. A concerted presence with a positive image is essential to counter the pall of gloom that hangs over the industry and to negate the present projection of Sri Lanka in the international market.

Likewise, the need to implement a strong open skies policy is an imperative for the long term development of Sri Lanka's aviation and tourism industry. Regional players such as India have garnered the benefits of an open skies policy to induce European carriers into their market, thereby creating greater opportunities for commercial and tourism viability.

During the year the Group undertook an aggressive marketing strategy to

expand its outbound tourism sector operations by opening up branches in Ratnapura, Matara, Kurunegala and Kandy to supplement the existing branch network.

### Strategic Shift in Logistics

The Group made a strategic decision during the year to shift its focus from ship owning due to the inherent costs associated with the business. As such during the year in review, two of the ships owned by the Maritime Transport sector were divested whilst plans are currently underway to divest the remaining ships during the current year. The procurement of the Hapag Lloyd shipping agency during the year, augurs well for the future sustainability of the Maritime Transport and Logistics sectors.

In an innovative service development as a Sri Lankan Company the Logistics sector undertook a project aimed at enhancing the efficiency of the Durban Port in South Africa. The project saw 125 skilled resource persons from the Group engaged in facilitation of skills and port management expertise to the employees of the Durban Port. The scope of the contract included technical skills enhancement and motivational and soft skills development afforded through the Group's Human Resources. Identifying the viability of the service, the Group will in the future source and secure projects with similar terms of reference from the African region.

It is the intention of the Group to rapidly relocate the warehousing facilities for Integrated Logistics to a

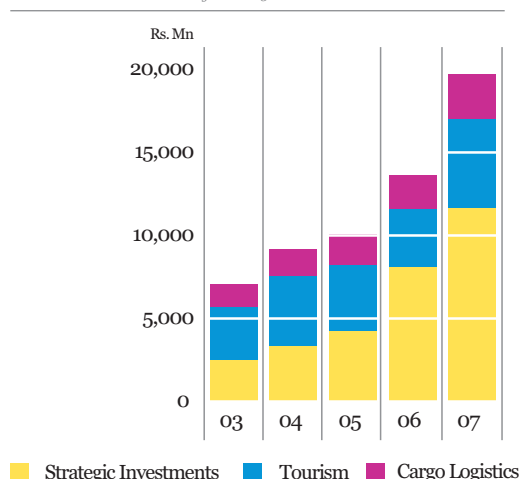
new facility in Welisara. The Group is in the process of obtaining the necessary governmental approvals to commence construction.

### Strategic Investments

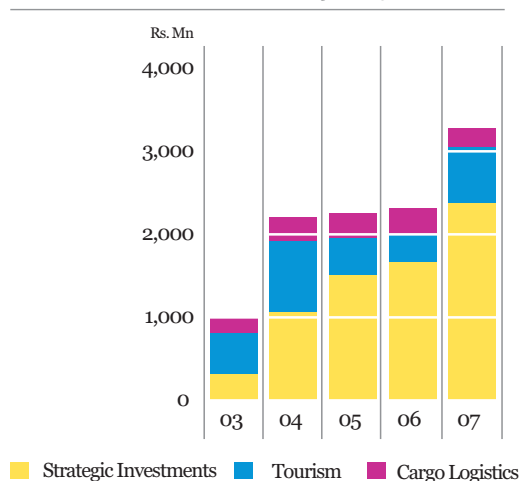
The joint venture agreement entered into three years ago with GTECH Corporation of the United States to provide infrastructure for Sri Lanka's first on-line lottery continued to post results below expectations. The core reason for the failure of the venture was a lackluster response from the Mahapola Trust Fund to proactively drive the business. As a result, the joint decision was made by the Company and GTECH Corporation to terminate the venture. Negotiations are currently underway for a settlement with the Mahapola Trust Fund.

The Company ventured into the inward remittances market with a strategic investment into MMBL Money Transfer (Pvt) Ltd. Purchasing up to 50% of the company. Aitken Spence seeks to acquire high returns in the long term from further exploration of the market. With over five hundred sub agents in the MMBL network, the Group plans to widen the sub agency network in an effort to become more accessible to the rural communities. Inward remittances from Sri Lankan expatriate workers accounted for US \$ 2.3 billion in the year 2006. Given this scenario and despite heavy competition from the commercial banking sector, the Group is confident that through its alliance with Western Union – which operates 270,000 agent locations in over 200

Sector Revenue For the year ended 31st March



Sector Profit Before Taxation For the year ended 31st March



countries and territories, the company will be in a leadership position to tap a greater quantum of the market.

Plantations experienced further diversification during the year with Elipitiya plantations embarking on crop diversification to palm plantation and palm oil milling. Whilst the milling produced healthy returns during the year, the Group perceives this investment to be a core source of profitability in the future. It is significant to note that the palm oil mill is a first for Sri Lanka in recent times. Elipitiya plantations also pursued an ambitious strategy of diversification into furniture manufacture for the export market. We hope to see stable returns from this venture in the future.

In the power sector, we actively explored innovative yet viable alternative power generation sources. For the most part, the sector evaluated growth potential in regional economies. The quest for international operations continues on to the year 2007/2008. During the current financial year the Company successfully took over the operations and maintenance of the power plant in Horana from the plant operator Wartsila which has resulted in significant cost savings.

The Group has identified that the success in the future, would mainly be dependant on having a good information technology system which would be in a position to service our customers as well as the inhouse personnel.

As a first step, the Group has implemented "Fidelio", a software

package used worldwide by hotel management companies. Three of the hotels in the Group have implemented this system which provides real time information on reservations, occupancies, costing of services with many other facilities. The Group has invested in a HR information system that we believe would facilitate more informed real-time decision making in relation to our greatest resource.

### Future Stance

Looking to the future, the Group will move rapidly carrying through medium and long term strategies that will ensure the stability and sustainability of its performance. The directive remains focused on the creation of greater shareholder wealth, balanced with equitable returns to our employees, the communities and the environment in which we operate. As an organisation that has single-mindedly pursued sustainable practices and one that has practiced transparency and good governance in all areas of operations, we remain committed to being in the forefront of Sri Lanka's corporate community.

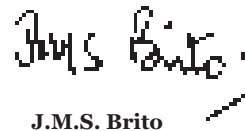
The bidding process for the Colombo South Harbour is currently underway with the Group investing its resources to bring together a coherent bid proposal.

The construction of the Group's Head Office building continues satisfactorily and according to plan and should be ready for occupation in 2008.

Aitken Spence & Company is constantly seeking value innovations and new opportunities for strategic progression.

This forward thinking stance has been the key success of the Group's continued elevated performance despite constant challenges in the operating environment. Likewise, in the medium term the Group is hoping to invest in Information Technology as a value driver for the future.

I am grateful to our employees at every level who have contributed to the overall success of the company. Without their commitment we would not have achieved the results we had and on behalf of the Board, I would like to say a special word of thanks to each of them.



**J.M.S. Brito**  
*Managing Director*

25th May 2007



### Mr. D.H.S. Jayawardena

Mr. Harry Jayawardena is one of Sri Lanka's most successful businessmen and heads many successful enterprises in very diverse fields of activity. He is the Founder Director and current Managing Director of the Stassen Group of companies – a diversified group in exports and import trade, and Lanka Milk Foods (CWE) Ltd. He is also the Chairman of the Distilleries Company of Sri Lanka Ltd., the Sri Lanka Insurance Corporation, Lanka Bell (Pvt) Ltd., and a Director of Hatton National Bank, the largest listed bank in Sri Lanka. He is presently the Chairman of Sri Lankan Airlines and Honorary Consul for Denmark.

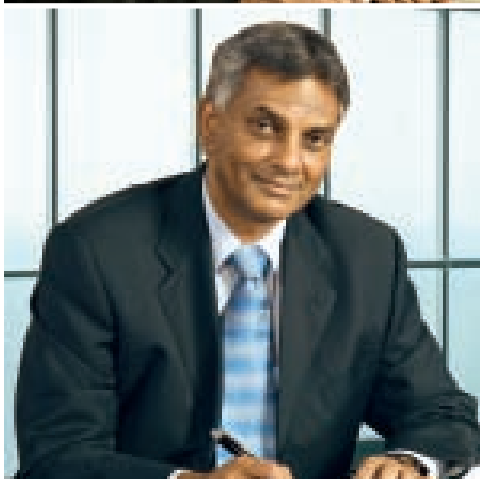
Mr. Jayawardena was appointed to the Board of Aitken Spence & Co. Ltd., on 1st April 2000 and has been Chairman of the Company since 25th April 2003.



### Mr. J.M.S. Brito

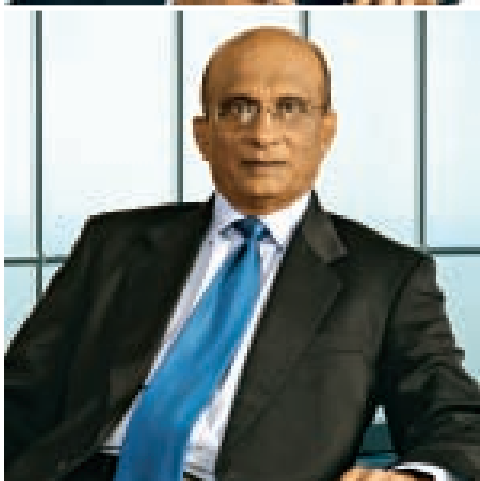
Mr. Rajan Brito is a Law Graduate of London University, a Fellow of the Institute of Chartered Accountants of England and Wales and obtained a Master's Degree in Business Administration from the City Business School, London. Together with this multi-disciplined knowledge, he also brings with him a wealth of 25 years of international experience working with Price Waterhouse - London, British EverReady PLC, Minmetco Group, World Bank and PERC. Presently Mr. Brito is Chairman of the Development Finance Corporation of Ceylon and the DFCC Vardhana Bank. He is a former Chairman of Sri Lankan Airlines, and was a non-executive Director of the Strategic Enterprise Management Agency and Task Force for Rebuilding the Nation.

Mr. Brito was appointed to the Board of Aitken Spence & Co. Ltd. in April 2000; Managing Director in January 2002 and became Deputy Chairman and Managing Director in April 2003.



### Dr. R. M. Fernando

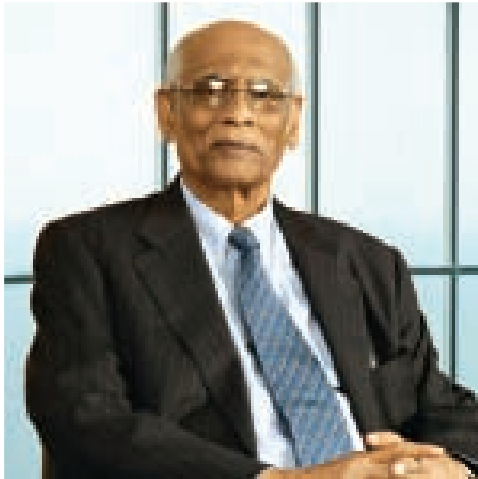
Dr. Rohan Fernando who heads Plantations and Business Development holds a PhD and a MBA from the University of Colombo and is also a Chartered Marketer from the Chartered Institute of Marketing UK. He has extensive experience particularly in the plantation industry both in the public and private sectors. He has served on several important committees at national level and has also been involved with several leading international institutions particularly in marketing and business development. He was the past Chairman of the Planters' Association of Ceylon and was the founder Chairman of the Tea Association of Sri Lanka, an apex body for the tea industry and was also a Director of the Rubber Research Institute of Sri Lanka.



### Mr. G.C. Wickremasinghe

Mr. G.C. Wickremasinghe started his career 53 years ago on an Aitken Spence managed plantation. After over a decade as a professional planter, he moved to the Company's Head Office in 1965 to take over the Estate Agency Department. In the early 70's, he also took charge of the Insurance Division and the Singapore Airlines Agency. When the Insurance industry was liberalized in the late 80's he played an active role in the formation of Union Assurance Ltd., and served a stint as its Chairman.

Mr. Wickremasinghe was appointed to the Board of Aitken Spence & Co. Ltd., in 1972 and was Chairman from 1996 to 1997. He has been a Director of the Company continuously for a period of over 35 years. He has a wide and varied experience in many business sectors. Mr. Wickremasinghe has the distinction of being responsible for the concept and construction of the Group's unique theme hotel -The Tea Factory.



### Mr. R. Sivaratnam

Mr. Ratna Sivaratnam has served the Aitken Spence Group for a period of 44 years. He was appointed to the Board of Aitken Spence & Co. Ltd., in 1977 and was appointed Chief Executive Officer and Managing Director in 1995. He was Chairman from November 1997 to December 2001. He pioneered the Company's entry into the tourism industry in 1972 with his appointment as Project Manager for Neptune - the Company's maiden hotel. On successfully completing the hotel, he went on to set up the inbound travel division. It was his initiative that the Company commenced its hotel projects in the Maldives and also spearheaded the development of the Power Sector in the company. Mr. Sivaratnam is widely recognized as a leader in the tourism industry both locally and abroad and has held many positions in various tourism related associations. He was the first Sri Lankan to be invited to join the World Travel & Tourism Council. He also serves on various government Advisory Committees and sits on the Board of many companies. He is a past Chairman of the Export Development Board and the Sri Lanka Conventions Bureau.



### Mr. C. H. Gomez

Mr. Charles Gomez is an Investment Banker with over 20 years of experience in the finance industry. He has worked for several major financial institutions, and brings to the Company a wealth of experience in regard to international financial markets. Mr. Gomez also serves on Boards of foreign investment and venture capital companies, particularly in the specialized fields of telecommunications and information technology. Mr. Gomez was appointed to the Board of Aitken Spence & Co. Ltd., on 14th May 2002.



### Mr. N. J. de Silva Deva Aditya

Mr. Niranjan Deva Aditya, an aeronautical engineer, scientist and economist, is a Member of the European Parliament representing Berkshire, Hampshire, Buckinghamshire, Oxfordshire, Surrey, Sussex and Kent of over 8 million people and serves as the Majority Leader and Coordinator of the EPP-ED Group in the Development Committee. He is Conservative Spokesman for Overseas' Development and Co-operation. He drafted the European Aid Budget of 8 billion Euros in 2006 and is one of 28 UK Conservatives who are now part of the European Parliament's majority political group. He was born in Colombo, Sri Lanka but studied in Britain. He was the first Asian to be elected as a Conservative Member of Parliament in the last century, representing Brentford and Isleworth from 1992 to 1997 and during the same time served in the British Government as PPS in the Scottish Office and was a member of the Select Committees on the Parliamentary Ombudsman (1993-1997) and Education (1994-1996). He is Chairman of the Europe-India Chamber of Commerce, Chairman of the EU China Friendship Group, Chairman of the Indonesia Group, Chairman of the Afghanistan Group and Founder of the Sri Lanka Group and is Hon Ambassador without Portfolio for Lanka. He was the first Asian to be appointed as Her Majesty's Deputy Lord Lieutenant for Greater London, representing The Queen on official occasions since 1985. In 2006 he was considered as a candidate to succeed Kofi Annan as Secretary General of the UN. He is a Fellow of the Royal Society for the Arts and Manufacture and Commerce (est. 1754) and is a Member of the Carlton Club, UK.

## > Board of Management



**Mr. J.M.S. Brito**

Mr. Rajan Brito is the Chairman of the Board of Management (Profile appears on page 14).



**Dr. R.M. Fernando**

Profile appears on page 14.



**Mr. R.E.V. Casie Chetty**

Mr. Ranjan Casie Chetty is the Secretary of Aitken Spence & Co. Ltd., and a Director of a number of companies in the Aitken Spence Group. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants of UK. He is also a Member of the Chartered Management Institute of UK and has been awarded the Joint Diploma in Management Accounting Services. He has been actively involved in numerous committees of professional institutes and Chambers of Commerce. He is currently a Member of the Council of the Employers Federation of Ceylon and an Executive Committee Member of the Chartered Management Institute- Sri Lanka Branch. He was a former Chairman of the Sri Lanka Apparel Exporters Association.



**Mr. K.R.T Peiris**

Mr. Rohantha Peiris heads the Freight Forwarding and Express Division. He has wide industry experience. He held the position of Chairman of the Sri Lanka Freight Forwarders Association for the last three years and is a Director of SLFFA Cargo Services Ltd. He is a Chartered Member of the Chartered Institute of Logistics & Transport – International and also represents the Company at the American Chamber of Commerce.



#### Mr. N. Nallararatnam

Mr. Niranjan Nallararatnam heads Integrated Logistics. He has many years of experience in the industry and is a member of several industry bodies.



#### Mr. D.I. Abeywardene

Mr. Indrajit Abeywardene heads the Printing Sector of the Group. He holds a Diploma from the London College of Printing, (UK) and counts many years experience and knowledge in the industry. He is also on the Board of Governors of the Sri Lanka Institute of Printing.



#### Ms. N. Sivapragasam

Ms. Nilanthi Sivapragasam who is the Chief Financial Officer of the Group is a Fellow of the Chartered Institute of Management Accountants of U.K. and a Fellow of the Institute of Chartered Accountants of Sri Lanka. She serves on the committees of several Faculties of the Institute of Chartered Accountants of Sri Lanka and is a member of the Urgent Issues Task Force. She previously served on the Council of the Chartered Institute of Management Accountants - Sri Lanka Division. She is a member of the Taxation Sub Committee of the Ceylon Chamber of Commerce.



#### Mr. G.M. Perera

Mr. Gehan M. Perera heads the Destination Management sector in the Group. He is a Past President and an honorary member of the Sri Lanka Association of Inbound Tour Operators (SLAITO). He also serves on the committee of the Ceylon Chamber of Commerce and is a member of the Tourism Cluster facilitated by USAID. He is a Fellow of the Australian Institute of Management.



#### Mr. D.V.H. de Mel

Mr. Devan de Mel is the Managing Director of the Power Generation sector of the Group. He formerly headed the Corporate Planning Unit and was closely involved in the Group's diversification into the power generation. He has a Bachelor's Degree in Mechanical Engineering from the Imperial College of Science & Technology, and a Master's Degree in Business Administration from the London Business School, University of London.



#### Dr. P. Dissanayake

Dr. Parakrama Dissanayake who heads Maritime Transport is a former Chairman/Chief Executive of Sri Lanka Ports Authority and Chairman of Jaya Container Terminals Ltd.

Dr. Dissanayake who serves on the UN/UNCTAD Panel as a Shipping and Port Expert is also the Chairman of the Central Advisory Committee of the Sri Lanka Transport Board and is a Co-Chairman of the Transport Cluster of the National Council for Economic Development. He is also a past Chairman of the Institute of Chartered Shipbrokers and Past Chairman of the Chartered Institute of Logistics and Transport (Sri Lanka).



#### Mr. S.M. Hapugoda

Mr. S. Malin Hapugoda heads the Hotel sector of the Group. He is a professional hotelier counting many years of managerial experience within several hotel companies and is a Past President of the Tourist Hotels' Association of Sri Lanka and a Member of the Tourism Cluster. He is a Fellow of the Chartered Institute of Management, UK.



#### Ms. N.W. de A. Guneratne

Ms. Nimmi Guneratne is the Managing Director of Aitken Spence Insurance (Pvt) Ltd., and is the General Manager of the Lloyds Agency in Colombo and the Maldives. She is a Fellow of the Chartered Insurance Institute of UK, and holds a Bachelor's degree in Law and is also an Attorney-at-Law. She is also a visiting lecturer and examiner in Insurance Law at the Sri Lanka Law College, and is also a lecturer and examiner of the Sri Lanka Insurance Institute. She is the current President of the Sri Lanka Insurance Institute.



### Mr. S. Ganeshan

Mr. Sasi Ganeshan heads Aitken Spence Aviation (Pvt) Ltd., GSA for Singapore Airlines and Singapore Airlines Cargo in Colombo as well as the Company's Outbound Travels division – Aitken Spence Overseas Travel Services (Pvt) Ltd. He counts many years of experience in this field and possesses a wide knowledge of the airline and the travel industry.



### Mr. C.M.S. Jayawickrama

Mr. Susith Jayawickrama an associate member of the Chartered Institute of Management Accountants UK, was promoted to the Aitken Spence Group Board in April 2005. He is presently the Director General Manager of Aitken Spence Hotels and serves on the Boards of several hotel companies in the Group. He has been with the company for the past 16 years and has wide experience and exposure in the tourism industry and in the field of finance. He also serves as a member of the Sri Lanka Hotels Association's Executive Committee and the Sub Committee for Fiscal and Monetary Policy.



Aitken Spence & Company in the year 2006 unveiled a new corporate identity in a bid to project itself as a singular entity, both in Sri Lanka and around the world, fusing its diverse businesses and subsidiary identities under one consistent and coherent image.

The need for the unified brand identity was intensified with the Group’s focus on diversification and market expansion strategies.

The new brand identity captures the essence of Aitken Spence today, 138 years after the

commencement of operations under the aegis of its founding fathers Edward Aitken and Patrick Spence and projects the Group as forward looking, progressive and central.

During the year 2006/2007, a concerted programme

was undertaken to ensure that the adoption of a new corporate identity was not limited to the embracing of a visual brand identity alone but entailed a pervasive corporate-wide espousing of the brand's values and personality by every one of its employees. In fact, the year was one dedicated to “living the brand”.

The Company is widely recognized for its solid corporate reputation, financial stability, wealth of experience, professional management, business portfolio and the best talent in service. The new

brand personality enhances and revitalizes these strengths. Aitken Spence exudes values of reliability, honesty, warmth, authenticity and inspiring confidence. These values have been spread and embedded across the organization, in order to inspire and motivate its employees to embody the new Company personality and deliver the brand's promise to provide exceptional customer service by “going the extra mile and a half”.

The new corporate identity is a vibrant living brand and it is by no means a

superficial logo change. This spirit was given strategic direction with acceptance and action filtering from the very top of the corporate to the lower tiers, driven by consistent communication and initiatives throughout the Group, to ensure that employees continue to live up to the brand promise.

Brand committees across the functions ensure that the Group's subsidiaries ‘live’ the brand with the guidance of the Brand Manual and the Customer Service Standards Manual which specify the parameters for implementation.

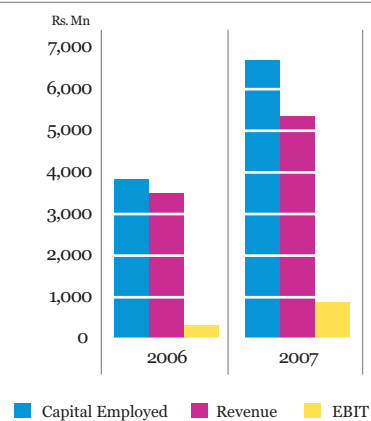


tourism



# Tourism Sector

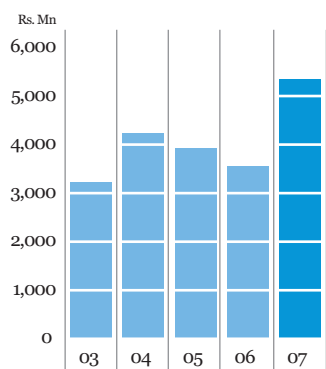
Tourism Sector



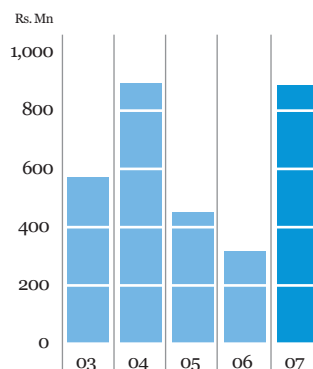
The Group's Maldivian hotel operation Adaaran Hotels & Resorts witnessed a healthy growth, supported by the commencement of its fourth resort Adaaran Select Hudhuranfushi.



**Revenue** For the year ended 31st March



**Profit Before Interest & Tax** For the year ended 31st March



Aitken Spence Hotels, during the year under review, executed strategic initiatives aimed at securing the sector's long term stability. Currently operating with a product portfolio comprising of hotel infrastructure both within Sri Lanka and the Maldives, the sector weighed the viability of extending its strategy of cross border operations to the growth market in India, with the objective of diluting the inherent risks associated with concentration of investments in similar tourism markets.

The sector identified India as a viable tourism and hospitality market for entry, given the inherent nature of the Indian tourism industry and in view of the exponential growth in the Indian economy.

Subsequent to in-depth viability studies and business forecasts to determine the future viability of the entry, Aitken Spence Hotels embarked on a rigorous evaluation of desired properties. Following a minimal-risk strategy that targets to manage properties - at least in the first phase of the Indian expansion - the Company sourced properties with different product qualities to meet the needs of diverse target audiences. Three properties will become operational in the year 2007/2008.

Located in Madurai, the Andaman Island and Delhi the properties have been chosen based on their ability to fulfill the basic criteria meted out by Aitken Spence Hotels for competencies and key strengths which we believe will enhance the Company's overall performance as well as raise the credibility of its currently above par portfolio of properties.

Likewise, for Aitken Spence Hotels, its hallmarks of service excellence was the fulcrum for the Company's ease of entry into the Indian hospitality industry. The exceptional legacy of service and tourism product excellence, combined with the Heritance brand enabled the Company to garner an edge in the market. Properties in Madurai and Kerala are billed to take on the Heritance brand as they both embody the character and the excellence that are key attributes of the brand. The property in Madurai - previously a British Club - is steeped in history and old world charm. Partly built by the renown Sri Lankan architect Geoffrey Bawa, the property houses ten to fifteen bungalows within seventeen acres of garden. The second property to take on the Heritance brand is located in the

backwaters of Kerala. Currently under construction, the property will comprise of fifty rooms extending across fifteen acres, including floating villas.

In expanding across borders, the Company took into consideration the future growth potential of Maldivian tourism. In acceptance of the growing popularity of the destination, Aitken Spence Hotels endorsed the need to intensify its operations in the market. Therefore, the Company during the year 2006 acquired a new property - Hudhuranfushi - consisting of one hundred and thirty rooms. The resort has undergone extensive renovations and its infrastructure will be further enhanced with the addition of forty water bungalows. The resort has been branded under the company's flagship Maldivian resort brand: Adaaran Select which was launched during the year.

The security situation, exacerbation of violence and adverse reports in the international media did not augur well for Sri Lanka's tourism industry. As with all other tourism properties in the country, Aitken Spence Hotels were directly affected by the knock on effects of the many incidents that marred Sri Lanka as a safe destination. Both of the Hotel sectors



*Innovation in marketing, a constant quest for opportunity and prudent utilization of resources were the key to the sector's success in overcoming the negative factors that dogged the industry.*



mainstay properties – Heritance Kandalama and Heritance Ahungalla – plunged back into business after extensive renovations. However, a tourism industry under pressure due to external forces was not able to provide the impetus for these properties to perform well during the year. We believe however that the properties hold tremendous potential for future growth, especially in a scenario of stability. The mediocre performance of the Sri Lankan portfolio was off-set by the strong resurgence of profitability of the sector's Maldivian resorts.

The overall sector profits increased by 178 per cent to Rs. 889 million.

The inbound tourism sector once again posted creditable results despite a gloomy outlook for Sri Lanka's tourism prospect. Innovation in marketing, a constant quest for opportunity and prudent utilization of resources were key factors for the sector's success in meeting the challenge that dogged the industry. Formulating a business strategy for the year based on the actual situation in the country and the industry lent the sector a realistic perspective for market identification and the conceptualization of marketing strategies to exploit.

Whilst sustaining the traditional European source markets, as much as possible the Company identified windows of opportunity in specific target segments and non traditional markets which helped significantly to contribute to the sector's performance. Three Strategic Business Units were established to focus on luxury travel, nature tourism and Ayurvedha in order to tap and garner greater growth from specialist product offerings. The Company re-organised the MICE – (Meetings, Incentives, Convention and Exhibitions) business and the cruise business under the global branding of joint venture partner TUI- the world's leading tourism company to leverage on global synergies.

During the year 2006/2007, Singapore Airlines continued to operate a daily B777-200 aircraft to Colombo. However, the B747 Freighter aircraft that operated in the last financial year was terminated which drastically reduced the cargo capacity ex Colombo. 26 weekly services are operated on this sector making this route one of the most busiest routes out of Colombo.

The unstable oil prices in the world market meant that the "fuel surcharge" introduced by the airlines

in a bid to soften the impact of the heavy fuel costs on their bottom line continued to be applied. SIA's fuel surcharge continued to increase and to counter the increasing fuel surcharge we were compelled to lower airfares in order to be competitive in the market.

The Outbound Tourism sector under the aegis of the Aitken Spence Overseas Travel Services (Pvt) Limited performed commendably during the year. Supplementing the existing branch network with additions in Ratnapura, Matara, Kurunegala and Kandy, the sector consolidated its presence in key markets. Moving aggressively into the "tours" segment of the market, the sector saw substantial contribution from this line of business and this augers well for the future. A Billing and Settlement Plan (BSP) implemented by the National Carrier in association with the International Air Transport Association (IATA) was implemented in April 2006. Looking to the future, the sector envisions growth through the implementation of the BSP system and through increased accessibility of its branch network.



Mr. R. Subramaniam



Mr. D.D.A. Soza



Mr. S.K.R.B. Jayaweera



Mr. G.P.J. Goonewardene



Mr. K.A.A.C. Perera



Mr. H.P.N. Rodrigo



Mr. S.T.B. Ellepola



Mr. N.A.N. Jayasundera



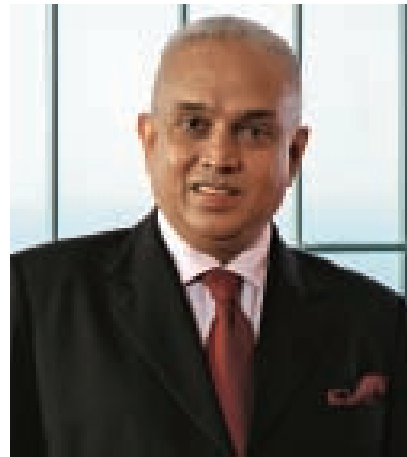
Mr. P.L. Perera



Mrs. N.J. Perera



Mr. N. Ratwatte



Mr. R. Fernando



Mr. A. Udawatte



Mr. D.J. de Cruz

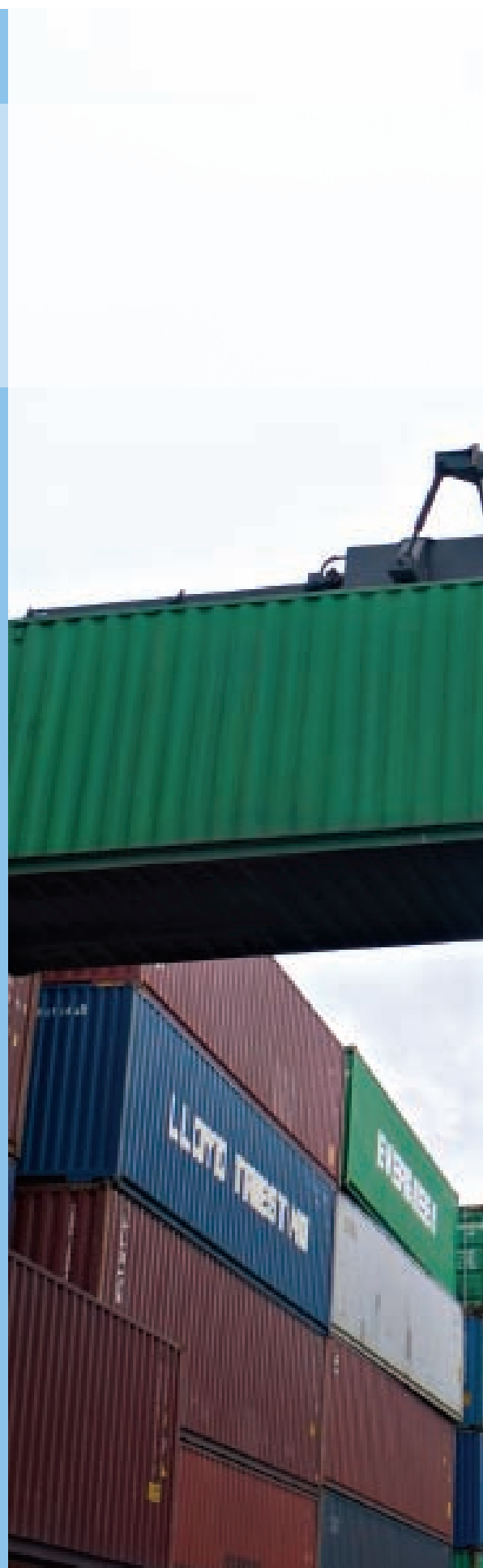
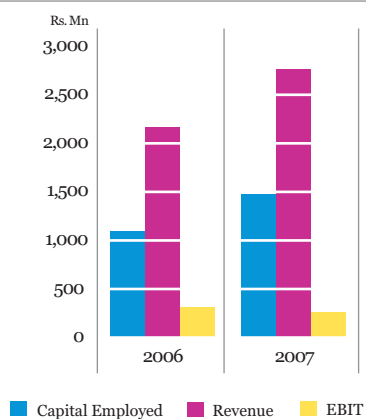


logistics



# Logistics Sector

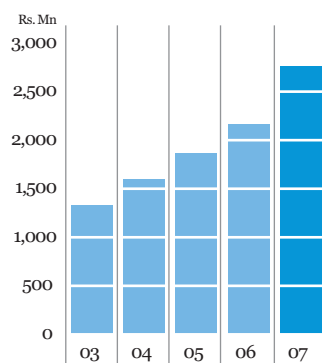
Logistics Sector



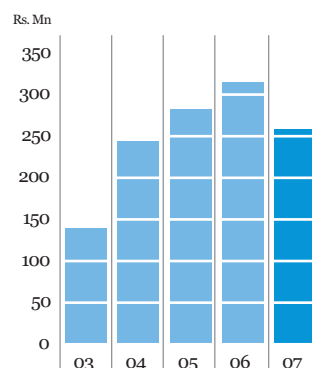
Agents for Hapag Lloyd: the fifth largest shipping line in the world.



Revenue For the year ended 31st March



Profit Before Interest & Tax For the year ended 31st March



The Cargo Logistics sector continued to be a key performer during the year. The overall sector profit for the year was Rs. 258 million. Operating as a provider of one-stop-solutions for both importers and exporters, the sector wields experience and expertise in all aspects of cargo logistic services from freight forwarding, container depots, warehousing, distribution to management of shipping agencies.

The Maritime Transport division continued to post high returns during the year. This was a creditable performance despite volatility both in the local and global business scenarios. In the ship agency component of the business, the division retained key agencies whilst procuring the agency for Hapag Lloyd, one of the largest shipping lines in the world. Through a Strategic Management alliance the division also secured a leading Regional Container Line. Fuelled by domestic volumes of high imports as well as exports, the division exploited the hub status of the Colombo Port to further expand its operational activities through

transshipments. In a strategic initiative divestment of the ship owning venture is currently underway, a direct result of declining charter rates and burgeoning maintenance expenditure that characterize the ship owning business. With two of the five cargo ships already divested, discussions are held with potential investors for the remainder. The constant seeking of new products and market developments paid high dividends to the Maritime Transport Division during the year in review. Undertaking an innovative productivity enhancement service contract, the division extended port management expertise to the Durban Port in South Africa. This is the first time that a Sri Lankan company has ventured in to port management services outside Sri Lanka. As a result of the successful completion of the first contract, the company was successful in winning a second contract in the Durban Port.

Looking to the immediate future, the Maritime Transport Division is

seeking opportunities in Port Management initiatives in the African region and also to take advantage of the Hapag Lloyd agency to aggressively procure new business. The conclusion of negotiations for a new feeder agency operating between Colombo-Chittagong-Calcutta as well as the expansion of the ship agency and NVOCC business overseas augurs well for the development of inter-regional business.

Integrated Logistics continued to post growth in all areas of activity. Enjoying a YOY growth of 13.4% the division's leadership strategy has been its success in the marketplace. It has secured large scale business opportunities by capitalizing on its ability to offer a wide spectrum of services under one umbrella. Positioning itself as the leading transporter in container transport by maintaining cost leadership through productivity enhancements, it has expanded its activities and now possesses the largest empty container transport and bowser fleet in the country. As the only division that delivers specialization in a



*Leader in container transport with the largest  
bowser and empty container transport fleet in  
the country.*

spectrum of activity, integrated logistics was able during the year to carve a niche based predominantly on specialization of service.

Re-organisation of the division's warehousing activities created greater operational efficiencies during the year, shaving off unwarranted costs. Impending entry into the region, specifically India remains a key priority for the future. In the medium term, a relocation of container freight station activities to a 100,000 square foot facility will entail greater efficiencies. The division continues to practice 5S and health and safety procedures in all its operations.

The Freight Forwarding division posted healthy returns despite economic impediments. Continued depreciation of the rupee against the mainstay currencies of the likes of the USD, Sterling and Euro posed pressure on the divisions operations. This was further aggravated by a sharp rise in bad debts as an outcome of a cash crunch prevalent in the economy. Intense competition as a result of an influx of foreign

companies into the marketplace hampered growth during the year. However, the division benefited from the corporate brand in garnering a greater quantum of international and large scale business opportunities. Expansion to overseas markets by the Airline division to Dubai and Maldives were measures undertaken to counter growing competition in the local environment.

Customs brokerage continued to maintain a leading position meeting its business objective for the year to be the number one brokerage facilitator. Substantial potential exists for representation of large companies that seek a third party facilitation for the brokerage function. The year saw the merger of two sub-divisions render greater efficiencies to the business. The divisions infrastructure coupled with its financial stability continued to be the key strengths for growth.

Aitken Spence Cargo reaped the benefits of a concerted branding exercise during the year. A cohesive packaged service helped the

divisions to be more customer focused. ISO certification and the implementation of a global Information System interconnecting all branches to principle networks and delivering first hand, online information were highlights during the year.

Due to the continuous change in the market structure as well as the changing patterns of source markets for inflow and outflow of imports and exports, the division is considering a strategy of global expansion. Precipitated entry into the Asian region is currently under implementation. Long term relationships with networks in global markets are being leveraged to expand the base of operations whilst a strategy of amalgamation in the local market is being employed to garner the benefits of inorganic growth leveraged through symbiotic relationships.



Mr. N.D.F. Perera



Mr. A. Jayasekera



Mr. M.A.J. Perera



Mr. H.B. Kelly



Mr. F.P. Paiva



Mr. I.S. Cuttilan



Mrs. D.K. Senaratne



Mrs. T.D.M.N. Anthony



Mr. A.M.M. Amir



Mr. K. Aluwihare



Mr. J.E. Brohier



Mr. J.M.A Joseph

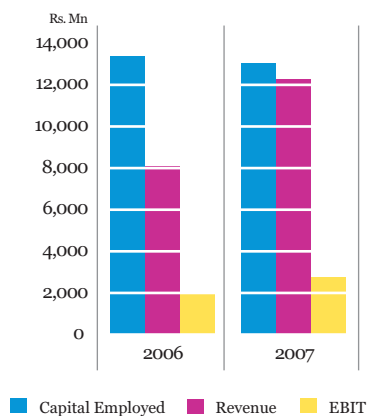


strategic investments



# Strategic Investments

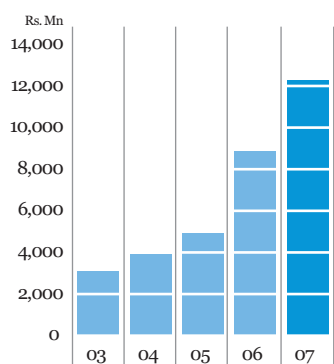
Strategic Investment Sector



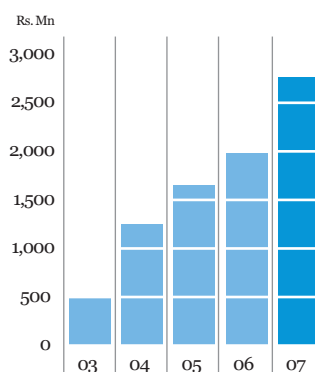
Reduced maintenance costs and improved operational efficiencies were hallmark achievements in the Power Sector.



**Revenue** For the year ended 31st March



**Profit Before Interest & Tax** For the year ended 31st March



Strategic investments sector was one of the main contributors to the Group's profit. The sector recorded an impressive Rs. 2.8 billion from operations compared to Rs. 2.0 billion of the previous year.

The Power sector is dependent to an extent on the vagaries of the weather. With higher rainfall in the year 2006/2007, the national grid saw increased generation from hydropower sources with a corresponding reduction in thermal generation. Despite these strains, the sector achieved 75 per cent of the budgeted generation for the year. Whilst the 100MW Embilipitiya plant continued commercial operations, the initiative taken last year to take over the operations and maintenance of the power plant in Matara has resulted in significant cost savings to the sector. The success of this resulted in the plant in Horana also being brought under the maintenance and operation of the Company taking over from the plant operator Wartsila during the year.

Reduced maintenance costs and heightened operational efficiencies were the hallmark of achievement in 2006/2007. The sector now focuses on

exploring diverse new business opportunities including forays into sustainable power generation and power projects both local and abroad.

The Group's Insurance sector experienced another year of commendable results. Working in the interest of veritable global experts such as Lloyds of London, Fuji Fire, Sujimoto and PICC, the sector expanded its operations to assume representation for Allied Insurance for the Maldivian market. The sector is a pioneer in valuations, risk management and insurance consultancy and hence leveraged its position to garner greater business opportunities in this field during the year. Maintaining a long held partnership with the World Food Programme, the sector was able to make its services available in the troubled North & East.

The Garment sector of the Group was affected due to the tremendous demand from customers to reduce prices whilst coping with the ever increasing cost of production.

The sector identified the customer's needs and the need to diversify its product portfolio. Though the process

has begun, the benefit of diversification will be seen only in the medium term as the factory requires time to adjust to the new vendor requirements. The sector is also conscious of the requirement to continuously increase productivity and is constantly seeking ways to meet this challenge.

The OTIS Elevator agency which the Group had acquired in 1989 posted the highest ever profit during the financial year. OTIS is a group Company of the United Technologies Corporation, which is a fortune 500 Company. OTIS is the world's leader in people-moving equipment which includes Elevators, Escalators, Moving walkways and other transportation systems.

In spite of stiff competition the Company maintained a similar sales volume as the previous year due to the adoption of aggressive and competitive marketing strategies. A strategic penetration is planned into the districts outside the Western Province which are earmarked for potential economic and infrastructure development.

During the year, the Group undertook a strategic investment by purchasing



*The OTIS Elevator agency which the Group had acquired in 1989 posted the highest ever profit during the financial year.*

50 per cent of the shares in MMBL Money Transfer (Pvt) Ltd., a subsidiary of the Mercantile Merchant Bank Ltd. MMBL Money Transfer (Pvt) Ltd., is a principal Agent for Western Union Money Transfer Service in Sri Lanka.

The global fight against terrorism has created a greater emphasis for the need for anti money laundering legislations across the world. As such, the legal money transfer business is viewed as a global growth industry. The Sri Lankan Government and the Sri Lankan Central Bank's initiatives to control illegal fund movements into the country are seen to further assist growth in the inward remittance market in Sri Lanka. Western Union is the global leader in the Money Transfer industry with over 275,000 locations world wide. The Group sees tremendous potential in the investment and is hopeful of a sound return in the future.

The Plantations sector continues to be affected by a host of inconsistent macro economic policies such as, ad hoc fiscal policy, removal of fertilizer subsidies, escalating energy costs and a wage structure that has no relationship with productivity or

affordability. These issues have persistently dogged the profitability of the sector. The sector faces the dilemma of rising costs of production, as against the need to be competitive in the global marketplace. YOY increase in production and productivity failed to offset the increase in wages for the sector. In the year under review, the wage increases that were effected pushed production costs up by an average of Rs. 82.5 million per plantation company.

However, despite the constraints Talawakelle Tea Estates Ltd. (TTEL) in particular performed commendably during the year, as a result of judicious decisions and foresight in determining strategic direction. TTEL undertook a gamut of initiatives to enhance product quality, emerging once again as No. 1 in ranking amongst the plantation companies in tea prices. Initiatives were also taken to improve operational productivity in the understanding that the future growth of the plantation is dependent on consistent improvements in quality, productivity and energy efficiency.

Elipitiya Plantations had a reasonable year, boosted by incomes from other strategic initiatives, despite a focus on

its core products of rubber and tea. Following a thrust strategy on crop diversification, the company ventured into oil palm and commenced operation of Sri Lankas second palm oil processing plant for the last 50 years - a joint venture with two other plantation companies. Also diversifying into furniture manufacture, Elipitiya Plantation Ltd is currently tapping international markets for its finished products. The Company has also ventured into hydropower with a view to exploiting these resources on the estates. Eco tourism initiatives are also high on the agenda for future growth with the planning of eighteen high end water villas topping the list of eco tourism initiatives across the plantation properties.

Harrow Ceylon Choice, the sectors own tea brand shows tremendous potential with indicative growth in sales and returns during the year. Both plantations companies continued to invest in capital expenditure during the year and ploughed investments into the development of commercial forestry, and other strategic diversifications, whilst still focusing on the core crops for continued growth.

## > Strategic Investments Directorate



Mr. C.R.F. de Costa



Mr. S.C. Ratwatte



Mr. R.G. Pandithakoralage



Mr. R.G. Salgado



Mr. J.S.A. Fernando



Mr. D.S. Mendis



Mr. M.H.A. Barrie



Mr. A.N. Seneviratne



Mrs. W.A.D.L. Silva

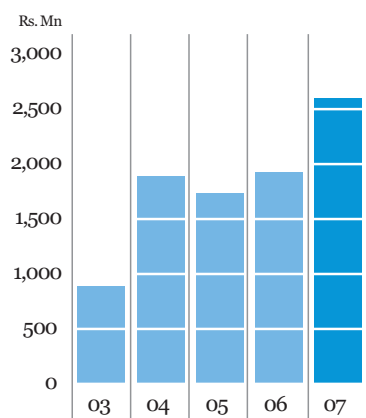


Mr. A.L.W. Goonewardena



Mr. M.S. Mohideen

**Profit Before Taxation** For the year ended 31st March



## Profitability

Strategic decisions made in the past has seen the Group venture out globally as well as establish itself in areas of business in Sri Lanka that are not vulnerable to the volatility of the country's economy. This strategy has enabled the Group achieve commendable results in a turbulent year for Sri Lanka. The Group recorded a profit for the period of Rs. 2.3 billion which is a 33% increase over the previous year and the highest ever recorded by the Group.

The EBITDA margin of the Group of 22% remained relatively constant in comparison to the previous year despite the increases in operating costs and consumables. The considerable increase in direct costs and consumables was a direct result of the prevailing high levels of inflation and the soaring cost of energy.

The Group has continued to manage its expansion of businesses without recourse to its shareholders whilst at the same time maintaining healthy debt equity ratios. This has resulted in the growth of earnings per share by an impressive 20.3% to Rs. 53.93 per share.

The two flagship hotel properties of the Group in Sri Lanka that were under refurbishment during the last financial year were re-launched and fully operational during the year under review. The lack of promotion of Sri Lanka as a tourist destination and the resumption of open hostilities in the country did nothing to boost tourism during the year. However, the profit from operations recorded by the Tourism sector of the Group witnessed a 178% increase over last year. The entirety being contributed by the Group's Maldivian Hotel properties. The Group commenced operations of its latest hotel in Maldives, Adaaran Select Hudhuranfushi, during the

year expanding its portfolio to a total of 4 luxury resorts in the Maldives.

Two of the vessels co-owned by the Group's Cargo Logistics sector were disposed of during the year under review. With the decrease in ship charter rates and the increase in cost of service and repair the continued ownership of these vessels ceased to be profitable. The dip in the profitability of the Cargo Logistics sector was mainly due to this disposal. However the sector received a boost during the year by obtaining the ship agency of Hapag Lloyd and created history by becoming the first Sri Lankan company to embark on port efficiency development outside the country, through a project undertaken at the Port of Durban, South Africa.

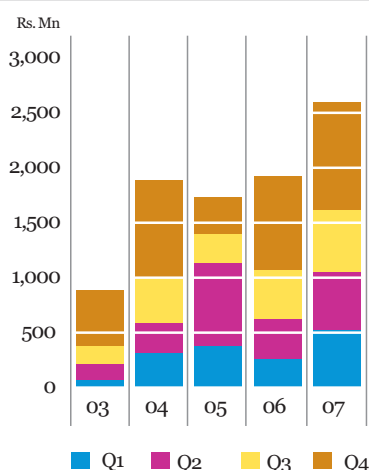
A continued growth in profitability was witnessed in the Strategic Investments sector driven by the operational efficiencies and cost savings achieved at two of the Group's power plants consequent to taking over the operations and maintenance of these plants. This sector's profitability during the year was also improved by the joint venture entered into by the Group to become a principal agent of Western Union Money Transfer in Sri Lanka.

During the year the Group further diluted its holding in its Destination Management Company to 50%, through the sale of a further 21.7% stake to TUI AG of Germany. The investment in AS GTECH was written off during the year due to the cessation of activities of Mahapola Online Lottery. The net impact of these is reflected in Note 2 of the financial statements under Profit/(loss) on sale of investments.

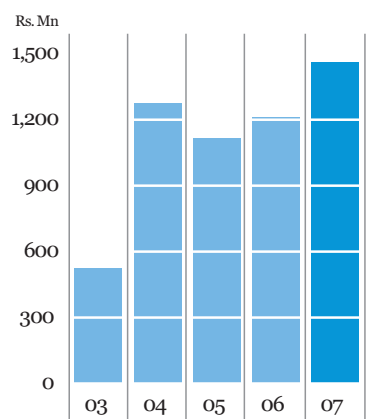
## Revenue

The Group recorded a net revenue of Rs. 19.7 billion for the year, a 45% increase

**Quarterly Analysis of Group Profit Before Taxation**



**Profit Attributable** For the year ended 31st March



over the previous year and a compound annual growth rate of 29% over the last three years. A total of 18% of the Group net revenue for the current financial year was generated through its operations overseas. Almost 51% of the increase of revenue for the year came from the tourism sector. This was due to the improved performance of the Maldivian hotel properties and the commencement of Heritance Ahungalla and Heritance Kandalama, which were closed for refurbishment during the last financial year.

The Cargo Logistics sector too recorded a healthy growth in revenue of 27% driven by the new business ventures undertaken by the sector. In the Strategic Investments sector the consolidation of the full revenue of Ace Power Embilipitya as opposed to the joint venture method of accounting carried out for the most part of the last financial year was one of the main contributors to the 38% increase in revenue witnessed by the sector. The Group's investment in Western Union Money Transfer in October 2006 and the improved activities of the rest of the companies in this sector were all contributing factors to this increase in revenue.

## Earnings per Share

The Group recorded an earnings per share of Rs. 53.93 for the current financial year, an increase of 20% over that recorded last year of Rs. 44.85. The Price Earnings ratio (PER) stood at 7.05 times compared to that of 7.57 times the previous year. The market PER at the end of the financial year stood at 13 times. This clearly indicates the potential for the increase in the share price of the Group. The market value per share increased by 12% during the year to close the year at Rs. 380.00 per share, compared to that of Rs. 339.00 at the beginning of the year. The lowest price at which the share

traded during the period under review was Rs. 270.00. The highest price traded during the period under review was Rs. 400.00 recorded on 19th February 2007. The total shareholder return (TSR) for the year amounts to 14.01% whilst the three year compound annual total shareholder return works out to 14.83%

## Dividends per Share

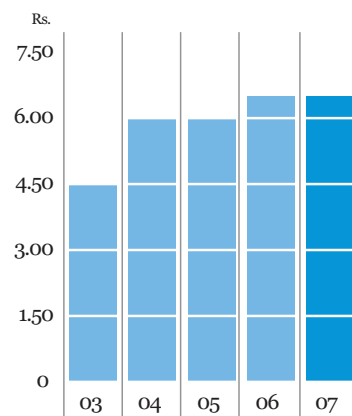
During the financial year under review the Company declared and paid an interim dividend of Rs. 3.00 per share in April 2007 and the Board is recommending a final dividend payment of Rs. 3.50 per share. This amounts to the same dividend declaration of 2005/06, of Rs. 6.50 per share and a total payout amounting to Rs. 175.9 million. However the dividend payout ratio dropped from 0.15 the previous year to 0.12 for the current financial year. The dividend cover also improved from 6.88 times recorded last year to 8.30 times.

## Assets and their Utilization

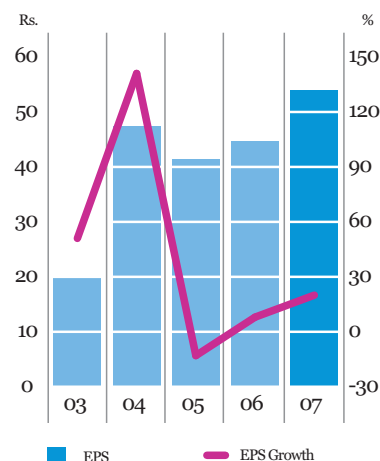
The net assets per share stood at Rs. 366.92 at the end of the financial year under review, compared to that of Rs. 317.30 at the end of the last financial year. An increase of 16%. However the Price to Book ratio of the Group remained at a low level of 1.04 times compared to 1.07 times for last year due to the growth in the net assets per share being higher than the growth in market price. This is a further indication of the growth potential of the market price of the share.

The Group invested a total of Rs. 2.4 billion in non current assets during the year, with the main investment of Rs. 1.1 billion being in respect of the 4th hotel property in the Maldives, Adaaran Select Hudhuranfushi. Construction work of the second tower complex at Vauxhall Street was in progress during the year, and is expected to be

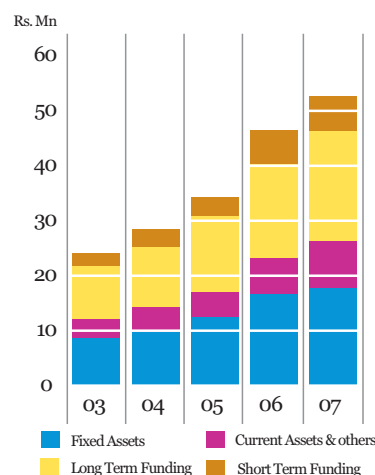
Dividend per Share For the year ended 31st March



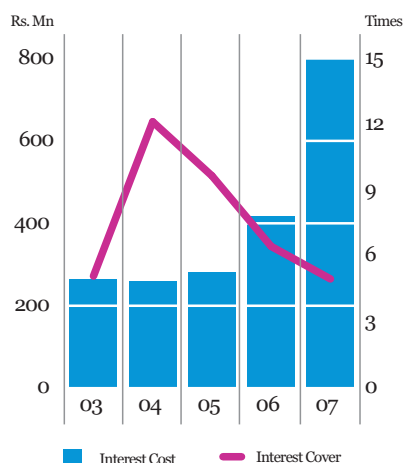
EPS & EPS Growth for the year ended 31st March



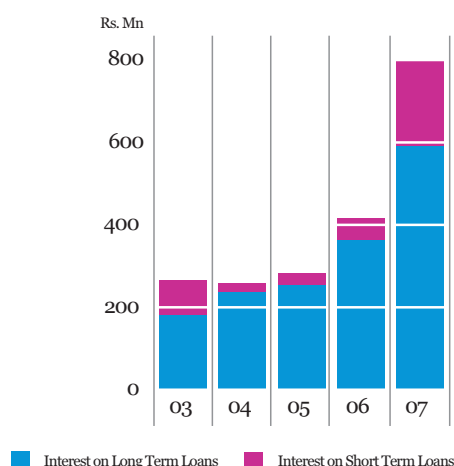
Assets & Funding as at 31st March



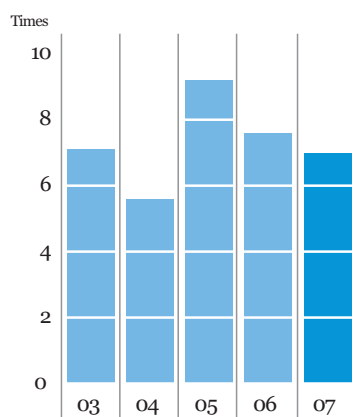
### Interest Cost & Interest Cover



### Short Term & Long Term Interest



### Price Earnings Ratio As at 31st March



completed on schedule in March 2008. The total value of the Group's property, plant and equipment increased by 9% to reach Rs. 16.8 billion at the end of the current financial year.

The net working capital of the Group increased to Rs. 2.1 billion compared to Rs. 449 million recorded the previous year showcasing an improved liquidity position of the Group. The current ratio of the Group stood at 1.33 times compared to that of 1.07 times recorded in 2005/06. The Group's quick ratio which was 0.96 times at the end of last year had also improved to 1.20 times at the end of this financial year.

Greater asset utilization was highlighted during the year with the total asset turnover ratio improving to 0.80 times compared to that of 0.67 times recorded last year. The net assets to turnover ratio also improved from 1.59 times to 2.14 times for the year under review.

57% of the total assets of the Group are held in the Strategic Investments sector, with 34% and 9% being held by the Tourism and Cargo Logistics sectors respectively. This mix has remained fairly constant over last year, with a slight decline in the Strategic Investment being compensated by the slight increase in the Tourism sector. However only 49% of the Group's Net Assets are represented in the Strategic investments sector, reflecting the greater debt financing of the sector which is mainly non-recover debt. The Tourism sector accounts for 41% of the net assets whilst 10% is with the Cargo Logistics sector.

### Return on Equity

Despite the 20.3% increase in profits to equity holders, the Group's Return on Equity witnessed only a slight improvement to 15.8% for the year, compared to 15.1%

recorded the previous year. Evaluation of the three components of the Return on Equity as per the DuPont analysis highlights the decline in the net profit margin of the Group to be the key cause of this marginal performance. The steep escalation of operating expenses due to inflation and the lack luster performance of the Sri Lankan Tourism sector were the main causes for this dip in the net profit margin. However the increased turn around of the Group's assets and the beneficial leverage structure of the Group, coupled with its relatively low cost of borrowings contributed positively towards the return generated.

	2006/07	2005/06
ROE	15.8%	15.1%
Net Profit margin	7.4%	8.9%
x		
Asset Turnover	0.80	0.67
x		
Financial Leverage	2.68	2.50

### Funding & Liquidity

During the year your company raised Rs.960 million through a privately placed Rated Debenture Issue for a 6 year term of which Rs.300 million was on a fixed interest rate and the balance on a floating interest rate basis. The issue was rated AA(lka) by Fitch Ratings Lanka Ltd.

The Company also raised Rs.1 billion on a 6 year long term loan facility on a floating interest rate basis from Commercial Bank of Ceylon Ltd.

The total long term debt of Rs.1.96 billion raised by the parent company went towards the settlement of short term debt used last year for the increased investments in the Embilipitiya Power Plant and refurbishment of the Sri Lankan Hotels. Part of the funds raised will be utilized to fund the new building at Vauxhall Street currently under construction.

The Group's investment in Adaaran Select Hudhuranfushi in the Maldives was mainly funded by a USD 3 million long term loan facility from the Nations Trust Bank and the balance through internally generated Group funds and short term banking facilities.

The main repayments during the year was by Aitken Spence & Co. Ltd., which redeemed Rs.400 million of its earlier debenture issues and by the Power Sector which settled Rs.944 million in long term loan repayments.

The impact of the years funding activities was to increase the Groups' long term debt from Rs.5.4 billion to Rs.6.4 billion. The long term debt to equity ratio increased marginally from 0.48 to 0.49.

As at 31st March 2007 the Group held borrowing facilities amounting to approximately Rs.2.03 billion that is available for short term funding of investments and working capital, of which Rs.350 million had been utilised.

A remarkable feature of the Groups' prudent management and utilisation of its funds is evident by the fact that over the last 8 years the Group has made major new investments in the Power sector, the Maldivian Tourism Sector, Sri Lankan hotel refurbishments, Cargo Logistics Sector and the building of a brand new office complex without burdening its shareholders for any new share capital whilst at the same time maintaining a healthy debt equity ratio and interest cover ratio of 0.49 and 4.06 respectively. Its noteworthy that during this period the total Group assets has grown by 4 times whilst its revenue and profits have grown by nearly 6 times.

## Interest and Foreign Exchange Management

The Groups' interest costs increased during the year by 91% from Rs.416 million to Rs.797 million. This increase was due to the substantial Rupee borrowings made during the year as explained earlier. The interest costs was also impacted by the sharp increases in Rupee interest rates that we witnessed this year where AWPLR rose from 11.97% at the beginning of the year to 17.57% at the end of the year which was an increase of nearly 50%.

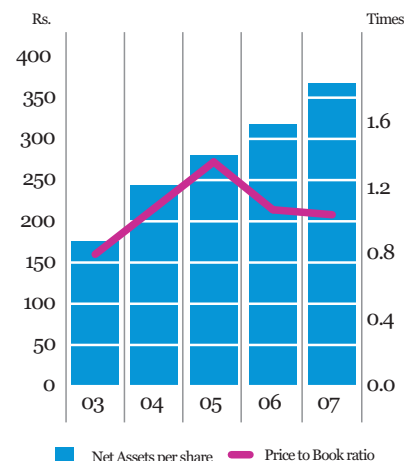
Though the Group profits before interest has grown by 45% this year, the interest cover has decreased from 6.38 to 4.06 during the year due to the sharp rise in interest rates and borrowing costs.

The Groups' interest income has grown from Rs.71 million last year to Rs.149 million due to short term cash surpluses arising from the substantial increase in cash generated during the year.

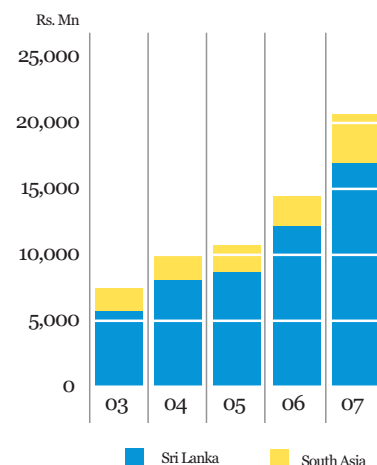
As the Groups' surplus funds are invested in Government Securities the interest income also benefited from the increases in Government Treasury Bill rates during the year.

The Groups' US Dollar denominated borrowings are linked to Dollar revenue streams and not exposed to currency rate risk and exchange losses arising from the devaluation of the Rupee. The possible impact of adverse movements in foreign exchange rates on import of equipment or payments for services is managed by using appropriate forward booking mechanisms as advised by our central treasury which continuously monitors market movements. The company has successfully managed the interest rate exposure on US \$ loans linked to floating LIBOR indices by using Interest

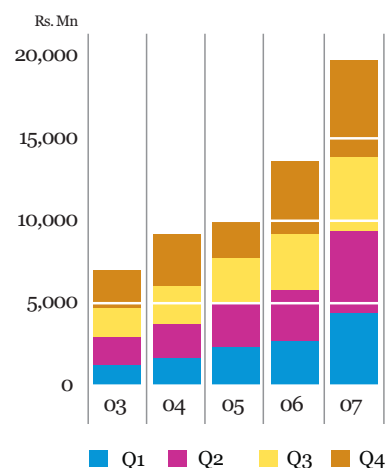
Net Assets Per Share & Price To Book Ratio As at 31st March



Geographical Analysis of Revenue For the year ended 31st March



Quarterly Analysis of Group Revenue



Rate Swaps as well as innovative derivative instruments.

### Economic Value Added

The Group continued its creation of economic profits by recording a positive economic value addition of Rs. 1.97 billion by its activities during the financial year under review. This brings the total positive economic value created by the Group over the last five year period to Rs. 5.2 billion. Economic value represents the total wealth created after financing the total investment of the Group.

### Taxation

The Group's provision for taxation increased to Rs 311.9 million from Rs 209.1 million last year which is an increase of 49% compared to the previous year. The increase is mainly due to the dividend tax of Rs. 69 million. In the year under review the dividends received by the Company from its subsidiaries which were liable to pay the dividend tax, was Rs. 691 million compared to Rs. 127 million received from such companies last year.

The Group's effective tax rate was 12.01% as compared to 10.88% last year. The low effective tax is mainly due to a substantial component of its profits being exempt from income tax due to the investments being made in priority sectors such as tourism, infrastructure development and exports which are entitled to tax exemptions. The Groups effective tax rate after eliminating the profits exempt from income tax has increased to 19.3% from 16.9% the previous year, mainly due to the increase in the corporate tax rate and due to higher profits being contributed by companies which are taxed at higher corporate tax rates.

The deferred tax provision for the year increased to Rs. 31.8 million from Rs. 15.2 million recorded the previous year. The

main reason for the increase is the provision for dividend tax.

### Cash Generation

The Group recorded a positive cash generation of Rs. 3.8 billion from operating activities during the current financial year as opposed to the negative cash generation of Rs. 1.7 billion from operating activities for the previous year. The increased levels of profitability and the positive movement of working capital had the biggest impacts on this generation of cash. Rs. 2.4 billion was incurred on investing activities by the Group during the year, with majority of being on the purchase of property, plant and equipment. The Group raised a total of Rs. 2.6 billion from interest bearing borrowings during the year, of which Rs. 1.96 billion was raised by the parent company. A total of Rs. 2 billion was spent by the companies in the Group for debt repayment during the year giving rise to a positive cash movement from financing activities of Rs. 0.56 billion.

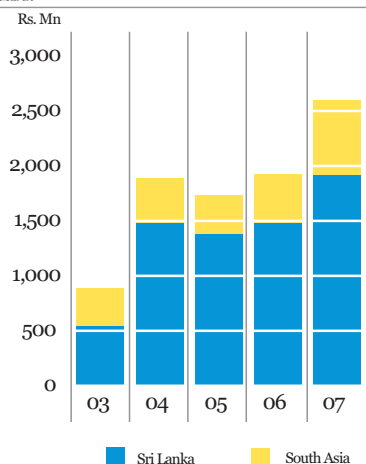
All of the above factors contributed towards the Group recording a positive cash generation of Rs. 1.8 billion for the current financial year, compared to the negative cash movement of Rs. 2.3 billion recorded for the previous year.

### Financial Reporting

The financial statements of the Group have been prepared in accordance with the Sri Lanka Accounting Standards and the Companies Act No. 17 of 1982. Being a quoted public company the requirements and the guidelines laid down by the Colombo Stock Exchange have been followed in the preparation of the Annual Report. The accounting policies adopted when preparing the financial statements are consistent with those applied in the previous years.

### Geographical Analysis of Profit Before Taxation

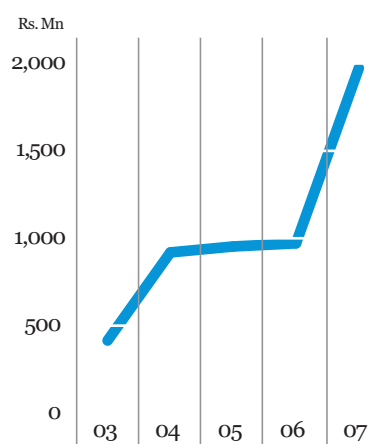
For the year ended 31st March



Economic Value Added	2006/2007 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000
<b>Earnings</b>					
Net Profit for the period	2,284,071	1,712,492	1,558,524	1,699,496	732,416
<b>Add:</b>					
Total Interest on Debt	797,502	416,386	280,650	259,187	264,599
Depreciation	956,025	644,203	459,915	444,833	414,064
Provisions to other intangible reserves	163,801	89,419	36,983	63,794	99,943
Adjusted Earnings	4,202,399	2,862,500	2,336,072	2,467,310	1,511,022
<b>Total Invested Capital</b>					
Capital Employed	13,124,832	11,208,197	9,341,280	8,372,143	6,181,981
<b>Add:</b>					
Total Debt	9,379,486	8,939,157	5,337,357	3,703,633	3,934,274
Cumulative Depreciation	3,917,813	3,065,197	2,390,909	2,216,463	1,844,639
Other intangible reserves	408,206	354,278	239,361	237,405	209,971
<b>Adjusted Total Investment</b>	<b>26,830,337</b>	<b>23,566,829</b>	<b>17,308,907</b>	<b>14,529,644</b>	<b>12,170,865</b>
WACC	8.9%	9.3%	8.7%	11.6%	9.7%
(based on cost of debt and Cost of Equity. Cost of Equity calculated based on the dividend growth model)					
Cost of average investment	2,231,662	1,896,041	1,382,750	1,548,634	1,095,856
<b>Economic Value Added</b>	<b>1,969,737</b>	<b>966,459</b>	<b>953,322</b>	<b>918,676</b>	<b>415,166</b>

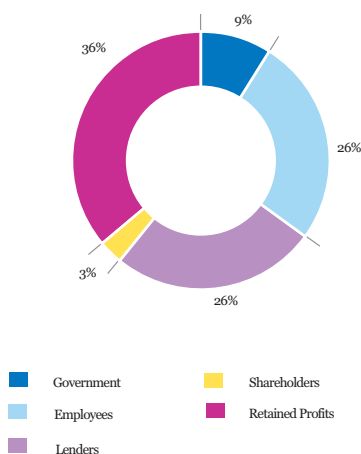
Economic Value Added (EVA) is a measure of value created over and above the cost of funding the total investment. The Group recorded a positive EVA of Rs. 1.9 billion for 2006/2007, a Rs. 1.0 billion increase over the last financial year.

#### Economic Value Addition



Statement of Value Added	2006/07 Rs. ' 000		2005/06 Rs. ' 000		2004/05 Rs. ' 000		2003/04 % Rs' 000		2002/03 % Rs' 000		
Total Revenue	19,765,632		13,593,263		10,063,989		9,157,160		7,030,843		
Purchase of goods & services	(14,098,869)		(9,851,660)		(6,912,731)		(5,842,674)		(4,647,171)		
	5,666,763		3,741,603		3,151,258		3,314,486		2,383,672		
Other operating & interest income	459,537		564,438		389,337		338,407		88,311		
Share of Associate Companies											
profit before tax	47,808		64,677		67,226		33,585		31,271		
Others					-		-		-		
<b>Total value added by the Group</b>	<b>6,174,108</b>		<b>4,370,718</b>		<b>3,607,821</b>		<b>3,686,478</b>		<b>2,503,254</b>		
<b>Distributed as follows</b>											
To government of Sri Lanka (income tax & turnover tax)	9	547,774	9	376,588	9	315,937	8	311,694	11	281,674	
To employees (salaries & other costs)	26	1,588,736	28	1,224,651	28	1,025,796	27	997,416	33	837,539	
To lenders of capital (interest on loan capital & minority interest)	26	1,621,798	21	914,554	19	697,709	18	663,144	18	450,924	
To Share holders(dividends)	3	175,932	4	175,931	5	162,353	4	162,000	5	120,779	
Retained for reinvestments & future growth(depreciation & retained profits)	36	2,239,868	38	1,678,994	39	1,406,026	42	1,552,224	32	812,338	
	<b>100</b>	<b>6,174,108</b>	<b>100</b>	<b>4,370,718</b>	<b>100</b>	<b>3,607,821</b>	<b>100</b>	<b>3,686,478</b>	<b>100</b>	<b>2,503,254</b>	

#### 2006 / 2007



#### Statement of Value Added

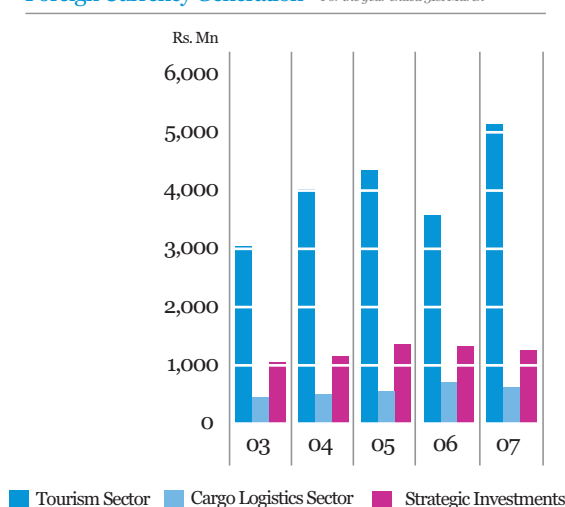
Any organisation with a commercial interest will place “wealth creation” as their top priority. Therefore the primary purpose of the Value Added Statement is to highlight the quantum of wealth generated by the overall operations of the Group and the distribution of the same among its major stakeholders for the period of past five years.

The wealth creation for the current financial year has reached Rs.6.17 billion and is the highest so far recorded by the Group. This is an improvement of 41% compared to the Rs.4.37 billion worth value creation in the previous year.

The Group has contributed Rs. 546.6 million to the government of Sri Lanka by way of taxes and other levies maintaining a constant level of 9% of total value throughout the recent three years. The quantum of wealth distributed to employees increased to Rs. 1.6 billion, a 30% increase over last year. This accounted for 26% of the total value created. A significant highlight is the greater distribution of wealth to the lenders of capital amounting to 26% of the total value created as compared to the 21% previous year. Payments in the form of dividends to shareholders have remained relatively constant for the last three years with a payout of Rs. 175.9 million for the year of 2006/2007. The Group has retained 36% of the total value created for the re-investment in the future growth of its operations.

Foreign Currency Generation	2006/2007 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000
Travel & Tourism Sector	5,133,381	3,574,547	4,348,118	4,020,576	3,045,786
Cargo Logistics Sector	627,405	720,045	562,716	500,227	458,535
Strategic Investments Sector	1,254,220	1,336,848	1,364,086	1,153,884	1,061,357
<b>Total</b>	<b>7,015,006</b>	<b>5,631,439</b>	<b>6,274,921</b>	<b>5,674,687</b>	<b>4,565,678</b>

Foreign Currency Generation For the year ended 31st March



This statement presents the foreign currency revenue generated for the period 2002/03 to 2006/2007 through the Group's direct and indirect operations.

The Group contribution in this aspect was Rs. 7.01 billion during the current financial year 2006/2007. This is a 25% increase over the previous corresponding period.

The Tourism sector of the Group has generated the largest quantum of the foreign currency in the current year. This is 73% of the total generation and amounts to Rs. 5.13 billion. It displayed an increase of 44% over the previous year compared to the remaining sectors adverse growth during the same period. Tourism has achieved such a significant growth mainly owing to the regained posture in the Maldivian tourism sector.

It is also noteworthy to highlight the fact that both the Cargo Logistics and Strategic Investments sectors have witnessed a decline of 13% and 6% respectively over the financial year 2005/06. The dip in the Cargo Logistics sector was mainly due to the scaling down of the operations of ship owning companies during the year. The Strategic Investments has displayed its slightly adverse performance as a result of the decline in the contribution from the Group's manufacturing segments.

However, the Associate companies indicated an increase by 14% over the last year with both managed hotels and the plantations sectors reaching well above the last years' generation.

The Sri Lankan rupee continued to depreciate against the U.S. dollar during the financial year under review. The rupee stood at Rs. 109.32 against the U.S. dollar at the end of the financial year 2006/2007, a devaluation of 6.44% compared to the previous year.

Managing risk in any organisation is a challenge. As the diversity of an organisation increases, so does the complexity of risk management. By definition, high returns are associated with high levels of risk. Sustaining high returns over time requires that the risks are well managed. Therefore, the attitude to risk is that it provides the opportunities that organizations require but must be managed to ensure sustainable success through higher achievements.

As a diverse business entity, Aitken Spence faces a multitude of risks across the spectrum of its businesses. In defining risk, the Group perceives risk as 'any event, situation or circumstance which, if it occurred would adversely impact the achievement of objectives, including the failure to capitalise on opportunities'.

### The Process

Risk management is a process which seeks to reduce the chance and severity of losses by proactive identification and application of mitigating controls to prevent and manage the adverse impact

on the business and its assets. The Group's prudent use of a Risk Management Framework allows for greater flexibility in the identification, assessment and prioritization of risk. Stringent evaluation of the Risk Management Framework allows the Board of Directors, the Board of Management, the Audit Committee, and the Senior Management of the Group to play an integral role in this process of risk management.

In determining the control environment, Board members and senior managers identify the Group's key business strategies, objectives and goals together with the Group's management philosophy, culture, and ethics to establish and maintain an appropriate control environment. Line managers and employees then articulate how specific objectives and goals are addressed in their business areas. The control environment is seen by the Group as the ideal situation for business in isolation of probable shocks from external and internal sources.

Risk assessment or identification follows a cautious analysis of risks

inherent to the Group's businesses and processes. It includes a concerted drive to determine the Group's risk appetite, and establish risk-measurement practices that are appropriate for the diverse operations of the Group. Risk assessment as an ongoing exercise lends the Group a pervasive outlook on the operations of each sector thereby enabling an organisation-wide perspective of its operations from Tourism to Logistics and Strategic Investments.

Consequent to Risk Prioritization, management from each of the Group's sectors garner a good sense of acceptable and unacceptable risks.

Once the risks have been identified, assessed and prioritized a system of risk management takes place where decisions are taken depending on the nature of the risk to either avoid the risk, mitigate the risk, retain the risk (acceptance of loss if risk occurs) or to transfer the risk (transfer of loss to third party). A cost benefit analysis is carried out in each occasion to ascertain the benefit of the method used for risk management in comparison to its cost incurred. Periodic review of this mechanism is carried out firstly by the Board of Management and Senior Management of the Group, and then by the Board of Directors and the Audit Committee.

Monitoring of the Risk management System is typically undertaken by the internal audit division, which is headed by the Chief Internal Auditor, and constitutes 09 employees of the executive carder. This audit function reports directly to the Audit Committee of the Group.



**Figure 01: Risk Assessment and Management Framework**

## External Risks

### 1. Socio-Economic/Political Stability

*Concern:* Main core areas of the Group's business is affected by instability arising from socio-economic/political issues and general security issues within the operating environment. Both tourism and leisure as well as the Freight Forwarding sectors are dependent on the prevalence of a stable and secure country situation.

*Effect:* The non-prevalence of same would incur risks associated with loss of business and the loss of viability of the Group's investments into Tourism and Freight forwarding.

*Mitigatory Action:* Diversification of the affected sectors to operating environments beyond that of Sri Lanka. This would involve the expansion of the Tourism & Leisure sectors to regional markets and Freight Forwarding to emerging economies that have greater potential for business success.

### 2. Business Risk

*Concern:* Natural disasters, global merger or acquisition of a partner or principal, loss of market share to a competitor, change of customer attitude to Group's services and products.

*Effect:* The complete or partial loss of business of one or more Strategic Business Units resulting in lower profitability to the overall Group could be a result of this risk. This in turn would affect shareholder wealth.

*Mitigatory Action:* Identification of natural disasters that could affect the normal operations of the Group, with necessary steps carried out to mitigate the impact of such a disaster if it occurs. The Group transfers the risks of such a disaster to a third party through comprehensive insurance practices.

Special emphasis is also given to health and safety at all business locations.

Cordial relationships are maintained with all strategic partners, fostering a relationship of trust whilst addressing the interest of all parties concerned.

Excellent customer relationships are maintained at all levels with all business units in the Group striving to provide superior services to the customer.

The Group at all business units avoids over dependency to any one party as a proactive action to limit repercussions of loss of a principle business partner.

### 3. Legal Risk

*Concern:* Judiciary action on the non-performance of legal obligations

*Effect:* Loss incurred due to the high cost of legal and penalty fees, loss of image and investor confidence regarding the integrity of the company would be consequences of this risk.

*Mitigatory Action:* The Group recognizes and conforms to its responsibilities as a public quoted company, a taxpayer and an employer. All statutory and legal requirements are met in all transactions.

The Group has its own in house legal division assisting the various business units of the Group. External professional counsel is sort as and when required. Periodic checks are carried out by the Internal Audit division in collaboration with the Legal division to ensure that all business units conform to legal and statutory requirements.

### 4. Reputation Risk

*Concern:* Negative impact on corporate image

*Effect:* The risk has a direct impact on shareholder wealth and investor confidence

*Mitigatory Action:* The setting up of a business communication unit, with representation from all the Strategic Business Units of the Group to ensure up to date and accurate communication with the general public and all stakeholders of the Group coupled with the maintenance of the highest ethical behaviour at all times in all business activities has been the focal actions undertaken to mitigate this risk.

All employees are expected to adhere to the 'Code of Ethics' of the Group, which are informed to the employee at the point of recruitment. The Group actively involves itself in community development and places importance on being a socially responsible corporate citizen. Strict adherence to environmental regulations and all other statutory requirements are maintained.

## Internal Risks

### 1. Investment Risk

*Concern:* Risk of a poor performing investment and risk associated with an investment project failing mid way before project completion due to external factors.

*Effect:* Deterioration of shareholder value due to the loss incurred and the decline in investor confidence.

*Mitigatory Action:* Stringent evaluation of risks associated with each new investment through the utilization of in-house expertise and external resources as and when required. All new investments should satisfy the minimum expected return of the Group. Envisaged bottlenecks of a project are identified at the project planning stage, whereby elimination or mitigatory measures are then undertaken before venturing to execution stage. Investment agreements are carefully drafted to ensure that risks

to the Group are mitigated or minimized.

When investing in new projects, preference is given to the formation of strategic alliances with reputed partners for the creation of synergies. The Group balances the risk return trade off. Certain risks are accepted in light of the future growth and profitability potential of the investment.

## 2. Operational Risk

*Concern:* Fraudulent actions that could occur due to lack of internal control, negative impacts to business operations due to poor working capital management and loss incurred due to non-compliance of statutory requirements.

*Effect:* Disruption to business and the loss incurred thereby, the high cost of legal and penalty fees, and deterioration of the working environment. Hampered productivity, would be the main consequence of this risk.

*Mitigatory Action:* A structured and uniform set of internal controls is adhered to through out the Group. These also stipulate the levels of authority and context within which certain transactions are to be performed. Periodic and impromptu checks are carried out by the Group's Internal Audit division to ensure the adherence and effectiveness of such controls. The organization wide use of the Oracle e-business suite applications software ensures the observance of the required internal controls, whilst facilitating a better management of the working capital requirements.

The Group has a stringent policy for inventory control and debtors' control. A prudent policy is maintained for the provision of doubtful debts based on the time period outstanding. Centralized lists of blacklisted debtors are

maintained. The operational activities of each of the Strategic Business Units are captured in detail in the management-reporting framework in place within the Group. This facilitates close monitoring by the Board of Management.

The Group adheres to all statutory and legal requirements and maintains cordial industrial relationships.

## 3. Human Risk

*Concern:* Cost related to high staff turnover, loss of company sensitive information, drop in productivity and quality, increase in human error.

*Effect:* Lack of motivation resulting in poor productivity and the resultant drop in revenue and market share. Customer dissatisfaction causing switching to competitor products/services, increased human error and loss of sensitive information tarnishing the image of the Group is all potential outcomes of this risk.

*Mitigatory Action:* Recruitment of high calibre staff, effective induction to the Group's corporate culture, training and development with structured career development plans, fostering a reward and recognition culture are the norm in all business units of the Group. These initiatives are lead by the centralized Human Resource Development Unit. Training and development in all relevant spheres are carried out to increase motivation among staff and improve productivity and quality. Open communication is encouraged at all levels of the organization, where all employees are encouraged to voice their grievances to the immediate supervisor or to the Group Human Resources division. The Group takes all precautionary steps necessary to ensure that no sensitive information vital for the performance of operations are disclosed outside of the Group.

## 4. Technology Risk

*Concern:* Some of the concerns in this area would be malicious software and its impact on performance, information loss and unauthorized access and loss of business opportunity due to out-dated systems and non-adaptation of new technology. Also the loss of business due to inadequate preparation for failures of systems and links, improper capacity planning. Breaches in systems security leading to unauthorized access intentionally or otherwise by both internal and external users could also be highlighted as a concern in this area.

*Effect:* These risks can impose short term loss of Information Technology services resulting in the non-availability of current business transactions, loss of future business growth and a breach in confidentiality in information.

*Mitigatory Action:* A multi-tier safeguard mechanism is in place to meet the threat of malicious software and its adverse effects. The mechanism provides real-time detection and elimination of malicious software.

The Group is planning to introduce content filtering technology and maintenance of transaction transcripts to comply with regulatory requirements of our international business partners.

A multi-point inspection of access rights are in place to ensure better security within the IT infra-structure. In the past this inspection was limited to key hardware devices and devices that connect the enterprise to external entities. However, this inspection is now enforced right up to the internal end user computing devices.

Link failure events are treated as likely and a dual service provider link infra-structure is in place to counter this risk. The company together with the telecom service providers pioneered the

introduction of real-time load balances multiple link usage via MPLS networks in Sri Lanka.

A well managed capacity adequate Network is a must for co-operating business entities to function smoothly. The latest networking equipment supporting quality of service (QoS) features are in place. This has inducted the concept of “service commitment” in technology services in the Group.

System failure events are treated as occasional; rapid response agreements and backup procedures are in place to counter these risks.

Systems hardware capacity is also monitored to ensure availability of sufficient computational resources. As a rule of thumb – a consistent 70% resource usage is considered the alarm for capacity enhancement.

Systems at acquisition stage are subject to stringent evaluation, especially in terms of suitability, conformity to futuristic trends and continuity of systems. The Group maintains a keen eye to spot emerging technology, its maturity and the suitability to strengthen business processes.

## 5. Foreign Exchange Risk

*Concern:* Exposure to foreign currency liabilities. Adverse movements in currency rates affecting the purchase of capital goods, raw materials, services and in the conversion of foreign currency receipts to rupees.

*Effect:* Adverse movement in the Rupee exchange rate against the relevant foreign currency can mean an impact on the profit & loss account on translation of liabilities as well as lead to cash flow problems during settlement of such liabilities. Any such adverse movements that occur post original estimating can

impact the profitability of a project or a particular order or transaction.

*Mitigatory Action:* The company through its central treasury manages the above risks in the following manner. The effect of exposure to foreign currency liabilities are minimized or avoided by matching these liabilities against foreign currency denominated assets. Further the risks associated with future repayments of foreign currency loans and interest is mitigated by ensuring such outflows are matched by foreign currency inflows. The impact of adverse movements in exchange rates on imports and export transactions are mitigated by the use of forward rates for initial estimating, covering the actual transaction through forward booking of currencies as well as matching of foreign currency inflows and outflows on a consolidated basis across the Group companies. However, the Central Treasury through continuous monitoring of market movements advises the subsidiaries as to the timing of such forward bookings thus striving to minimize the import costs and maximize export revenues at all times whilst at the same time managing the risks involved.

## 6. Interest Rate Risk

*Concern:* Adverse movement of interest rates in rupee and foreign currency short term borrowings and long term loans, where interest rates are linked to a floating index.

*Effect:* Increase in interest liability of the Group would have a direct impact on its profitability, cash flows and shareholder wealth.

*Mitigatory Action:* The Group manages and mitigates its interest rate risks through its central treasury by using the following strategies.

Exposure to US\$ loans linked to floating indexes such as LIBOR is mitigated by the use of innovative financial instruments such as interest rate swaps and other Derivative products. The Group has been involved in pioneering Derivative products in Sri Lanka in the pursuit of its risk mitigating objectives.

The interest rate exposure of Rupee long term borrowings is mitigated by negotiating caps and floors or executing interest rate swaps where there are floating interest rates or by negotiating fixed interest rates with the lending agency.

The impact of interest rate movements on Group's short-term borrowings is minimized through the efficient management of rupee cash flows across the Group in a systematic basis, which includes netting of subsidiary, company cash flows through the centralised treasury. The efficiency of this method is evident by the fact that the Group has consistently maintained a lower effective interest rate compared to market rates. However, the Group keeps a continuous watch on market trends that can impact its net exposure on short-term borrowings and takes preventative measures where necessary to guard against anticipated fluctuation in rates.

## Fortifying Foundations

*People are our greatest asset. They form the firm foundations on which the success of the Group's business is built. Fortitude, strength of belief and an irrevocable passion to excel are hallmarks of the Aitken Spence spirit. The very spirit that has propelled the Group to the highest echelons of the Sri Lankan corporate community and led the impetus to glean recognition and respect from global partners and customers. Continuously striving for greater accomplishments is in every sense an Aitken Spence principle. A principle that has been instrumental in shaping the structure of our HR activity.*

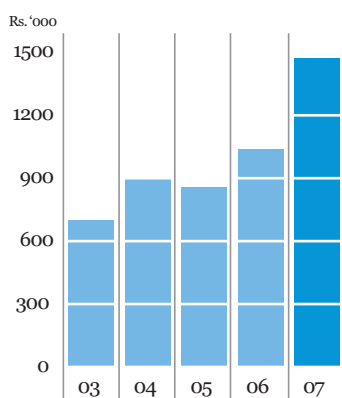
*Challenging all norms and existing practices during the year 2006/2007, the Group analysed, evaluated and introduced productive systems and procedures to enhance the Group's HR activities to meet constantly evolving business needs through a win-win approach to personal and corporate development.*

### Strategic Focus: "The Model Employer"

Aitken Spence & Company, a veritable giant in the corporate citizenship of Sri Lanka, has the brains and the brawn to lead in not only its business pursuits but also in achieving greater heights as an employer of choice. Envisioning to be considered the "model employer" the Group puts to use foresight, research and a multitude of global best practices and international benchmarks to forge ahead in human-capital development. Conscious of the very fact that only knowledge earns returns, the Group has put into action a plan that aims to tap the very best of human-capital through continuous development.

Aiming to achieve the "model employer" status through a concerted execution of brand empathy and initiatives that allow for every member of the Group to live the Aitken Spence brand personality couples with competency based training and recognition of employee value add to the growth of the Group. Possessing a tried and tested set of HR principles, the Group's homegrown philosophy has been flexible to adapt to changing needs. Engaging employees optimally through a rigorous engagement process has given the Group's Human Resource Division the ability to leverage relationships and mutual understanding to progressively advance towards its strategic vision to be a model employer. Testimony to this

Value Added per Employee



approach is the fact that the Group are the reigning winners of the National Human Resource Management Award for the Group's of companies Sector in the services category.

### Recruitment: pursuing talent in greater peripheries

The Group's recruitment needs are diverse. With different aspects of the business requiring different talent needs – of which a substantial quantum of recruitment is for overseas operations - it has become imperative that the recruitment process is expeditious in identifying, selecting and recruiting new talent to the Group. Moreover, the need to look beyond the scope of conventional peripheries for talent to source and infuse into the business was a necessity. As such, during the financial year under review, the Group networked to a global online recruitment system. Gaining access to thousands of potential candidates, both local and international, the system enables the Group to advertise positions as well as to tap resources that are posted on the system, thereby drastically reducing the time lag for new recruitment, pushing productivity efficiencies upwards.

Concurrently, the Group connected with the Monash University and the Chartered Institute of Management, during the year, in a bid to draw in young talent both from global and local spheres. This concept was further extended through presentations to the British Council's Alumni programme during the year.

### Competency Based Training

The year saw a substantial growth in the quantum of training undertaken by the Group. Conducting one hundred and forty seven training programmes for over three thousand three hundred and fifty Executive and Non Executive staff, the Group Human Resources Division fully scaled the expertise of in-house resource personnel to successfully meet up to 82 per cent of the Group's training requirement as opposed to a 70 per cent in the previous year.

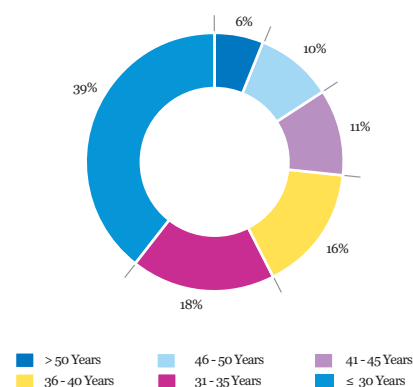
A competent pool of effective in-house trainers imparted both technical and soft skills training ranging from Management, Organizational and Individual development. During the year 2006/2007 the Group conducted up to sixty seven Individual Development programmes, thirty two Management Development programmes and forty eight Organisational Development workshops.

Of the one hundred and forty seven programmes conducted by the division, 56 per cent of the programmes were Group centric whilst 44 per cent were subsidiary specific and formulated in response to issues related to the various sectoral needs.

### Infusing the Best of Corporate Knowledge

The Group allied with India's most reputed Management Institute, the Indian Institute of Management (IIM) of Bangalore to train twenty five of the senior management staff. Managing Directors, Directors and Deputy General Managers visited the Institute

Age Analysis - Executive & Clerical Staff





and obtained training under the best of India's Management gurus. The residential workshops varied from two days to a week. The knowledge gained at the sessions were imparted to the rest of the Group through interactive sessions at Board level and through more broad based sharing of knowledge across the functional divisions.

### Sharing "Best Practices"

The Group's Port Management Container Services division in collaboration with Transnet Ltd., of South Africa implemented a Best Practices Programme for South African Ports Operations (SAPO). The knowledge share exercise involved the participation of sixty five team members. Flying to Durban in July 2006, participants implemented a programme of work designed to fast-track the development of the skills and competencies of equipment operators. This 'Laboratory Concept' was the first of its kind introduced to the Transnet Ltd., of South Africa group, enabling those involved to improve their skills and elevate SAPO's performance to a truly world class standard. Aitken Spence Group's HR division facilitated the HR team building and Productivity modules for this programme to effectively train approximately two hundred of Durban Port's employees. Subsequent to the successful completion of the assignment, the Group has been assigned the task of training the Pier one staff at the Durban Port, to achieve greater efficiencies and productivity.

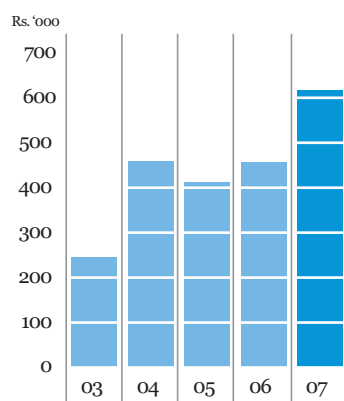
Considering this as a novel new product/service, the HR Division hopes to market services similar to this across new frontiers through collaboration with the Group's various sectors, in the future.

### Enhancing Managerial Competencies

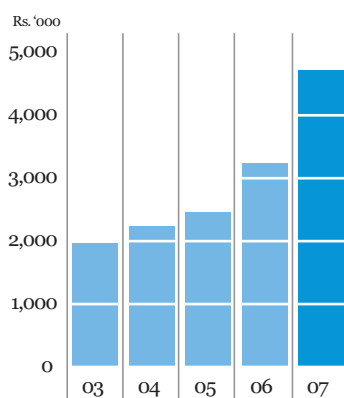
With a firm objective aimed at raising performance standards of management teams to be more competent globally within the Group's subsidiaries, Competency based training earned high priority during the year. The project comprised of modules pertaining to Competency Mapping, Psychometrics, Business English, Presentation Skills, Leadership Skills, Computer Driving License Acquisition and Touch System familiarity. Conducting a pre-evaluation to understand the fundamental needs of the participants, the Group formulated a comprehensive competency-based training course to meet the desired level of competency for optimal organizational performance. Competency targets were scientifically identified through a multitude of job assessments.

A steady brain drain is currently afflicting the Sri Lankan labour market. As such the Group focused on molding managerial competencies in the shortest possible timeframe by innovating programmes to shorten the time frame for knowledge enhancement at managerial levels. Traditionally, managerial competency building requires a full five years of continuous knowledge enhancement, however the Group innovated a new, far more rigorous competency building program that aims to deliver the same competencies and capabilities within two years. Speeding up the process has lent the Group the advantage of being able to meet the evolving managerial needs of the organisation with greater vigor and through the development of a versatile management team.

Profit Before Tax per Employee



Revenue per Employee



## Transfer Policy

Instituting an innovative transfer policy during the year 2006/2007, the Group facilitated employee mobility across the many sectors of the Company. The diversity of business functions across the Group allows for employees to build greater knowledge and to pursue different avenues of interest. The objective of the transfer policy is to retain employees within the Group without losing them to external sources, thereby maintaining the culture of the organisation, whilst also giving employees the freedom to venture out to diverse areas of industry in their own pursuit of knowledge and career development. The transfer policy facilitates both upward and lateral movement.

## Enhancing Productivity

### 5S

The focus, during the year under review as in that of previous years remained on creating a healthy and an efficient work place through the introduction of good house keeping practices. In the year 2006/2007 the Group's embracement of the 5S dictum took on a heightened relevance with active subsidiary participation rising to twenty three subsidiaries from that of nineteen. The evaluation criterion for the competition consisted of three value adding segments; the amount of space saved, awareness on 5S and the best 5S report. Keen competition amongst different sectors has created a culture that is proliferating in infusing innovation and proactive action into the work process.

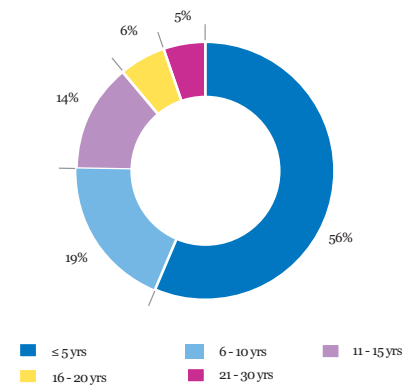
## Employee Suggestion Scheme

In the belief that businesses committed to creativity and innovation are ignited by an edge that better equips them to face the challenges of a globalized world, Aitken Spence Group initiated and introduced a suggestion scheme with the objective of stimulating and capturing innovative ideas of employees across the entirety of the Group. The system is transparent and constitutes a reward system. Most importantly, the scheme engages the employees consistently extracting fine ideas as well as commitment and ownership.

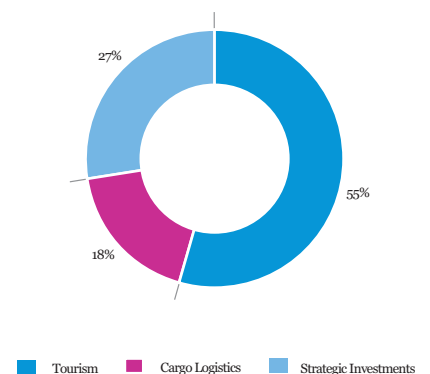
## Apex of Group HR

The strategic HR Team established in the previous year expanded in size and in significance during the year. The team grew two fold with ten more subsidiaries recruiting dedicated HR professionals. The Committee conducted an assortment of sessions on current HR practices create a wider awareness on the very latest HR trends in the global arena. Eleven meetings were conducted during the year and the team construed to position crucial and effective mechanisms to continuously develop HR within the Group.

## Service Analysis - Executive & Clerical Staff

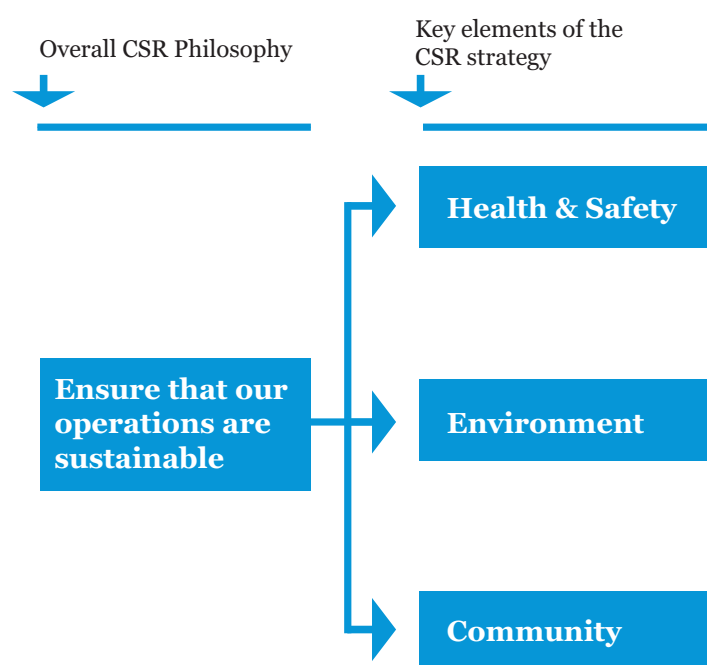


## Sector Wise Analysis - Executive & Clerical Staff



*Aitken Spence & Company is committed to enhancing the well-being and the prosperity of the communities where our businesses operate. Our involvement is underpinned by our values and we aim to earn the trust of all, through vigorous stakeholder engagement. The underlying approach for the Group's Sustainability programme revolves around the holistic concept of empathy and outreach, enhancement and education.*

*Thinking in totality is a pervasive business ethic at Aitken Spence. An ethic which is embedded into the very core of how we do business. It dictates our thoughts and more importantly our actions. Looking constantly with an open mind and seeking to see beyond the obvious, Aitken Spence is driven by not only what is best for the Group but for the long term sustainability of communities, stakeholders, the environment and the Nation's economy.*



### The Group's Sustainability Philosophy and Focus

The Group's core sustainability focus is three pronged and revolves around Community, Health & Safety and Environment.

Sustainable Practices are imbibed to each core area of focus, with the intention that these practices are integrated into the daily operations of the Group and its subsidiaries. These practices aim to:

- Prevent people from being harmed by work or becoming ill, by taking the right precautions- and providing a satisfactory working environment.
- systemise approaches to managing environmental impacts.
- Work with communities in which the Group operates, along with other relevant organisations and

authorities to improve the educational, cultural, economic, social and environmental well being of those communities.

## 2006/2007 – The Year of Global Compact Revival

Through the power of collective action, the United Nations Global Compact (UNGC) seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation. In this way, the private sector – in partnership with other social factors – can help realize a vision of a more sustainable and inclusive global economy.

The Global Compact is a purely voluntary initiative carrying with it the objective of mainstreaming the 10

principles in business activities around the world whilst also catalyzing actions in support of UN Millennium Development Goals.

Aitken Spence & Company is a member of the local network of UNGC. In the year in review, the Group worked with tenacity to revive its commitment to the UNGC principles. Presenting a case study to the UNGC membership in the region, the Group was featured in the Sri Lanka Best Practices Booklet for exemplary Best Practices in Hotels for the innovative and groundbreaking environmental sustainability efforts employed by the Heritance Kandalama. The Best Practices Booklet is to be presented at the UNGC Leaders Summit in Geneva in July 2007. Operating as a member of the Steering

Committee of the Sri Lanka membership, Aitken Spence & Company vested greater resources on advocating the UNGC principles not only at the workplace but across the corporate citizens of Sri Lanka.

The Group's commitment to the UNGC and sustainability is encapsulated in a statement issued by the Managing Director of the Group. This statement not only documents the Group's commitment to the cause but infuses the values and beliefs that form this commitment, in a pragmatic manner, to the everyday actions of the organisation. Driven by the very top, the acceptance of the UNGC principles, filters across every level and within all sectors and subsidiaries of the Holding Group.

## Company's Commitment to Sustainability

Sustainable development is a concept that all responsible entities in the world should be committed to. Its correct understanding and the incorporation of its principles by governments, businesses, society and individuals will determine the world that future generations would call home. This is probably true now than at any other time in human history.

We have understood the significance and cruciality of sustainability, aligning our corporate responsibility strategy to take decisive steps

to ensure that all our operations are sustainable.

All our businesses take account of the need to conserve the environment and seek to promote environmental best practices in conducting our activities.

We are developing our people to achieve their true potential, at workplace and beyond. An enduring commitment to maintain the highest standards of employee health & safety has developed into a focused strategy across the Group.

Our success should be mirrored in the communities from which

we operate. Hence, we are strengthening our commitment to build sustainable partnerships to engage with and develop communities.

We support the Global Compact, the United Nations corporate responsibility initiative, as we strongly believe that the corporate sector has a key role to play in building a better world for all.

**J.M.S. Brito**  
*Managing Director*



*Tsunami Housing Project at Katuwila, Ahungalla*

## Community Outreach

### Spence Evoluzione Charitable Trust

In the year 2005/2006, every employee of the Group donated a minimum of one day's salary towards the "Spence Evoluzione Charitable Trust". In that year the trust drew in contributions from local and global partners, principles and well wishers.

Phase 1 of the tsunami reconstruction efforts under the purview of the trust saw the construction of fifty eight houses and two community centres in Ahungalla, Balapitiya, Wellabada, Kosgoda and Trincomalee.

As a second phase, during the financial year 2006/2007, the Spence Evoluzione Charitable Trust completed the reconstruction efforts in Ahungalla with the assistance of the Havatzelet Kibbutzu Movement. The housing

complex on the scenic hilly terrain of Wawuluglakele includes 33 houses, a medical centre and a community centre. All the houses are assured with uninterrupted water and electricity.

Despite recommencement of work on phase 2 of the Tsunami reconstruction in Kumpurupiddy during the year, escalating violence in the region has resulted in sluggish progress. The Group, however, hopes to continue with the construction of a preschool, medical centre and a community centre once stability is achieved in the areas concerned.

### Partnerships for development

During the year in review Aitken Spence Cargo established a development partnership with the stakeholders of Dedunupitiya Maha Vidyalaya, Mawanella, a school located in a Food Insecurity Area as identified by the World Food Programme (WFP).

Organizing and participating in a Shramadana campaign to clean the school and set up a wire-mesh fence around its periphery, staff of Aitken Spence Cargo collaborated to paint classrooms and ancillary buildings, replace the school's name board and to reform its water supply. Additionally, in a bid to enhance the school's accessibility to technology, computers were provisioned for student use.

As a part of its commitment to continuously assist the rural community, the company is constantly seeking opportunities and avenues to grant students work experience within the corporate sector.



*Shramadana campaign at Dedunupitiya Maha Vidyalaya*

### **Responding to Critical Needs**

The Cargo sector, during the year, acted on an identified critical need at the Paediatric Unit of the Colombo South Hospital, Kalubowila. A computer was donated to the hospital both for storage of patient records as well as for educational and medical research purposes of the hospital staff.

### **Fight Hunger: Walk the World 2006**

TNT Express represented by Aitken Spence Cargo linked with the World Food Programme (WFP) for the 3rd consecutive year to conduct "Fight Hunger: Walk the World 2006" in a concerted bid to raise funds to feed over three hundred thousand school children in Sri Lanka.

With a total participation exceeding that of seven thousand six hundred people in over one hundred and eighteen countries, four hundred and twenty locations spanning a 24 hour time zone, participants collaborated to deliver one core message. A message calling for the negation of child hunger throughout the world by calling upon the world's citizens to work together in a collective effort to force a decline in child starvation and malnutrition.

In Sri Lanka, more than eight hundred participants walked a distance of 5 km to conclude Sri Lanka's leg of the race.

During the past 2 years TNT Sri Lanka has contributed over Rs. 800, 000 towards the WFP local school feeding programme.

### **Challenge Anneka**

During the year, TNT partnered with the crew of the popular British television show "Challenge Anneka". Undertaking a challenge to uplifting the

lives of the residents of tsunami devastated Payagala, the show's crew flew to Sri Lanka to construct a maternity clinic, a playground and a cricket pavilion.

The crew, however, faced tremendous difficulties in gathering required materials and funds. Adding to the complications, logistical difficulties strained the practicality of the project. Requiring delivery of construction items in perfect condition to the final destination – locality of the project – posted a daunting task on the team.

In recognition of the importance of the project to the community, in and around Payagala, TNT tendered its services through TNT Special Services, Sri Lanka. The timely assistance enabled the challenge to be completed with delivery of all equipment and materials for the success completion of the challenge.

### **Colour the World**

TNT Express in association with the United Nations conducted an international art competition and exhibition termed 'Colour the World' for the third consecutive year. The programme aimed at creating greater awareness on issues pertaining to global hunger. With over twenty four youngsters participating, the contest concluded with the selection of a winner from each of the four age categories. All participants were presented with certificates while the winners were awarded with prizes.



*Construction of the Community Centre*



*Tsunami Housing Project*



5s awareness programme at Ananda Maha Vidyalaya, Elipitiya

### Lighting Lives

During the year under review, Aitken Spence Power undertook numerous initiatives to improve the living conditions and to ensure the well being of the community in and around the power generation facilities in Matara and Horana.

The Naimbala Bandaththara Maha Vidyalaya, Matara was assisted by the company constructing a boundary wall around the frontal perimeter of the school which replaced a dilapidated barbed wire fence thus enhancing the safety of the children.

A computer room for the vocational training centre managed by the Midellawala temple was constructed on the identification of a need to provide better facilities and resources for those pursuing academic courses on information technology at the centre.

Acting on an appeal made by farmers and agrarian officers in the locality, Aitken Spence Power contributed

towards enhancing the paddy cultivation in the surrounding area, by canal dredging and improving the irrigation system.

Activities initiated in the previous financial year to build links with communities around the plant were sustained with numerous activities undertaken during the year including donating computers to Naimbala Bandaththara Maha Vidyalaya and Sri Sudharshanaramaya temple as well as provision of gifts for cultural ceremonies organised by the Divisional Secretariat during the course of the year.

The Horana power generation facility, during the year, was involved in the construction of a Community Center in Kekuliya, a small village adjacent to the BOI industrial zone. The plant assisted the village by providing financial support at different phases of the construction of the building. Currently, the final phase of construction is underway.

### Covering Community Needs

Aitken Spence Garments made a number of meaningful contributions towards the well-being of the society in which it operates. Activities included donations of books to the Ran Tikiri Children Association Library, fabric to the Kudaliga Maha Vidyalaya, Horana for utilization for the school's annual sports meet, basic medical amenities to the Sri Lanka Army, sewing machines, fabric and thread to the vocational training centers in Meegahhathanna and Baduraliya.

Under a school productivity improvement programme Aitken Spence Garments sponsored

blackboards for Ananda Shasthralaya. The sector also conducted English language classes to uplift the language proficiency amongst employees' children. As a service to the local community during the year, Aitken Spence Garments renovated and maintained the Mathugama clock tower.

### **Empowering and Skills Enhancement**

The Group Human Resource Development Division has consistently over the years contributed to not only the development of the Group's internal human resources but also to the enrichment of the education and skills sectors of the national economy. To this effect, during the year in review, GHRDD partnered with diverse institutions and entities to create greater opportunities for individuals and organizations in the belief that the cumulative outcome of these initiatives will create a pool of resources that benefit the efficiency and proficiency of the national workforce.

**5S programme:** On the invitation of Ananda Maha Vidyalaya-Elipitiya, Group Human Resource Development Division conducted a 5S programme for the benefit of staff and students. The programme laid emphasis on time and resource management as well as the importance of maintaining a clean and tidy work environment. One hundred and fifty participants benefited from the program.

**Career Guidance:** The Division conducted career guidance programs for students of the Moratuwa and Kelaniya Universities as well as over one hundred and thirty school students

to garner valuable insights into the corporate world.

**NAITA Trainees:** Apprenticeship opportunities were offered to the trainees of the National Apprenticeship and Industrial Training Authority (NAITA) with the aim of provisioning industrial placement experience and insight, thereby enhancing the participants' likelihood of future employment. During the year, nineteen NAITA trainees were placed within the Group with twelve receiving employment within the Aitken Spence Group.

A further eight undergraduates were granted internship opportunities at the Group Human Resource Development Division.

**Management Training Program:** The Division successfully concluded a management training program for the 4th batch of undergraduates from the University of Ruhuna. The award ceremony was held in September 2006 for twenty five successful participants.

**Equal Employment Opportunity:** As a member of the Employers Federation of Ceylon's (EFC) network on disability, the Group continued to support differently-able individuals by granting equal opportunities for employment.

Commitment to this cause was demonstrated through the employment of individuals with partial visual impairment to different functional areas of the Group as well as the absorption of an auditory impaired individual to engage in creative design related employment.



*Career guidance Programme at Ruhunu University*



*Blood Donation Campaign at Vauxhall Premises*

**Blood Donation Campaign:** The division organized the annual blood donation campaign to assist the Maharagama Cancer Hospital.

**National Identity Card Mobile Renewal Session:** Acting on an employee suggestion, the Group Human Resource Development Division together with the Department of Registration of People facilitated a National Identity Card Mobile Renewal session for the employees of Aitken Spence & Company. This session facilitated over two hundred and fifty employees to obtain national identity cards.

### **The future cared for**

The plantation sector's CSR focus for the year centered around child development and child care. During the year a multitude of social responsibility efforts revolving around the welfare of the nation's future were carried out by the sector. A project was initiated to uplift the lives of eighty under privileged, orphaned children living within the

perimeters of the sector's plantations in association with the MJF Charitable Foundation.

The provision of a mid day meal for one thousand four hundred and ninety eight crèche children for the period of one year at a cost of over Rs. 500,000, donation of school uniforms and books to over three hundred and fifty children on Talagaswella Estate and six hundred and eighty children on Deviturai Estate were actions propelled as a result of needs identified within these communities by the Plantation sector.

A health camp organized by the Deviturai estate saw one hundred and six workers obtain medical attention for an array of medical needs.

### **Sight for all**

A team of opticians attached to the International Centre for Eye Care Education, Australia conducted a special eye care programme on the Dunsinane Estate hospital premises, during the year in review. The programme, organized by the MJF Charitable Foundation together with the management team of Elipitiya Plantations (Pundaluoya Cluster) was held for the benefit of the employees, their families and the villagers of the Pundaluoya region. Eight hundred and five individuals were examined with five hundred and sixty nine spectacles amounting to Rs. 1.2 million being issued on a complimentary basis.



*A welfare project for the children of the employees of Deviturai and Talagaswella Estate*



*Environment Management at Kandalama*

## Environment

### Progressing towards greener benchmarks

Aitken Spence Hotels pioneered the concept of sustainable development in tourism. The Best Practices followed by the Hotels sector for the conservation and protection of the environment have been recognized as global examples on sustainable tourism.

Heritage Kandalama complies to ISO 14001 whilst the remaining eight hotels are working towards meeting the compliance requirements for ISO 14001 certification.

The ISO 14001 certification is concerned with "environmental management" which include:

- minimize harmful effects on the environment caused by the organization's operational activities,
- achieve continual improvement of the organization's environmental performance.

Likewise, the principal objective of the Green Globe Standard is to facilitate responsible and sustainable environmental and social outcomes for communities. The Green Globe Community / Destination Standard provides communities with a framework to benchmark their environmental and social performance, to certify their performance, and to continuously improve their performance.

The Standard addresses key environmental issues facing the planet. It deals with environmental regeneration and environmental improvement as well as the conservation of existing heritage assets.

Heritage Kandalama holds the acclaim of being Asia's first hotel to comply to the Green Globe 21 certification requirements. Heritage Ahungalla, Tea Factory, Earl's Regency and Neptune hotels have been Green Globe 21 benchmarked and expected to achieve certification in the near future.

Graduating from a 3R concept (Reduce, Reuse, and Recycle), all nine of the properties within the Hotels sector have adopted a 7R concept (3R + reject, repair, replace, reclaim).

In doing so, the sector has progressively sought to establish a zero plastic environment. All plastics in the future will be replaced with paper, reed leaf fibre, natural wax, grass coconut shell, tree bark, clay, stone and natural products.

In a bid to carry out micro level reforestation efforts, all properties embarked on a series of tree planting campaigns by distributing plants grown in nurseries amongst the surrounding schools and communities.

From an energy and water consumption point of view, the hotels sector has employed audits to determine the consumption of the sector and to identify the means by which consumption can be reduced and effectively managed. In doing so, the sector recycles all waste water for garden use.

### **“Animal Friendly Hotels”**

TUI, the world’s largest integrated tourism organisation, presented the Browns Beach Hotel an award for its novel environmental integration efforts. The award termed the “Animal Friendly Award” recognized the company’s efforts directed at a solution towards stray cats and dogs within the hotel’s properties. The issue of animal welfare is an emotionally-laden subject with visitors deterred from travelling to properties that use inhuman methods for stray control.

Therefore, TUI Deutschland GmbH together with the Animal Welfare and Protection Association of Sri Lanka jointly carried out a project for the species-appropriate population control of stray dogs and cats, through a neutering, provision of veterinary attention and a feeding programme with allocated feeding points within the periphery of the hotel.



*Eco friendly projects at Kandalama.*



*Plant Nursery at Kandalama.*

## Health & Safety

An HS policy has been part and parcel of the operations of Aitken Spence. In the long term, we recognize that the successful implementation of an H&S strategy will direct us to a strata of improved corporate efficiency. All subsidiaries of the Aitken Spence & Company comply with the Occupational Safety and Health standards listed below:

1. Compliance with all statutory provisions relating to occupational Safety and Health.
2. Sensitization and Awareness among all sectors of employees on safety management, accident prevention and hazards and risks of work.
3. Involvement of all sectors of employees in safety activities.
4. Preventive/ safety measures are in place, regularly monitored and replaced as and when necessary.
5. Work in close rapport with the State agencies particularly Department of Labour.
6. All records maintained and forwarded to relevant authorities regularly.

7. National Safety week and other Government programs observed.
8. Employees are advised to wear personal protective equipment while they are working with hazard materials.
9. Staff training on first-aid.
10. Specific safety instructions are given to employees who are working with machinery.

In adhering to mechanisms to ensure health and safety, the power sector relies on a number of proactive and reactive measures:

From a proactive stance, plant employees receive and are stipulated to wear all necessary safety gear. Senior engineers advise the staff on the precautionary measures to be taken to avoid any accidents. Employees are given fire fighting training and regular fire drills are carried out to ensure all employees are familiar with the safety procedures and aware of the steps to be taken in an emergency situation. The fire fighting equipment is regularly inspected and tested to ensure the operable conditions are maintained.

Reactive measures are limited but of great importance when considering the

criticality of reaction time in mitigating the effect of an accident or during a crisis. For this reason transport arrangements are in place round the clock for the purpose of vacating accident victims to hospitals for immediate medical attention.

To prevent the spread of occupational disease and accidents, hazards are identified on an ongoing basis. The objective remains to identify hazardous conditions which cause accidents and diseases in the workplace and to apply strategies to minimize the effect of such hazards.

The company's senior management regularly review the occupational health and safety management system, its performance and results to ensure its continuing suitability and effectiveness and where appropriate to implement improvements and corrective actions. A safety committee consisting representatives from all the departments has been formed. Meeting monthly under the chairmanship of the manager engineering services, the committee discusses and monitors all safety related problems and takes necessary corrective and preventive actions.



*A training session on health & safety for the employees of the Group.*

## Hotels

ISO 22000-2005/HACCP, the latest international standard on food safety management systems, ensures high food hygienic standards, while preserving the quality of cuisine. This will gradually become the norm and finally a mandatory requirement for all food-handling operations globally.

Heritage Kandalama, The Tea Factory and Earl's Regency received certification in October 2006 for compliance with ISO 22000 by SGS.

During the certification process the hotels exposed the entire food chain from the producer through the supplier to the consumer, in ensuring that high standards of quality and hygiene are maintained.

Effective interactive communications throughout the food chain downstream and upstream was developed to ensure delivery of safe food.

A structural managements system was incorporated into the overall operational management system, which has been aligned with the ISO 9001 quality standard. Based on these basic standards, the sector's chefs with advice from SGS compiled their own quality and safety standards manual for individual hotels.

With auditable requirements, ISO 22000 standard combines the HACCP plan with prerequisite programmes (PRPs). The standard requires that all hazards expected to occur are identified and analyzed, in order to control

critical points where hazards can occur in the operational flow.

The standard includes planning, implementing and maintaining of a food safety management system, which will comply with all regulatory requirements, assess customer requirements, effective communication with the food chain, confirming to the food safety policies of the state, and demonstrate conformity to all relevant parties while seeking certification.

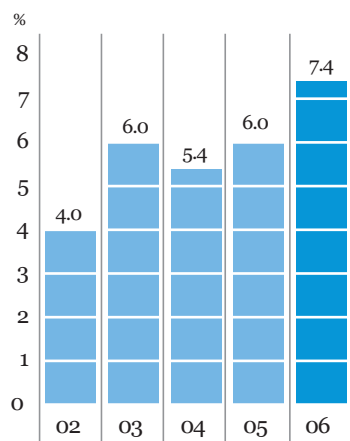
All food handlers in the chain have been trained, while the other stakeholders are sensitized and their awareness enhanced. All stakeholders play an active role in maintaining the standards.



## **Accolades, Recognition and Appreciation for CSR Efforts in 2006/2007**

- Aitken Spence & Co was the adjudged within the top ten corporates for the Best Corporate Citizen Award 2006, organized by the Ceylon Chamber of commerce.
- Aitken Spence Hotel Holdings Limited received a commendation award at the ACCA Sustainability Reporting Awards 2006 for its commitment towards environmental sustainability.
- The Group Human Resource Development Division received an award of appreciation from the Department of Civil Engineering, University of Moratuwa for the continuous commitment towards student mentor programs.
- The Browns Beach Hotel Negombo was awarded the Animal Friendly Award from TUI Deutschland GmbH.

## GDP Growth



The year 2006/2007 continued to be a year compounded by numerous externalities that impacted with adverse consequences. Nevertheless, the economy continued to indicate resilience despite the multiple shocks brought on from the security situation, spiraling global oil prices and sliding foreign exchange revenues from the performance of industries such as tourism at levels below expectation.

## Economic Growth

The Sri Lankan economy demonstrated continued resilience recording a commendable growth of 8.0% over the first half of the year 2006 tapering off to stabilize at approximately 7.4% by end 2006 – highest ever growth rate since 1978 – in comparison with 5.3% growth in 2005. The year also witnessed an official unemployment rate of 6.5% also the lowest rate in Sri Lanka's economic history.

Exports - mainly apparel, tea, rubber, gems and jewelry – stood at US\$6.8 billion. Imports consisting mainly of oil, textiles, food, and machinery were US \$10.2 billion in 2006. The trade deficit in 2006 was US\$ 3.37 billion compared to US\$ 2.52 billion in 2005. The overall balance of payment recorded a surplus of US\$ 204 million which is a decrease 59% from the previous years US\$ 501 million. Total foreign reserves at year end was sufficient to finance 4.3 months of imports.

## GDP Composition

As in previous years, the service sector was the largest component of GDP at 56.2 %. In 2006, the service sector continued its strong expansion, fueled

primarily by strong growth in telecom, trading, and financial services. A burgeoning information technology sector, especially information technology training and software development was a key area of growth.

Industry accounted for 27% of GDP of which the textile, apparel, and leather products sector accounted for 39% of total industrial output. The second largest industrial sector, at 22% of total industry output, is food, beverages and tobacco. Chemical, petroleum, rubber and plastic products posted the third largest output. Agriculture employs 32% of the working population, but accounted for only 16.8 % cent of GDP in the year under review.

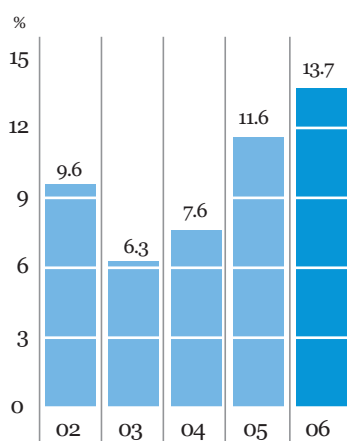
## Inflation & Money Market

Inflation in 2006 increased to 13.7 % at the end of the year, an increase of 2.1% from that of 2005. In a bid to control inflation the Government allowed the treasury bill rates and inter-bank rates to rise. One year treasury bill rates rose during the financial year 2006/2007 from 10.38% to 14.53%, a staggering 40% increase. The overnight money market rate climbed sharply from 10.5% to 15% as at 31st March 2007. The overnight repo rate was raised 175 basis points by the Central Bank to 10.5%.

The short term bonds witnessed significant increases with the two year bond rate increasing from 11.22% to 14.07% and 5 year bond rate increasing from 11.28 % to 13.68% as at end of March 2007.

Due to the rising interest rate and due to the instability and uncertainty

## Inflation



regarding the peace process, there was no demand for long term bonds. This resulted in there being no issues of 10, 15 & 20 year treasury bonds for the third consecutive year. Therefore, the development of the long term bond market in Sri Lanka appeared to be stagnating.

The overall increase in short and medium term interest rates reflected in the Commercial Banks Average Weighted Prime Lending Rate (AWPLR) increasing from 11.97% to 17.57% during the financial year 2006/2007.

For the first time the Sri Lanka Government allowed non-citizens and international entities to infuse foreign currency and invest rupees up to 5 % of the total treasury bond issues that exceed a duration of 1 year through a special process whereby they can reconvert the maturity proceeds and rupee interest earned, back to foreign currency for repatriation.

The rising inflation and the printing of money to cope with spiraling Government expenditure saw the Rupee devalue against the US\$ by 5.7% to Rs. 108.65 per US\$ as at end

March 2007 as against a devaluation of 3.2% in the previous financial year.

## FDI & Stock Investments

The inflow of foreign direct investment increased substantially in 2006 to post a 110.3% rise to US\$ 604 million during the year. Out of the total foreign direct investment in 2006, more than 60 % was invested in the telecommunication sector, textiles, apparel and leather industries.

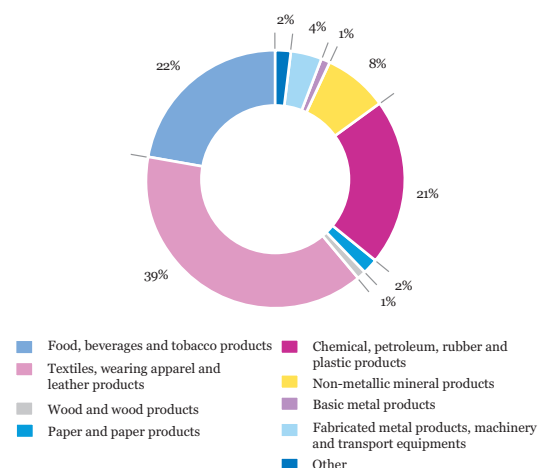
The (CSE) Colombo Stock Exchange showed encouraging trends during the year.

The value of traded shares for 2006 was 13.0 % of the total investment. The “All share index “ and “Milanka index” increased by 41.6 % and 51.4 % respectively in 2006 from 2005.

## Tourism Industry

According to official statistics, Sri Lanka’s tourism industry posted an arrivals figure of 559,603 tourists during the year 2006 an increase of 1.9 % against the previous year. However, consolidations of arrivals from April 2006 to March 2007 indicate a decrease of 8 %.

Composition of Industrial Production - 2006



### Sri Lanka at a Glance

Location	: 6°93N, 79°85 E
Time Zone	: GMT + 5 ½ hrs
Land Area	: 65,610 sq. km.
Commercial Capital	: Colombo
Climate	: Tropical (10°C -32°C)
Population	: 19.6 Mn
Population Growth rate	: 1.1%
Literacy Rate	: 92.5%
Per Capita Income	: (US\$) 1,197
Currency	: Sri Lankan Rupee
Corporate Tax Rate	: 35%
Ports	: Colombo, Galle and Trincomalee
Languages	: Sinhala, Tamil and English

Aitken Spence & Company Ltd., places a very strong emphasis on adopting and implementing sound principles and practices of good Corporate Governance. Corporate Governance is the policies by which the Company and its subsidiaries are directed and managed, and which influences the manner in which the objectives of the Company are formulated, accepted, communicated and achieved.

The Board's primary objective is to enhance long term shareholder value whilst being committed to and upholding the highest standards of integrity, accountability, transparency and business ethics in the governance of the Company and its subsidiaries.

The Company firmly believes that the adoption and implementation of sound principles and practices of Corporate

Governance are important to the Group's overall success. The conversion of this belief to practice over the years has enabled the Group to acquire and enhance the confidence and trust of its shareholders, employees, customers, and other stakeholders. The consistent adherence to the principles and practices of good Corporate Governance has been rewarded by the Company acquiring a matchless reputation in Sri Lanka for trustworthiness and reliability amongst all its stakeholders.

The Company is primarily guided by the Code of Best Practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka. This report sets out the Company's Corporate Governance processes with reference to the extent of compliance with same.

Corporate Governance principle	Level of Compliance
<b>Directors</b> <b>The Board of Directors</b>	
<b>Composition</b>	The Board of Aitken Spence & Co Ltd., comprises of a Chairman, a Deputy Chairman & Managing Director, and five other Directors of whom one is an Executive Director. The other four are Non Executive Directors. The names and profiles of the Directors are given on pages 14 and 15 of this report. All Directors are able to and willingly add value and independent opinion on the decision making process, which is of immense benefit to the effective functioning of the Board.
<b>Board meetings</b>	The Board held 5 meetings during this financial year. The Chairman presides at Board meetings and ensures that proper procedures are strictly followed in the conduct of Board meetings. The Board meets at regular intervals prior to which Board papers are circulated giving adequate time for individual Directors to study and formulate views on the matters under discussion. This enables active participation of Board members at their meetings.
<b>Availability of formal schedule of matters specifically reserved to the Board of Directors</b>	<ul style="list-style-type: none"> <li>Formulating, communicating, implementing and monitoring the business strategies, policies, objectives and goals of the Group.</li> <li>Appointing a competent Managing Director and approving the terms of employment of the members of the Board of Management and the Senior Management</li> <li>Reviewing, approving and monitoring the operational and financial budgets of the individual Strategic Business Units and Group.</li> <li>Ensuring that a proper risk management system covering all aspects of the business is in place.</li> <li>Reviewing, discussing and deciding on new business and investment proposals recommended by the Managing Director and the Board of Management.</li> <li>Restructuring and re-engineering existing businesses of the Group.</li> </ul>

Corporate Governance principle	Level of Compliance
	<ul style="list-style-type: none"> <li>Ensuring best practices in the strict compliance of all necessary human resource management, legal, ethical, health, environmental and safety standards by the Group.</li> <li>Approval of annual and interim financial statements prior to publication.</li> <li>Determining the quantum of the interim dividends and recommending the final dividend for approval by the shareholders.</li> </ul>
<b>Obtaining independent professional advice</b>	The Board seeks independent professional advice, whenever required, at the Company's expense in discharging their duties.
<b>Company Secretary</b>	All Directors have independent and joint access to the Company Secretary, who is a Chartered Accountant by profession. The Company Secretary who is present at all Board meetings ensures that appropriate facilities are available for the proper conduct of Board meetings.
<b>Independent Judgement</b>	All Directors exercise their independent judgement for decision making on issues relating to strategy, implementation, performance review, resource allocation and standards of conduct.
<b>Dedication of adequate time and effort to the matters of the Board and the company</b>	<p>The Chairman and the Board of Directors allocate adequate time for the fulfilment of their responsibilities as Directors of the Company. In addition to the Board meetings individual Directors are members of various subcommittees and attend meetings of same.</p> <p>The Board of Directors have delegated the implementation of the day to day operations of the Company and the Group to the Board of Management. The Board of Management comprises of the Managing Director of Aitken Spence &amp; Company Ltd., as Chairman, and the Managing Directors of the various Strategic Business units of the Group as Executive Directors.</p>
<b>Training of the Directors</b>	The Board ensures that the Directors undertake professional and related training which is necessary to carry out their duties.
<b>Chairman and Managing Director</b>	
<b>Clear division of responsibilities of the Chairman and the MD</b>	The functions performed by the Chairman and the Managing Director are distinct and separate, which ensure the balance of power and authority within the organisation, so that no person has unfettered powers of decision making.
<b>Presence of a strong non executive element on the Board</b>	The majority of the directors are Non-Executive Directors.
<b>Chairman's Role</b>	The Chairman of the Company who is one of the most successful and experienced business leaders of the country is responsible for guiding the Board in formulating the appropriate strategic direction for the Group. He is responsible for and ensures that the meetings of the Board and the shareholders are conducted in an extremely professional manner. He ensures the effective discharge of Board functions.

Corporate Governance principle	Level of Compliance
<b>Financial Acumen</b>	The Managing Director is a Fellow Member of the Institute of Chartered Accountants of London & Wales. He also holds a Degree in Law and a Masters Degree in Business Administration. In addition the Board includes an investment banker who is a Non Executive Director. These two members of the Board add substantial value and independent judgement on the decision making of the board in matters concerning finance.
<b>Board Balance</b>	The Majority of Directors are Non Executive Directors. The Board benefits from the large reservoir of in-depth knowledge and business acumen of Board members who collectively provide core competencies in finance, legal, commerce, industry, business entrepreneurship and management.
<b>Supply of information</b>	The Group has a well developed and streamlined Management Information System in place, which includes a comprehensive annual budget of key financial data and key performance indicators followed up by a detailed monthly and quarterly reporting and review. The Board Members are circulated appropriate documents in a timely and efficient manner. Board papers, including detailed agenda, are sent in advance of the Board meetings to enable the Directors to be properly prepared on the matters to be discussed in respect of which decisions are made. Board papers contain financial and operational reports of Group Companies, updates on business development, risk and other matters for decision making. Any additional information requested by the Board Members are coordinated by the Board Secretary.
<b>Appointments to the Board of Directors</b>	The Directors are elected by the shareholders of the Company unless provided for by the Articles of Association of the Company. The Articles of Association of the Company empower the Board of Directors to either fill a casual vacancy in the directorate or appoint additional Directors. Directors so appointed hold office until the next annual general meeting and are eligible for re- election.
<b>Re-election of Directors</b>	The Company's Articles of Association provide that one third of the Directors for the time being, or if their number is not a multiple of three the number nearest to (but not greater than) one third shall retire from office. A Director appointed to the office of Managing Director shall not while holding that office be subjected to retirement by rotation. Retiring Directors are selected on the basis of those who have been longest in office since their last election. In the event there are one or more Directors appointed on the same date the retiring Director shall be determined either by agreement or by lot. A retiring Director shall be eligible for re-election. In order to ensure that the Board is comprised of members who add value to the Group, the Board evaluates the qualifications and contribution of each retiring Director before recommending such person for re-election.
<b>Directors Remuneration</b>	
<b>Remuneration procedure</b>	The Board has established a Remuneration Committee, to formulate and review on remuneration packages of Executive Directors and executive employees. The Remuneration Committee comprises of the Chairman of Aitken Spence & Company Ltd., as Chairman of the Committee and two Non Executive Directors. No Director is involved in determining his or her own remuneration.

Corporate Governance principle	Level of Compliance
<b>The level and make up of remuneration</b>	The Remuneration Committee is responsible for evaluating the performance of the Managing Director, Directors and the Directors of the Management Board and structuring remuneration packages in such a manner to attract the best professional and managerial skills in the country, and retain and motivate the Executive Directors and senior management of the Group. Non executive Directors receive a fee for their contribution.
<b>Disclosure of Remuneration</b>	The total remuneration of the Directors is disclosed in Note 4 to the financial statements.
<b>Relationship with shareholders</b>	
<b>Constructive use of the AGM</b>	The company shareholders exercise their rights at the Annual General Meeting. The Annual General Meeting votes on matters brought before the shareholders at the Annual General Meeting.
<b>Building up relationships with shareholders</b>	All shareholders are invited and encouraged to be present, actively participate and vote at the Annual General Meeting. The Annual General Meeting provides a opportunity for shareholders to seek and obtain clarifications and information on the performance of the Company and to informally meet the Directors after the Annual General Meeting. The External auditors and the Company's lawyers are invited to and are present at the Annual General Meeting to render any professional assistance that may be requested. Shareholders who are not in a position to attend the Annual General Meeting in person are entitled to have their voting rights exercised by a proxy of their own choice.
<b>Making available the Notice of meeting and the related papers</b>	The notice of the Annual General Meeting and the relevant documents required are published and sent to the shareholders at least 21 calendar days prior to the date of Annual General Meeting. The Company circulates the agenda for the meeting and shareholders vote on each issue separately.
<b>Major Transactions</b>	
	During the financial year there were no major transactions which materially altered the Company's net asset base or the consolidated Group net asset base.
<b>Accountability and Audit</b>	
<b>Financial Reporting</b>	
<b>Statutory &amp; regulatory reporting</b>	For the year ended 31st March 2007 the Board of Directors confirm that the financial statements of the Company and its subsidiaries that are incorporated in this report have been prepared in accordance with Sri Lanka Accounting Standards and the Companies Act no 17 of 1982. The Company has duly complied with all the reporting requirements prescribed by the regulatory authorities such as Colombo Stock Exchange. The consolidated financial statements and the financial statements of the Company were audited by KPMG Ford, Rhodes, Thornton & Co.
<b>The Directors Report in the Annual Report and the statement by the auditors about their reporting responsibilities</b>	The Directors report is presented on pages 86 to 89 of the Annual Report. The Auditors report on the financial statements for the year ended 31st March 2007 is presented on page 91 of this annual report.

Corporate Governance principle	Level of Compliance
<b><i>Presenting a management report in the annual report</i></b>	The management report of the Company is presented as the operational review of the Company and its subsidiaries in pages 24 to 45 of the report.
<b><i>Declaration by the Board as to whether the business is a going concern</i></b>	The relevant declaration is presented in the Directors report on page 88 of this Annual Report.
<b>Internal Controls</b>	
<b><i>Maintaining a sound system of risk management</i></b>	<p>The Board addresses risk management at all levels with the active participation of its Board of Directors, the Board of Management, the Audit Committee and the Senior Management of the Strategic Business Units. Shareholders' risks are minimised by a strict evaluation procedure for all proposed investments in new projects and the expansion of existing units. Shareholder risks are also minimised instituting corrective action wherever necessary in regard to performance of existing businesses. It has introduced effective key performance indicators to monitor and evaluate the performance of all Strategic Business Units.</p> <p>The Company uses comprehensive general and company specific reporting and monitoring systems to identify, assess and manage these risks.</p> <p>More detailed information about risk management in the Company is presented on pages 54 to 57 of this report.</p>
<b><i>Maintaining a sound system of internal controls and reviewing effectiveness of the internal controls</i></b>	<p>The Board is responsible for the formulation of the appropriate systems of internal controls for the Group and ensuring its effectiveness.</p> <p>The Board is fully conscious that any internal control system contains inherent limitations and no system of internal control could provide absolute assurance against the occurrence of material errors, poor judgement in decision making, human errors, losses, frauds, or other irregularities. The Board has therefore taken appropriate action to minimise such situations</p>
<b>Audit Committee and auditors</b>	
<b><i>Availability of an Audit committee</i></b>	<p>The Audit Committee is a sub committee of the Board of Directors of Aitken Spence &amp; Company Ltd. The Committee comprises of three Non Executive Directors. The names of the members of the Audit Committee are listed on the inner back cover and the Report of the Audit Committee is given on page 85 of this Annual Report.</p> <p>The Audit Committee endeavours to assist the Board to discharge its duty of ensuring that the Group's internal controls and conduct of business are in accordance with the best practices appropriate to the Company and the Strategic Business Units. The Audit Committee monitors and guides the Internal Audit function.</p>
<b><i>Maintaining appropriate relationships with the External Auditors</i></b>	The audit committee has the primary responsibility for making a recommendation on the re-appointment or removal of the External Auditors based on the performance of the auditors.

Corporate Governance principle	Level of Compliance
Areas of Relevance/ stakeholders	
<b>Employees</b>	<p>The Board of Management ensures that the vision, goals and objectives of the Group are appropriately formulated clearly communicated, duly understood and strictly adhered by all employees. Hence the strategic direction of the Company is clearly known to all employees of the Group.</p> <p>All employees are aware of their specific duties, tasks and functions which they are required to perform. The Company strictly ensures that no employee below the legal minimum age is offered employment. The Group rigidly follows ILO Conventions with regard to employment of persons.</p> <p>The Group affords equal opportunities to potential employees irrespective of gender, race, or religion. There is no gender discrimination and irrespective of the gender, eligible persons are given the opportunity to gain employment and once recruited would continue in their career path.</p>
<b>Relationship with Institutions and Regulatory Bodies</b>	<p>A meaningful relationship is maintained with Institutions such as the relevant Line Ministries, the Central Bank of Sri Lanka, The Board of Investment, the Registrar of Companies, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange, the Department of Inland Revenue, Professional and Trade Associations and the various Chambers of Commerce. The Group's operations and activities strictly adhere to the rules, regulations and codes of conduct set out by the relevant Regulatory and Advisory Bodies and the laws of the country.</p>
<b>Business and Corporate Ethics</b>	<p>The Board ensures that the Company strictly complies with all relevant laws, regulations and codes of best business practices and is not involved in any unethical practices. The compliance referred to above is achieved by the Company maintaining a comprehensive and unambiguous code of business conduct and ethics for its employees inclusive of Directors. The Board of Directors ensures that in the organization, the code of ethics which has been duly documented is given to all executives of the Company who confirm their acceptance of same. A violation of the code of ethics is considered an offense which is subject to disciplinary action.</p>
<b>Statutory Obligations</b>	<p>The Directors, to the best of their knowledge and belief are satisfied that all financial obligations due to the Government and to the employees have been either duly paid or adequately provided for in the financial statements.</p>
<b>Environment</b>	<p>The Board of Directors to the best of its ability has applied very high standards to protect and nurture the environment. The Companies of the Group promote detailed and defined health and safety procedures appropriate to each employees' nature of work as well as to outsiders who come in contact with the relevant Strategic Business Units. The Group does not compromise on its commitment to strict adherence to best practices on Environmental issues. The numerous Environmental awards won by Group Companies are ample testimony to this aspect of the Group's governance system.</p>

## Financial Calendar 2007/2008

10th April 2007

Interim Dividend for 2006/2007 (ex dividend date 29th March 2007)

28th June 2007

Fifty Fifth Annual General Meeting - [Final Dividend for 2006/2007 (ex-dividend date 29th June 2007)]

First week of August 2007

Interim Statement for the three months ending 30th June 2007

First week of November 2007

Interim Statement for the six months ending 30th September 2007

First week of February 2008

Interim Statement for the nine months ending 31st December 2007

financial reports



## > Remuneration Committee Report

The Remuneration Committee consists of the Chairman of Aitken Spence & Co Ltd., as Chairman of the Committee and two other Non-Executive Directors. The Managing Director of Aitken Spence & Co Ltd., attends the meetings by invitation. The Remuneration Committee formally met in the last financial year.

The Group policy on remuneration packages is to attract the best professional and managerial talent in the country to the Group and thereafter to motivate and retain the employees who perform beyond the norm.

The Group has a structured and professional methodology in evaluating the performance of employees.

The Remuneration Committee having considered the performance of the Directors and Executives of various Group Companies approved promotions and revisions of individual remuneration packages based on comparative industry levels and contribution to the organization.

The Remuneration Committee also took into consideration the market rates prevailing at the time of the year, for such level of employees, before such increments and increases were granted to the staff in relation to the Companies performance, and that of other blue-chip companies in similar industries.

The Remuneration Committee also discussed the performance of each Group Company and approved the quantum of the ex-gratia to be allocated to each such Company.



**D.H.S. Jayawardena**

*Chairman*

Remuneration Committee

4th May, 2007.

The Committee comprises of three non executive directors of Aitken Spence & Co Ltd. The Managing Director, the Company Secretary, the Chief Financial Officer and the Chief Internal Auditor, when they attend Committee meetings, do so on invitation, but not as members.

The Audit Committee endeavours to assist the Directors to perform their duty of ensuring that the Company's internal controls and conduct of business are in accordance with best practices. The Audit Committee also monitors and guides the Internal Audit function. The Committee is of the opinion that adequate procedures were in place to ensure that all relevant laws and codes of ethics have been duly complied with.

The Committee met formally three times during the financial year ended 31st March 2007.

In addition, the Chairman of the Audit Committee had regular dialogue with the Chief Internal Auditor, Chief Financial Officer and the Company Secretary in connection with audit related issues. At these meetings detailed Internal Audit Reports highlighting audit concerns and recommendations for improvement of financial and operational control systems together with the responses thereto were tabled, discussed and suitable remedial action taken where necessary. The functional heads of Strategic Business Units to attend meetings, whenever the Committee considered it necessary. Appropriate

steps were taken to strengthen internal controls and procedures.

The Group Management Report prepared by the External Auditors, Messrs. KPMG Ford Rhodes Thornton & Co., for the year ended 31st March 2006 was discussed by the Audit Committee and suitable action was taken to implement their proposals.

The Audit Committee having evaluated the performance of the external auditors decided to recommend to the Board of Aitken Spence & Co Ltd, the re-appointment of Messrs. KPMG Ford Rhodes Thornton & Co., as Auditors of the Company for the current year, subject to the approval of the shareholders at the Annual General Meeting.



**G.C. Wickremasinghe**

*Chairman*

Audit Committee

7th May 2007.

## Directors' Report

The Directors of Aitken Spence & Company Limited, have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31st March 2007 which were approved by the Directors on 25th of May 2007.

## Principal Activities

The Group is engaged in diverse business activities, which are described on pages 134 & 135 of this report.

## Review of Operations

A review of the Group's operations during the year, with comments on operational results and future prospects are contained in the Chairman's Message, the Managing Director's Review and the Operational & Financial Reviews.

## Group Revenue

The Revenue of the Group was Rs.19,765,632,258/- (2005/2006-Rs 13,593,263,113/-). An analysis of revenue based on business and geographical segments are disclosed in Note 1 to the financial statements on page 104.

## Profit

The Profit before tax of the Group increased by 35.1% to Rs. 2,595,937,771/- and the profit after tax increased by 33.4%

to Rs. 2,284,070,894/-. The profit available for distribution to shareholders for the year was Rs. 1,459,775,119/- which is an increase of 20.3%.

The segmental profits are disclosed in Note 1 to the financial statements on page 104.

## Donations

During the year charitable donations amounting to Rs. 2,857,117/- were made by the Group, of which Rs. 2,525,000/- was paid to approved charities in terms of Inland Revenue Act No. 10 of 2006.

## Taxation

A detailed statement of the income tax rates applicable to the individual companies in the Group and a reconciliation of the accounting profits with the taxable profits is given in Note 7 to the financial statements.

It is the policy of the Group to provide for deferred taxation on all known timing differences on the balance sheet liability method. The deferred tax liability of the Group is given in Note 23 to the financial statements.

	2006/2007 Rs.	2005/2006 Rs. Restated
<b>Group Profits</b>		
The net profit of the Group for the year after providing for all expenses known liabilities and depreciation on property, plant & equipment was	2,595,937,771	1,921,557,910
From which income tax and deferred tax has to be deducted	(311,866,877)	(209,065,351)
Leaving the Group with a profit after taxation of	2,284,070,894	1,712,492,559
From which the amount attributable to minority interest has to be adjusted	(824,295,775)	(498,831,063)
Leaving a profit for the year applicable to the Company of	1,459,775,119	1,213,661,496
To which the balance of the previous year has to be added	4,022,929,008	3,064,544,658
The amount of negative goodwill derecognised at the beginning of the financial year	36,677,662	-
The amount available to the Company for appropriation therefore was	5,519,381,789	4,278,206,154
<b>Appropriations</b>		
The amount available has been appropriated by your Directors as follows:		
Transfer to general reserves	220,979,195	79,366,526
Interim dividend declared	81,199,209	81,199,209
Final dividend for 2005/2006 (2004/2005)	94,732,411	94,711,411
Leaving an unappropriated balance to be carried forward of	5,122,470,974	4,022,929,008
	5,519,381,789	4,278,206,154
Final dividend proposed for the year but not accounted for	94,732,411	94,732,411

### Dividends

An interim ordinary dividend of Rs 3.00 per share was paid on the 10th of April 2007. The Directors recommend a final ordinary dividend of Rs. 3.50 per share making a total dividend payment of Rs. 6.50 per share for the year ended 31st March 2007. The total dividend declared per share for the previous year was Rs 6.50. The total dividend as in the previous year, is paid out of exempt dividends received by the Company and is exempt from tax in the hands of the shareholders.

### Share Capital

The issued and paid up ordinary share capital of the Company as at 31st March 2007 was Rs. 270,664,030/-.

### Reserves

The total Group reserves as at 31st March 2007 was Rs. 9,660,459,120/- (2006 - Rs. 8,257,788,354/-). This consisted of capital reserves of Rs. 3,366,229,814/- (2006 - Rs. 3,270,276,692/-) and revenue reserves of Rs. 6,294,229,306/- (2006 - Rs. 4,987,511,662/-). The movement in these reserves is shown in the Statement of Changes in Equity - Group on page 94.

### Debentures

#### Quoted Debentures

During the financial year the company redeemed the following quoted debentures which were listed on the debt securities board of the Colombo Stock Exchange.

- 1,000,000 four year debentures of Rs 100/- each with interest payable semi annually at a fixed interest rate of 15.75% p.a. These debentures were redeemed on the 4th April 2006.
- 1,000,000 four year debentures of Rs 100/- each with interest payable annually at a fixed interest rate of 16.00% p.a. These debentures were redeemed on 4 th April 2006.

#### Unquoted Debentures

The company raised Rs 1.96 billion through the issue of 9,610,000 unsecured redeemable debentures. The debentures were granted a credit rating of AA (Sri ) by Fitch Ratings Lanka Ltd.

The details of the debentures issued and redeemed are as follows:

- 5,000 fixed rate unsecured redeemable debentures of Rs. 100,000/- each were issued on the 30th of June 2004, with interest payable semi annually at an interest rate of 10.96% p.a. 1,000 debentures were redeemed on 29th of June 2005 and a further 1,000 debentures were redeemed

on 29 th June 2006. The applicable interest due on these debentures were duly paid on 29th June 2006 and 29th December 2006.

- 5,000 floating rate unsecured redeemable debentures of Rs. 100,000/- each were issued on the 30th of July 2004 with interest payable semi annually at an interest rate of the six month net treasury bill rate + 2.15% p.a. 1,000 debentures were redeemed on 29th July 2005 and a further 1,000 debentures were redeemed on 29th July 2006. The applicable interest due on these debentures were duly paid on 29th July 2006 and 29th January 2007.

During the financial year the company issued the debentures listed below.

- 3,000,000 fixed rate unsecured redeemable debentures of Rs 100/- each were issued on the 25th October 2006, with interest payable annually at an interest rate of 13.75% p.a. The interest due on these debentures are payable annually on 25th October.
- 4,100,000 floating rate unsecured redeemable debentures of Rs. 100/- each were issued on 25 th October 2006, with interest payable semi annually at an interest rate of six month gross treasury bill rate + 1.25% p.a. The applicable interest rate on these debentures are payable semi annually on 25th April and 25th October.
- 2,500,000 floating rate unsecured redeemable debentures of Rs. 100/- each were issued on 24 th November 2006, with interest payable semi annually at an interest rate of six month gross treasury bill rate + 1.25% p.a. The applicable interest rate on these debentures are payable semi- annually on 25th April and 25th October.

The funds raised from these debentures have been utilised mainly for the increase in the investment in Ace Power Embilipitiya (Pvt) Ltd., and for the investment in Aitken Spence Property Developments (Pvt) Ltd. The details of the debentures in issue as at 31 st March 2007 are presented in the share & debenture information and given in Note 22 to the Financial Statements.

### Property, Plant & Equipment

The total expenditure on the acquisition of property, plant & equipment during the year in respect of new assets and replacements amounted to Rs. 2,315,436,833/-. The major component of the above investment was incurred for the reconstruction and renovation of Adaaran Select Hudhuranfushi Island Resort, and the construction of the new office complex. The movement in property, plant & equipment of the Group is

reflected in Note 10.1 to the financial statements. Capital expenditure approved and contracted for as at the end of the year is given in Note 28 to the Financial Statements.

#### **Market Value of Freehold Properties**

The freehold land owned by companies in the Group were revalued by professionally qualified independent valuers during the financial year 2003/2004, with the exception of those owned by Aitken Spence Hotel Holdings Ltd., which were revalued during this financial year. The Group revalues its freehold land once in every five years. Details of the revaluation, written down value and the carrying amount at cost is given in 10.3 to the financial statements.

#### **Shareholder Information**

Information relating to earnings, net assets, dividends and market price per share is given in the Financial Highlights on page 4. The Share & Debenture Information is given on pages 130 to 133 of the Annual Report.

#### **Investments and Future Developments**

During the year the Group invested Rs.43,848,428/- in existing and new business sectors. The investments made by the Group are given in Notes 12 to 14 of the financial statements. The future developments of the Group are highlighted in the Chairman's Message and the Managing Director's Review.

#### **Corporate Governance**

The Company's corporate governance practices are set out on pages 76 to 81 of the Annual Report.

#### **Internal Control**

The Directors accept ultimate responsibility for the Group's system of internal control. The systems are geared to provide reasonable assurance that the assets of the Group are safeguarded and that all transactions are relevant, properly authorised and duly recorded. Further details of the internal control systems in operation are contained in the Statement of Directors' Responsibilities on page 90 and the Audit Committee Report set out on page 85 of the Annual Report.

#### **Contingent Liabilities**

Contingent liabilities exist in respect of guarantees given to third parties in respect of bank and credit facilities obtained by subsidiaries and joint venture companies. Details are given in Note 29 to the financial statements.

#### **Statutory Payments**

The Directors, to the best of their knowledge and belief are satisfied that all statutory obligations due to the Government and

to the employees have been either duly paid or adequately provided in the financial statements. A confirmation of same is included in the Statement of Directors' Responsibilities on page 90 of this report.

#### **Environmental Protection**

The Board of Directors to the best of its ability has applied very high standards to protect and nurture the environment in which the Group operates and ensures strict adherence to all environmental laws. The numerous environmental awards won by Group companies are ample testimony to this aspect of the Group's Corporate Governance procedures and practices. The Group has not engaged in any activities which are harmful and dangerous to the environment. The environmental report of the Group is included in "Thinking in Totality" which is on pages 62 to 73 of the Annual Report.

#### **Going Concern**

The Board of Directors are satisfied that the Company has adequate resources to continue its operations without any disruption in the foreseeable future. The Company's financial statements are prepared on a going concern basis.

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

There have not been any material events that occurred subsequent to the date of the Balance Sheet.

#### **Shareholdings**

There were 1,659 shareholders as at 31st March 2007. The distribution of the shares is detailed on page 130. Details of the twenty largest shareholders as at 31st March 2007 are given on page 131.

#### **Directors**

The names of the Directors of the Company are listed on the inner back cover of the report.

All Directors of the Company held office during the entire financial year other than Mr. N.J de S Deva Aditya who was appointed to the Board on 15th September 2006.

Mr. R. Sivaratnam retires by rotation in terms of Article 85 of the Articles of Association of the Company and being eligible is recommended by the Board for re election at the forthcoming Annual General Meeting.

Mr. N.J. de S. Deva Aditya retires in terms of Article 91 of the Articles of Association of the Company and being eligible is recommended by the Board for re-election at the forthcoming Annual General Meeting.

Mr. G.C. Wickremasinghe attained the age of 70 on the 15th of August 2003 and was re-elected on 29th June 2004 as a resolution was passed at the Annual General Meeting, that the age limit of 70 years shall not apply to him. In terms of Section 211 of the Companies Act No. 7 of 2007, a shareholder has given notice of an ordinary resolution to the Company that the age limit of Mr. G.C. Wickremasinghe in terms of Section 210 (1) of the said Companies Act No. 7 of 2007, shall not apply to him. The Directors recommend the adoption of the ordinary resolution for the re-election of Mr. G.C. Wickramasinghe.

### Directors' Shareholding and their Interests

The Directors of the Company together with their spouses held 774,139 Shares as at 31 st March 2007. Their holdings amounted to 2.9% of the total issued share capital, as detailed below.

### Shareholding of Directors together with their spouses

	31.03.07	31.03.06
D.H.S. Jayawardena	Nil	Nil
J.M.S. Brito	14,733	12,733
R.M. Fernando	Nil	Nil
G.C. Wickremasinghe	487,216	487,216
R. Sivaratnam	272,190	467,690
C.H. Gomez	Nil	Nil
N. J. De S Deva Aditya	Nil	-

### The Indirect shareholding of Directors

	31.03.07	31.03.06
D.H.S. Jayawardena		
- Stassen Exports Ltd	216,300	216,300
- Milford Exports (Ceylon) Ltd	288,100	288,100
G.C. Wickremasinghe		
- Manohari Enterprises Ltd	19,922	19,922

### Shares held by the Directors in Group Companies

	31.03.07	31.03.06
Aitken Spence Hotel Holdings Ltd		
J.M.S. Brito	3,000	3,000
G.C. Wickremasinghe	316,551	316,551
R. Sivaratnam	73,334	73,334
Hethersett Hotels Ltd		
G.C. Wickremasinghe	1,041,500	1,041,500
R. Sivaratnam	25,000	25,000

Apart from the above shareholdings Directors of the Company did not hold any shares in Group companies.

### Debentures held by the Directors

	31.03.07	31.03.06
R. Sivaratnam	- *	12,320

\* The above debentures held in Ace Power Generation Matara Ltd., a subsidiary company of Aitken Spence & Company Ltd., were redeemed on 20 th March 2007. The above debentures were quoted debentures of Rs 100/- each with interest payable semi-annually at AWDR + 5.5%.

None of the other Directors held any debentures in Group companies.

### Directors' Interests in Contracts

The Directors have disclosed their interests in contracts of the Company at meetings of the Directors, the details of which are set out in the "Notes to the financial statements" on page 123.

### Public Holding

The percentage of the shares held by the public as at 31st March 2007 was 50.89%.

### Auditors

The retiring Auditors, Messrs, KPMG Ford Rhodes, Thornton & Co., are seeking re-appointment and in accordance with the Companies Act No.7 of 2007, a resolution proposing their re-appointment as Auditors of the Company will be submitted at the Annual General Meeting.

By order of the Board of Directors



**R.E.V. Casie Chetty**

F.C.A., F.C.M.A., M.C.M.I., J.Dip. M.A

*Company Secretary*

305, Vauxhall Street, Colombo 2  
25th May 2007

## > Statement of Directors' Responsibility

The Companies Act No.17 of 1982 requires the Directors of the Company to be responsible for the preparation and presentation of the financial statements to the shareholders in accordance with the relevant provisions of the Companies Act No.17 of 1982 and the Sri Lanka Accounting Standards.

The Directors confirm that the financial statements of the Company and its subsidiaries for the year ended 31st March 2007 have been prepared in accordance with the Sri Lanka Accounting Standards and the Companies Act No.17 of 1982. In the preparation of the financial statements, the Directors have selected appropriate accounting policies and have applied them consistently.

The Directors have adopted the going concern basis in preparing the financial statements. The Directors having considered the Group's business plans, and a review of its current and future operations, are of the view that the Company has adequate resources to continue in operation.

The Directors accept the responsibility to ensure that the companies within the Group maintain adequate and accurate records which reflect the true financial position of each such company and hence the Group.

The Directors have taken reasonable steps to safeguard the assets of the Company and the Group. The Directors have

instituted appropriate systems of internal controls in order to prevent and detect fraud and other irregularities.

The Directors have provided the Auditors with every opportunity to carry out any reviews and tests that they consider appropriate and necessary for the performance of their responsibilities.

The Directors confirm to the best of their knowledge that all taxes, levies and financial obligations of the Group have been either duly paid or adequately provided for in the financial statements.

By Order of the Board of Directors,



**R.E.V. Casie Chetty**

F.C.A., F.C.M.A., M.C.M.I., J.Dip. M.A.

*Company Secretary*

Colombo

25th May 2007



KPMG Ford, Rhodes, Thornton & Co.  
(Chartered Accountants)  
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## TO THE MEMBERS OF

### AITKEN SPENCE & COMPANY LTD.

We have audited the balance sheet of Aitken Spence & Company Ltd., as at 31st March 2007, the consolidated balance sheet of the Company and its subsidiaries as at that date, and the related statements of income, cash flows and changes in equity for the year then ended, together with the accounting policies and notes exhibited on pages 92 to 125 of this Annual Report.

### Respective Responsibilities of Directors and Auditors

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

### Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st March 2007, and to the best of our information and

according to the explanations given to us, the said balance sheet and related statements of income, cash flow and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st March 2007 and of its profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and related statements of income, cash flow and changes in equity and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act No 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31st March 2007, and of its profit and cash flows for the year then ended of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

### Directors' Interests in Contracts with the Company

According to the information made available to us, the directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st March 2007, except as stated in Note 31 to these financial statements.

### CHARTERED ACCOUNTANTS

Colombo.  
25th May 2007.

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M.N. Aravindan FCA  
S. Srikumaran FCA  
Ms. M. P. Perera FCA  
S.P. Jayatilaka FCA  
W.M.J.C. Perera FCA

A.M. Fernando FCA  
M.N. Mithula FCA  
P.P.S. Perera FCA  
T.J.B. Rajapakse FCA  
Ms. G. Joseph ACA

## > Income Statements

For the year ended 31st March	Notes	2007 Rs. '000	Group 2006 Rs. '000 Restated	% Change	2007 Rs. '000	Company 2006 Rs. '000	% Change
<b>Revenue</b>	1	19,765,632	13,593,263	45.4	235,401	220,561	6.7
Revenue tax		(235,907)	(164,482)	43.4	-	-	-
<b>Net Revenue</b>		19,529,725	13,428,781	45.4	235,401	220,561	6.7
Other operating income	2	310,178	493,192	(37.1)	755,804	560,248	34.9
Changes in inventories of finished goods and work-in-progress		4,552	(5,886)	(177.3)	-	-	-
Raw materials and consumables used		(7,542,092)	(5,372,856)	40.4	-	-	-
Staff cost		(1,588,736)	(1,224,651)	29.7	(89,976)	(82,503)	9.1
Depreciation and amortisation		(1,013,298)	(653,388)	55.1	(19,488)	(15,219)	28.1
Other operating expenses - direct	3	(4,041,870)	(2,774,859)	45.7	-	-	-
Other operating expenses - indirect		(2,427,018)	(1,667,001)	45.6	(160,498)	(102,972)	55.9
<b>Operating profits before financing cost</b>	1 & 4	3,231,441	2,223,332	45.3	721,243	580,115	24.3
Financial income		149,359	71,276	109.6	295,672	135,423	118.3
Financial expenses	5	(832,670)	(437,727)	90.2	(331,953)	(168,789)	96.7
<b>Net Financing cost</b>		(683,311)	(366,451)	86.5	(36,281)	(33,366)	8.7
Share of associates companies profits before tax	6	47,808	64,677	(26.1)	-	-	-
<b>Profit before tax</b>		2,595,938	1,921,558	35.1	684,962	546,749	25.3
Taxation	7	(311,867)	(209,066)	49.2	(18,700)	(19,188)	(2.5)
<b>Net profit for the period</b>		2,284,071	1,712,492	33.4	666,262	527,561	26.3
<b>Attributable to:</b>							
Equity holders of the parent		1,459,775	1,213,661	20.3	666,262	527,561	26.3
Minority interest		824,296	498,831	65.2	-	-	-
		2,284,071	1,712,492	33.4	666,262	527,561	26.3
<b>Earnings Per Share - Basic/Diluted (Rs.)</b>	8	53.93	44.85	20.2	24.62	19.50	26.3
<b>Dividend per share (Rs.)</b>		6.50	6.50	-	6.50	6.50	-


The accounting policies and notes on pages 98 through 125 form an integral part of these financial statements.

Figures in brackets indicates deductions.

## > Balance Sheets

As at 31 March	Notes	Group		Company	
		2007 Rs. '000	2006 Rs. '000 Restated	2007 Rs. '000	2006 Rs. '000
ASSETS					
Non-current assets					
Property, plant & equipment	10	16,770,495	15,450,267	46,419	46,963
Intangible assets	11	159,407	191,811	-	-
Investments in subsidiaries and joint ventures - unquoted	12	-	-	3,965,512	4,118,842
Investments in subsidiaries - quoted	12	-	-	679,300	679,300
Investments in associates	13	697,111	690,374	398,441	398,441
Long term investment	14	170,098	213,234	162,932	205,130
Investment property	15	28,936	28,936	716,604	720,933
		17,826,047	16,574,622	5,969,208	6,169,609
Current assets					
Inventories	16	872,227	694,739	1,420	983
Amount due from subsidiaries		-	-	2,209,426	2,214,718
Amount due from associates		115,133	103,990	108,731	90,566
Trade and other receivables	17	4,257,000	4,448,199	348,249	83,212
Current investments	18	4,266	4,268	147	139
Deposits and prepayments		516,953	346,326	28,119	2,863
Short-term deposits		2,202,740	616,495	1,333,645	69,330
Cash and cash equivalents		533,517	418,055	28,214	19,869
		8,501,836	6,632,072	4,057,951	2,481,680
Total assets	19	26,327,883	23,206,694	10,027,159	8,651,289
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Issued and fully paid share capital	20	270,664	270,664	270,664	270,664
Reserves	20	4,537,986	4,234,859	3,093,344	2,872,365
Retained earnings		5,122,472	4,022,929	2,217,234	1,947,882
		9,931,122	8,528,452	5,581,242	5,090,911
Minority interest		3,193,710	2,679,745	-	-
Total equity		13,124,832	11,208,197	5,581,242	5,090,911
Non-Current liabilities					
Deferred income	21	-	36,678	-	-
Interest bearing liabilities	22	6,423,906	5,424,584	2,310,000	600,000
Deferred tax	23	231,124	199,622	7,047	9,497
Retirement benefit obligation	24	177,082	154,656	22,975	17,333
		6,832,112	5,815,540	2,340,022	626,830
Current liabilities					
Trade payables		1,204,913	1,313,627	-	-
Provisions and other payables	25	2,033,723	1,210,030	346,852	212,292
Interest bearing liabilities repayable within one year	22	1,824,022	1,921,261	250,000	400,000
Amount due to subsidiaries		-	-	1,388,687	1,790,373
Amount due to associates		1,528	951	34	14
Provision for taxation		93,996	62,577	16,540	9,232
Interim dividend declared		81,199	81,199	81,199	81,199
Short term bank borrowings		1,131,558	1,593,312	22,583	440,438
		6,370,939	6,182,957	2,105,895	2,933,548
Total equity and liabilities		26,327,883	23,206,694	10,027,159	8,651,289

The accounting policies and notes on pages 98 through 125 form an integral part of these financial statements.  
These financial statements were approved by the Board of Directors on 25th May 2007.

  
D. H. S. Jaywardena  
Chairman  
Colombo

  
J. M. S. Brito  
Deputy Chairman / Managing Director  
Colombo

## > Statement of Changes in Equity - Group

For the year ended 31st March 2007	Attributable to Equity holders of the parent							Minority Interest	Total Equity
	Share Capital	Share Premium	Revaluation Reserve	Other Capital Reserves	General Reserves	Exchange Fluctuation Reserve	Retained Earnings		
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
<b>Balance as at 31st March 2005</b>									
(As previously stated)	270,569	1,863,757	1,278,282	127,521	820,700	79,572	3,126,517	7,566,918	9,341,280
Effect of adopting,									
- SLAS 14 (Revised 2005) - Income Taxes	-	-	-	-	-	-	(61,972)	(61,972)	(18,828)
<b>Balance as at 31st March 2005 (Restated)</b>	270,569	1,863,757	1,278,282	127,521	820,700	79,572	3,064,545	7,504,946	9,260,480
Currency translation differences	-	-	-	-	-	(15,057)	-	(15,057)	10,216
Effect of acquiring new companies	-	-	-	-	-	-	-	568,121	568,121
Transfer to general reserve	-	-	-	-	79,367	-	(79,367)	-	-
<b>Net income recognised directly in equity</b>	-	-	-	-	79,367	(15,057)	(79,367)	(15,057)	578,337
Net profit for the period	-	-	-	-	-	-	1,213,661	1,213,661	1,712,492
<b>Total recognised income and expenses for the period</b>	-	-	-	-	79,367	(15,057)	1,134,294	1,198,604	2,290,829
Final dividend paid for 2004/2005	-	-	-	-	-	-	(94,711)	(94,711)	(94,711)
Interim dividend declared 2005/2006 (Note 9)	-	-	-	-	-	-	(81,199)	(81,199)	(81,199)
Dividends of subsidiaries	-	-	-	-	-	-	-	(168,014)	(168,014)
Shares issued under stock option scheme	95	717	-	-	-	-	-	812	812
<b>Balance as at 31st March 2006</b>	270,664	1,864,474	1,278,282	127,521	900,067	64,515	4,022,929	8,528,452	11,208,197
Negative goodwill written back on adoption of									
SLAS 25 (Revised 2004) - Business Combinations	-	-	-	-	-	-	36,678	36,678	36,678
<b>Adjusted balance as at 01st April 2006</b>	270,664	1,864,474	1,278,282	127,521	900,067	64,515	4,059,607	8,565,130	11,244,875
Currency translation differences	-	-	-	-	-	(13,805)	-	(13,805)	20,850
Effect of acquiring new companies	-	-	-	-	-	-	-	(810)	(810)
Transfer to general reserve	-	-	-	-	220,979	-	(220,979)	-	-
Surplus on revaluation	-	-	95,953	-	-	-	-	95,953	128,969
<b>Net income recognised directly in equity</b>	-	-	95,953	-	220,979	(13,805)	(220,979)	82,148	149,009
Net profit for the period	-	-	-	-	-	-	1,459,775	1,459,775	2,284,071
<b>Total recognised income and expenses for the period</b>	-	-	95,953	-	220,979	(13,805)	1,238,796	1,541,923	2,433,080
Final dividend paid for 2005/2006 (Note 9)	-	-	-	-	-	-	(94,732)	(94,732)	(94,732)
Interim dividend declared 2006/2007 (Note 9)	-	-	-	-	-	-	(81,199)	(81,199)	(81,199)
Dividends of subsidiaries	-	-	-	-	-	-	-	(377,192)	(377,192)
<b>Balance as at 31st March 2007</b>	270,664	1,864,474	1,374,235	127,521	1,121,046	50,710	5,122,472	9,931,122	13,124,832

The accounting policies and notes on pages 98 through 125 form an integral part of these financial statements.

*Figures in brackets indicates deductions.*

## > Statement of Changes in Equity - Company

For the year ended 31st March 2007	Share Capital Rs'000	Share Premium Rs'000	Revaluation Reserve Rs'000	General Reserves Rs'000	Retained Earnings Rs'000	Total Rs'000
<b>Balance as at 31st March 2005</b>	270,569	1,863,757	735,904	790,521	1,077,697	4,738,448
Transferred to retained earnings (Note 15.4)	-	-	(518,534)	-	518,534	-
Net income recognised directly in equity	-	-	(518,534)	-	518,534	-
Net profit for the period	-	-	-	-	527,561	527,561
<b>Total recognised income and expenses for the period</b>	-	-	(518,534)	-	1,046,095	527,561
Final dividend paid for 2004/2005	-	-	-	-	(94,711)	(94,711)
Interim dividend declared 2005/2006 (Note 9)	-	-	-	-	(81,199)	(81,199)
Shares issued under stock option scheme	95	717	-	-	-	812
<b>Balance as at 31st March 2006</b>	270,664	1,864,474	217,370	790,521	1,947,882	5,090,911
Transfer to/from retained earnings	-	-	-	220,979	(220,979)	-
Net income recognised directly in equity	-	-	-	220,979	(220,979)	-
Net profit for the period	-	-	-	-	666,262	666,262
<b>Total recognised income and expenses for the period</b>	-	-	-	220,979	445,283	666,262
Final dividend paid for 2005/2006 (Note 9)	-	-	-	-	(94,732)	(94,732)
Interim dividend declared 2006/2007 (Note 9)	-	-	-	-	(81,199)	(81,199)
<b>Balance as at 31st March 2007</b>	270,664	1,864,474	217,370	1,011,500	2,217,234	5,581,242

The accounting policies and notes on pages 98 through 125 form an integral part of these financial statements.

*Figures in brackets indicates deductions.*

## > Cash Flow Statements

For the year ended 31st March	Group		Company	
	2006/2007 Rs. '000	2005/2006 Rs. '000	2006/2007 Rs. '000	2005/2006 Rs. '000
<b>Cash flow from / (Used in) operating activities</b>				
Net profit before taxation	2,595,938	1,921,558	684,962	546,749
<b>Adjustments for</b>				
Depreciation & amortisation	956,220	653,388	19,488	15,220
Impairment of goodwill	57,273	-	-	-
Interest expense	797,502	416,386	331,953	168,100
(Profit)/loss of sale of property, plant & equipment	(17,420)	(16,265)	(1,015)	4,748
Profit on sale of investments	(141,555)	(118,411)	(766)	(115,270)
Interest income	(149,359)	(71,276)	(295,672)	(135,423)
Surplus on acquisition of companies	(11,209)	(2,739)	-	-
Share of associate companies' profit before tax	(47,808)	(64,677)	-	-
Provision / write off of bad and doubtful debts	18,456	19,530	-	-
Effect of subsidiaries disposed during the year	247,688	607	-	-
Effect of subsidiaries acquired during the year	26,726	(1,545,489)	-	-
Write offs of property, plant & equipments	-	95,429	-	-
Movement in provision for fall in value of investment	-	(598)	-	-
Foreign exchange profit	(87,161)	(22,530)	(13,984)	(7,774)
Gratuity provision	53,294	33,922	6,402	4,026
	1,702,647	(622,723)	46,406	(66,373)
<b>Operating profit before working capital changes</b>	4,298,585	1,298,835	731,368	480,376
(Increase)/decrease in trade and other receivable	161,599	(2,537,033)	(277,910)	(1,110,218)
(Increase)/decrease in inventories	(177,488)	(331,650)	(438)	386
Increase/(decrease) in trade and other payables	715,226	496,769	(267,445)	722,012
(Increase)/ decrease in deposits & prepayments	(170,627)	(97,756)	(25,255)	(383)
	528,710	(2,469,670)	(571,048)	(388,203)
<b>Cash generated from operations</b>	4,827,295	(1,170,835)	160,320	92,173
Interest paid	(797,502)	(416,386)	(331,953)	(168,100)
Income tax paid	(230,622)	(169,941)	(13,842)	(4,940)
Gratuity payment	(23,803)	(14,582)	(760)	(1,164)
	(1,051,927)	(600,909)	(346,555)	(174,204)
<b>Net cash flow from operating activities</b>	3,775,368	(1,771,744)	(186,235)	(82,031)
<i>(carried forward to next page)</i>				

For the year ended 31st March	Group		Company	
	2006/2007 Rs. '000	2005/2006 Rs. '000	2006/2007 Rs. '000	2005/2006 Rs. '000
<b>Net cash flow from operating activities</b>	<b>3,766,792</b>	<b>(1,771,744)</b>	<b>(186,235)</b>	<b>(82,031)</b>
<i>(brought forward from previous page)</i>				
<b>Cash flow from investing activities</b>				
Investments made during the year	(43,848)	(566,501)	(41,445)	(1,315,102)
Purchase of property, plant and equipment	(2,315,437)	(2,446,190)	(14,775)	(25,314)
Proceeds from sale of property, plant and equipment	26,131	40,004	1,173	2,093
Proceeds from sale of investment	230,012	438,297	237,742	435,430
Dividends and dividend taxes paid by subsidiary companies to outside shareholders	(377,192)	(175,553)	-	-
Dividends received from associate companies	27,222	31,915	-	-
<b>Net cash used in investing activities</b>	<b>(2,453,112)</b>	<b>(2,678,028)</b>	<b>182,695</b>	<b>(902,893)</b>
<b>Cash flow from financing activities</b>				
Interest received from deposits	149,359	71,276	295,672	135,423
Proceeds from interest bearing liabilities	2,616,718	3,050,518	1,960,000	-
Issue of shares	-	812	-	812
Repayment of interest-bearing liabilities	(2,032,585)	(829,140)	(400,000)	(200,000)
Dividends paid	(175,601)	(162,093)	(175,601)	(162,093)
<b>Net cash from financing activities</b>	<b>557,891</b>	<b>2,131,373</b>	<b>1,680,071</b>	<b>(225,858)</b>
Net increase/(decrease) in cash and cash equivalents	1,880,147	(2,318,399)	1,676,531	(1,210,782)
Cash and cash equivalents at the beginning of the period	(275,448)	1,759,637	(337,255)	859,543
<b>Cash and cash equivalents at the end of the period</b>	<b>1,604,699</b>	<b>(558,762)</b>	<b>1,339,276</b>	<b>(351,239)</b>
<b>Cash and cash equivalents at the end of the period</b>				
Cash at bank and in hand	533,517	418,055	28,214	19,869
Short-term deposits	2,202,740	616,495	1,333,645	69,330
Short-term bank borrowings	(1,131,558)	(1,593,312)	(22,583)	(440,438)
Cash and cash equivalent as previously reported	1,604,699	(558,762)	1,339,276	(351,239)
Effect of exchange rate changes	-	283,314	-	13,984
<b>Cash and cash equivalent as restated</b>	<b>1,604,699</b>	<b>(275,448)</b>	<b>1,339,276</b>	<b>(337,255)</b>

The accounting policies and notes on pages 98 through 125 form an integral part of these financial statements.

Figures in brackets indicates deductions.

Aitken Spence & Company Ltd., (the “Company”) is a company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The Company’s registered office is at the “Aitken Spence Towers” 305, Vauxhall Street, Colombo 02.

The principal activities of the Company and the other entities consolidated with are disclosed in pages 134 to 135 of this report.

Aitken Spence & Company Ltd., does not have an identifiable parent.

## Statement of Compliance

The financial statements of Aitken Spence & Co. Ltd., and those consolidated with such comprise the balance sheet, income statement, cash flow statement, statement of changes in equity, accounting policies and notes to the financial statements. These statements are prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

The financial statements were authorised for issue by the Directors on the 25th of May 2007.

## Basis of preparation

The financial statements are presented in Sri Lankan rupees, rounded to the nearest thousand.

The financial statements referred to are based on the historical cost convention, except for certain investments, and items of property, plant & equipment in respect of which valuations are based as explained in Accounting Policies 1.4 and 2 below.

The preparation of financial statements in conformity with Sri Lanka Accounting standards requires management to make judgements, estimates and assumptions that affects the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgement about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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, if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods.

## 1 General Accounting Policies

Accounting Policies set out below have been applied consistently to all periods presented in these consolidated financial statements as disclosed in note 1.3.

The accounting policies have been applied consistently by all Group entities.

### 1.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries and the Group's interest in associate companies and jointly controlled entities.

#### 1.2.1 Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements when control effectively commences and until control effectively ceases.

#### 1.2.2 Minority Interest

The proportion of the profit or loss after taxation applicable to outside shareholders of subsidiary companies is reflected under "Minority Interest" in the consolidated income statement.

The interests of the outside shareholders in the net assets employed of those companies are reflected under the heading "Minority Interest" in the balance sheet.

#### 1.2.3 Goodwill

Goodwill represents the excess of the cost of an acquisition of a subsidiary or an associate over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is initially recognised at cost. The company will test the goodwill for impairment annually and assess for any indication of impairment to ensure that its carrying amount does not exceed the recoverable amount. If an impairment loss is identified, it is recognised immediately to the income statement.

Goodwill on acquisition of a subsidiary is presented as an intangible asset and the goodwill on an acquisition of an equity accounted investment is included in the carrying value of the investment.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceed the cost of the acquisition of the entity, the Group will reassess the measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost and recognise the difference immediately to the consolidated income statement.

With the adoption of the revised SLAS 25-Business Combinations (Revised 2004), the unamortised negative goodwill that was carried in the balance sheet as at 31st March 2006 was derecognised with an adjustment to the opening balance of the retained earnings of the current financial year.

#### **1.2.4 Associates**

These are undertakings in which the Group has between 20% - 50% of the voting rights but which are not subsidiaries or joint ventures and in respect of which the Group exercises significant influence but does not have control over the financial and operating policies.

The results of associate companies are accounted for under the equity basis of accounting, where the Group's share of profits and losses is incorporated in the consolidated income statement, and the related investments carried forward in the consolidated balance sheet at values adjusted to reflect the Group's share of retained assets. Dividends declared by the associates are recognised against the equity value of the Group's investment.

#### **1.2.5 Joint Ventures**

Enterprises in which the Group has joint control over the financial and operating policies are termed joint ventures. The Group's interest in jointly controlled entities is accounted for on a proportionate consolidation basis. The Group's share of the assets and liabilities of the entities are included in the consolidated balance sheet and the Group's share of their profits and losses are included in the consolidated income statement in accordance with the Sri Lanka Accounting Standard 31 - Financial Reporting of Interests in Joint Ventures.

#### **1.2.6 Reporting Date**

All the Group's subsidiaries, jointly controlled entities and associate companies have a common financial year other than Aventis Pharma Ltd., Hayleys plantations Ltd., Talawakelle Plantations Ltd., GAC Shipping Ltd., GAC Marine Services Ltd., and GAC Logistics (Pvt) Ltd., whose financial year ends on the 31st December. Talawakelle Plantations Ltd., is a subsidiary of Hayleys Plantation Services Ltd., which is an associate company. The difference between the reporting date of the above

subsidiaries and that of the parent does not exceed three months.

#### **1.2.7 Intra-group Transactions**

Pricing policies of all intra-group sales are identical to those adopted for normal trading transactions, which are at market prices.

##### **1.2.7.1 Transactions eliminated on Consolidation**

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in full in the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated unless there is evidence of impairment.

#### **1.3 Change in Accounting Policies**

The accounting policies adopted are consistent with those used in the previous financial year except as follows :

The Company has adopted the following new Sri Lanka Accounting Standards during the year.

- SLAS 3 (revised) – Presentation of Financial Statements
- SLAS 10 (revised) – Accounting Policies, Changes in Accounting Estimates
- SLAS 12 (revised) – Events after the Balance Sheet Date
- SLAS 14 (revised) – Income Taxes
- SLAS 18 (revised) – Property, Plant & Equipment
- SLAS 19 (revised) – Leases
- SLAS 21 (revised) – The Effect of Changes in Foreign Exchange Rates
- SLAS 25 (revised) – Business Combinations
- SLAS 26 (revised) – Consolidated and Separate Financial Statements
- SLAS 27 (revised) – Accounting for Investment in Associates
- SLAS 30 (revised) – Related Party Disclosures
- SLAS 34 (revised) – Earnings Per Share
- SLAS 38 (revised) – Non current Assets held for Sale and Discontinued Operations
- SLAS 41 (revised) – Impairment of Assets

#### **1.4 Transactions in Foreign Exchange**

**1.4.1** All foreign exchange transactions in individual companies are translated at the rate of exchange prevailing at the time the transaction was effected. All monetary assets and liabilities in foreign currency at year end are translated at the rate prevailing on the balance sheet date. Non monetary assets and liabilities which are carried in terms of historical cost in a foreign currency are translated using the

exchange rate at the date of transaction. Non monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to reporting currency using the exchange rate that was prevailing on the date the fair value was determined. The resulting gains or losses on translations are dealt with in the income statement, except when accounting for cash flow hedges.

**1.4.2** In respect of transactions which meet the conditions for special hedge accounting in relation to Cash Flow Hedges, the portion of the exchange gain or loss on the hedge instrument that is determined to be an effective hedge is recognised directly in equity through the statement of changes in equity and the ineffective portion is recognised in the income statement.

**1.4.3** Subsidiaries incorporated outside Sri Lanka are treated as foreign entities. Assets and liabilities both monetary and non-monetary of foreign entities are translated at the rate of exchange prevailing on the balance sheet date. Income, expenses and cash flows of such foreign entities are translated at exchange rates approximating to the actual rate at the time of the transaction. For practical purposes this is presumed to be the average rate during each month. Exchange differences arising on translating the financial statements of foreign entities are recognised directly under equity in the consolidated financial statements.

Goodwill arising on the acquisition of foreign entities is reported using the exchange rate that prevailed at the date of acquisition in accordance with the Sri Lanka Accounting Standard No.21 – Effects of Changes in Foreign Exchange Rates.

## **2 Assets and Bases of Their Valuation**

### **2.1 Property, Plant & Equipment**

Property, plant and equipment other than land, are stated at cost less accumulated depreciation and impairment. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost of self-constructed assets include the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to the working condition for its intended use. This also includes cost of dismantling and removing the items and restoring in the site on which they are located.

The Group revalue Land at least once in every five years and is stated at its fair value at the date of revaluation less any subsequent impairment losses. On revaluation of land any increase in the revaluation amount is credited to the revaluation reserve unless it offsets a previous decrease in value of the same asset that was recognised in the income

statement. A decrease in value is recognised in the income statement where it exceeds the increase previously recognised in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to accumulated profits and is not taken into account in arriving at the gain or loss on disposal. The details of land revaluation are disclosed in Note 10.3 to the financial statements.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

#### **2.1.1 Subsequent Cost**

The Group recognises in the carrying amount of property, plant and equipment the cost of replacing a part of an item, when incurring such cost it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably.

#### **2.1.2 Depreciation**

Depreciation of property, plant and equipment of the Group is provided for on a consistent basis, over the period appropriate to the estimated useful lives of each part of the asset.

Depreciation is not provided on land and assets under construction.

Generally assets are depreciated on a straight-line method over the following periods.

Leasehold Premises.	Over the periods of the leases
Buildings	20 - 50 years
Plant & Machinery	10 - 20 years
Equipment	04 - 05 years
Power Generation Plants	10 - 20 years
Motor Vehicles	04 - 10 years
Furniture & Fittings.	10 years
Computer Equipment	3-5 Years
Crockery, Cutlery & Glassware	3-5 years
Tug Boats & Supply crafts	5 years
Vessels	35 years
Soft Furniture	5-10 years

Depreciation is provided proportionately in the year of purchase and in the year of disposal of the asset.

Buildings of the Group's resorts in the Maldives that are not depreciated as above, are depreciated on an annuity method over the period of the leases.

Power generation plants are depreciated from the date of first commercial operation of the plant.

### 2.1.3 Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as leased assets under Property, plant and equipment and is stated at an amount equal to the lower of cost or their fair value and the present value of minimum lease payments at the inception of the lease, less the accumulated depreciation.

## 2.2 Investments

**2.2.1** Unquoted investments are treated as long-term investments and valued at cost in the financial statements. Investments in preference shares are treated as long-term investments and stated at cost of the shares in the financial statements.

**2.2.2** Investments in subsidiary companies and jointly controlled entities are valued at cost in the parent company's financial statements.

**2.2.3** Investments in associate companies are treated as long-term assets and valued as explained in para 1.2.4 above. In the parent company's financial statements, the investments are stated at cost.

**2.2.4** All other quoted investments are treated as current investments and accordingly valued at the lower of cost and market value on a portfolio basis, with any resultant gains or losses recognised in the income statement.

## 2.3 Investment Properties

Investments in land and buildings that are held to earn rentals or for capital appreciation or for both are treated as investment properties and valued at cost less aggregate depreciation in the balance sheet. However, if there is impairment in value, other than of a temporary nature, the carrying amount is reduced to recognise the decline.

Certain items of Land and Building that had been revalued to fair value prior to 1st April 2005, the date of transition to the Sri Lanka Accounting Standard No. 40 - Investment Property, are measured on the basis of deemed cost, being the revalued amount at the date of last revaluation.

### 2.3.1 Depreciation

No depreciation is provided on land treated as investment property.

Depreciation of other investment property of the Group is provided for on a consistent basis, over the period

appropriate to the estimated useful lives of the assets on a straight-line method.

Leasehold Premises Over the periods of the leases

Buildings Over 20 - 50 years

**2.3.2** In the consolidated financial statements, properties used to earn rentals within the Group are classified under property, plant and equipment.

## 2.4 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on a weighted average cost other than in the hotel companies where inventories are valued on first in first out basis. The cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of factory overheads based on normal operating capacity.

## 2.5 Debtors

Debtors are stated at the amounts estimated to be realised. Provision has been made in the financial statements for bad and doubtful debts.

## 2.6 Cash and Cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits with banks, short-term liquid money market investments, bank overdrafts and short-term borrowings repayable on demand are included as a components of cash and cash equivalents for purpose of cash flow disclosures.

## 2.7 Impairment

The carrying amounts of the Group's non-financial assets, other than inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

For goodwill, recoverable amount is estimated at each balance sheet date, or as and when an indication of impairment is identified.

Impairment losses recognised in respect of subsidiaries acquired are allocated first to reduce the carrying amount of any goodwill allocated to the entity and then to reduce the carrying amount of the other assets in the entity on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs

to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

### 3 Liabilities and Provisions

Liabilities are recognised in the balance sheet when there is a present obligation arising from past event, the settlement of which is expected to result in an outflow of resources embodying economic benefits. Obligations payable at the demand of the creditor or within one year of the balance sheet date are treated as current liabilities in the balance sheet. Liabilities payable after one year from the balance sheet date are treated as non-current liabilities in the balance sheet.

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits for which a reliable estimate could be made is required to settle the obligation.

### 4 Taxation

#### 4.1 Income Tax

The Group's liability to taxation has been computed in accordance with the Inland Revenue Act No. 10 of 2006, and its amendments thereto.

#### 4.2 Deferred Taxation

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries, jointly controlled entities and associates to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred

tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### 5 Income Statement

#### 5.1 Revenue

Group revenue represents sales to customers outside the Group and excludes value added tax and intra-group sales.

#### 5.2 Profit

The profit earned by the Group before taxation as shown in the consolidated income statement is after making provision for bad and doubtful debts, all known liabilities and depreciation of property, plant & equipment except as referred to under para 2.1.2 above.

#### 5.3 Expenditure

All expenditure incurred in the running of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the profit for the year.

#### 5.4 Borrowing Cost

Borrowing costs are recognised as expenditure in the period in which they are incurred. However, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the asset. The amount capitalised is disclosed in Note 5 to the financial statements.

#### 5.5 Revenue Recognition

**5.5.1** Revenue is recognised on an accrual basis in such transactions involving the sale of goods, when all significant risks and rewards of ownership have been transferred to the buyer.

**5.5.2** Revenue on rendering of services is recognised on a percentage completion basis.

**5.5.3** In respect of the Group's hotel operations, apartment revenue is recognised on the rooms occupied on a daily basis, and food & beverage sales are accounted for at the time of sale.

**5.5.4** Interest income is accrued on a time basis other than for debenture income which is recognised on a cash basis.

**5.5.5** Dividends from investments are recognised when the right to receive such is established.

## 5.6 Disposal of Property, Plant & Equipment

Gains or losses on the disposal of property, plant & equipment have been accounted for in the income statement.

## 5.7 Movement of Reserves

Movements of reserves are disclosed in the statement of changes in equity.

## 6 Segment Information

A segment is a distinguishable component of the Group engaged either in providing products or services (business segment) or in providing products or services in a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments. The business segment has been identified as the primary segment of the Group and the geographical segment has been considered the secondary segment.

### 6.1 Business Segment

The activities of the Group have been broadly classified into three main segments according to the nature of the product or service provided.

### 6.2 Geographical Segment

The activities of the Group have been broadly classified into two segments, namely, operations within Sri Lanka and those outside Sri Lanka, that is, South Asia. Geographical Segment is identified by the location of assets.

**6.3** Segment expenses are expenses that are directly attributed to a segment or a relevant portion of expenses that can be allocated on a reasonable basis as determined by the management.

**6.4** Segment information analysed by industry and geographical segments is disclosed in notes to the accounts 1 & 19 on pages 104 and 119 respectively.

## 7 Cash Flow

The cash flow of the Group has been presented using the indirect method.

## 8 Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control.

Contingent liabilities are disclosed in Note 29 to the financial statements.

## 9 Retirement Benefits

### 9.1 Defined Benefit Plan - Retiring Gratuity

Provision has been made in the accounts for retiring gratuities. This has been based on an actuarial valuation carried out on a projected unit credit method as recommended by Sri Lanka Accounting Standard 16 - Retirement Benefit Cost. The actuarial valuation was carried out by professionally qualified actuaries, Messrs. Actuarial & Management Consultants (Pvt) Ltd.

**9.1.1** The principal actuarial assumptions used in determining the cost are;

- (i) rate of interest is equal to the market yield on government bonds (12%) at the balance sheet date.
- (ii) salary increments will range between 7% and 11% p.a.
- (iii) retirement age of 55 years.
- (iv) the Company will continue in business as a going concern.

**9.1.2** The actuarial valuation was made on 31st March 2007.

**9.1.3** The liability is not externally funded.

**9.1.4** It is proposed that a valuation is obtained at least once in every three years.

**9.1.5** Full provision for gratuity has been made by GAC Logistics Ltd., GAC Shipping Ltd., GAC Marine Services (Pvt) Ltd., and Mc Ships Agencies (Colombo) Ltd., for all employees including those who have less than five years of continued service in conformity with SLAS 16. However under Payment of Gratuities Act No.12 of 1983, gratuity liability on an employee arises only on completion of five years of continued service. Such liability has not been actuarially valued nor separately funded.

### 9.2 Defined Contribution Plan

Obligations for contributions to a defined contribution plan are recognised as an expense in the income statement as incurred.

The Group contributes 12% (w.e.f. 01st April 2005) 15% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

## 10 Events Occurring after The Balance Sheet Date

All material post balance sheet events have been considered, disclosed and adjusted where applicable.

## 1 Segment Analysis of Group Revenue and Profit

### 1.1 Business Segment

#### a. Revenue

	Total Revenue Generated		Inter - Segmental Revenue		Intra-Segmental Revenue		Revenue from External Customers	
	2006/2007 Rs.'000	2005/2006 Rs. '000	2006/2007 Rs.'000	2005/2006 Rs. '000	2006/2007 Rs.'000	2005/2006 Rs. '000	2006/2007 Rs.'000	2005/2006 Rs. '000
Tourism sector *	5,703,290	3,821,928	25,927	13,773	326,504	261,115	5,350,859	3,547,040
Cargo logistics sector *	3,186,213	2,545,227	246,535	256,370	178,158	118,997	2,761,520	2,169,860
Strategic investments *	12,406,510	9,047,216	98,907	140,396	43,528	47,035	12,264,075	8,859,785
Total revenue with associates	21,296,013	15,414,371	371,369	410,539	548,190	427,147	20,376,454	14,576,685
Share of associate company revenue	(610,822)	(983,422)	-	-	-	-	(610,822)	(983,422)
Total revenue	20,685,191	14,430,949	371,369	410,539	548,190	427,147	19,765,632	13,593,263

\* Includes Associate Companies

#### b. Profit

	Profit from Operations		Profit from Ordinary Activities		Non Cash Expenses		Income Tax	
	2006/2007 Rs.'000	2005/2006 Rs. '000	2006/2007 Rs.'000	2005/2006 Rs. '000	2006/2007 Rs.'000	2005/2006 Rs. '000	2006/2007 Rs.'000	2005/2006 Rs. '000 Restated
Tourism sector *	888,679	319,482	672,358	322,930	21,847	28,733	69,845	71,191
Cargo logistics sector *	258,456	314,782	223,718	330,745	32,854	21,636	83,133	69,027
Strategic investments *	2,822,803	1,985,183	2,438,359	1,662,832	19,442	14,604	89,773	56,129
	3,969,938	2,619,447	3,334,435	2,316,507	74,143	64,973	242,751	196,347
Impairment/Amortisation of (goodwill)/negative goodwill	(57,273)	(9,185)	(57,273)	(9,185)	-	-	-	-
Intercompany dividends	(681,224)	(386,930)	(681,224)	(385,764)	-	-	69,116	12,719
	3,231,441	2,223,332	2,595,938	1,921,558	74,143	64,973	311,867	209,066

\* Includes Associate Companies

### 1.2 Geographical Segment

	Total Revenue		Profit on Ordinary Activities	
	2006/2007 Rs. '000	2005/2006 Rs. '000	2006/2007 Rs. '000	2005/2006 Rs. '000
Sri Lanka	16,976,681	12,155,833	1,918,383	1,477,251
South Asia (Maldives, Bangladesh and India)	3,708,510	2,275,116	677,555	444,307
	20,685,191	14,430,949	2,595,938	1,921,558

**2 Other Operating Income**

	Group		Company	
	2006/2007 Rs. '000	2005/2006 Rs. '000	2006/2007 Rs. '000	2005/2006 Rs. '000
Profit/(loss) on sale of property, plant & equipment	17,420	16,265	1,015	(4,748)
Profit/(loss) on sale of investments *	141,555	118,411	766	115,238
Dividend (net) from investments	10,469	12,668	703,544	396,911
Amortisation of surplus on acquisition	11,209	2,739	-	-
Provision for fall in value of investments	-	589	-	-
Foreign exchange profit	87,161	22,530	13,984	7,774
Insurance received	-	231,933	-	-
Compensation received	-	37,787	-	-
Effect of restructuring of subsidiaries	35,730	44,750	35,730	44,750
Sundry income	6,634	5,520	765	323
	310,178	493,192	755,804	560,248

\* During the year the group divested a further portion of its investment in the companies handling destination management to its joint venture partner. The resulting profits from this divestment and the loss on write off of group's investment in the transaction processing company which was within the group is included under profit/(loss) on sale of investment.

**3 Other Operating Expenses-Direct**

Direct operating expenses as disclosed in the profit and loss account refers to the cost of services other than staff costs which are directly related to revenue.

**4 Profit from Operations before Interest**

Operating profit before finance cost stated in the profit and loss account is computed after charging the following:

	Group		Company	
	2006/2007 Rs. '000	2005/2006 Rs. '000	2006/2007 Rs. '000	2005/2006 Rs. '000
Cost of inventories and services	13,411,245	9,429,250	80,956	75,144
Directors' emoluments	130,066	123,126	10,989	10,265
Auditors' remuneration	6,093	5,760	490	440
Fees paid to Auditors for non-audit services				
KPMG Ford, Rhodes, Thornton & Co.	2,498	1,395	819	294
Other auditors	684	845	180	-
Depreciation	956,220	641,464	19,488	15,219
Amortisation	-	11,924	-	-
Impairment of goodwill	57,273	-	-	-
Provision for bad and doubtful debts	21,349	31,064	-	-
Defined contribution plan cost - EPF & ETF	127,883	88,452	11,458	7,833
Defined benefit plan cost - Gratuity	53,294	33,922	6,402	4,026

**5 Finance Cost**

	Group		Company	
	2006/2007 Rs. '000	2005/2006 Rs. '000	2006/2007 Rs. '000	2005/2006 Rs. '000
Interest on long-term borrowings	591,154	362,794	203,030	121,988
Interest on short-term borrowings	206,348	53,592	119,499	46,112
Bank charges	33,781	21,250	408	689
Finance charges on leases	1,387	91	9,016	-
	832,670	437,727	331,953	168,789

Borrowing costs capitalised on qualifying assets during the financial year 2006/2007 was Rs. 1,913,070/- (2005/2006 - Rs.42,127,558/-). There were no borrowing costs capitalised by the company during the financial years 2006/2007 & 2005/2006.

**6 Share of Associate Companies Profit/(Loss) before Tax**

	<b>Group</b>	
	<b>2006/2007</b>	<b>2005/2006</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
M.P.S. Hotels Ltd.	782	(31)
Browns Beach Hotels Ltd.	(1,270)	2,795
Aventis Pharma Ltd.	6,481	11,082
Aitken Spence Plantation Managements (Pvt) Ltd. (consolidated with Elipitiya Plantations Ltd., and other subsidiaries)	9,252	(5,994)
Hayleys Plantation Services Ltd. (consolidated with Talawakelle Plantations Ltd.)	28,629	16,478
Ceyspence (Pvt) Ltd.	27,625	26,091
Ceyserv Lines (Pvt) Ltd.	(82)	13,524
Ceyfirst Shipping (Pvt) Ltd.	(23,609)	732
	<b>47,808</b>	<b>64,677</b>

**7 Taxation**

Income tax provision of Aitken Spence & Co. Ltd., has been calculated on its adjusted profit at 35% in terms of the Inland Revenue Act No.10 of 2006.

The taxation details of the other companies in the Group are as follows:

**7.1 Tourism Sector**

- The profits of Kandalama Hotels Ltd., are exempt from income tax for a period of 10 years from the year 1997/1998 being the year in which the Company commenced to make profit, in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.
- The profits of Aitken Spence Hotel Managements Asia (Pvt) Ltd, are exempt from income tax for a period of 3 years, in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.
- The profits of Neptune Ayurvedic Village (Pvt) Ltd., are exempt from income tax for a period of 5 years in terms of Section 19 of the Inland Revenue Act No.10 of 2006.
- The profits of the Aitken Spence Hotels (International) Ltd., and Ace Ayurvedic (Pvt) Ltd., are exempt from income tax in terms of Section 13 of the Inland Revenue Act No.10 of 2006.
- The profits and income of Aitken Spence Travels Ltd., Ace Travels & Conventions (Pvt) Ltd., Aitken Spence Hotels Ltd., Aitken Spence Hotel Holdings Ltd., Aitken Spence Hotel Managements (Pvt) Ltd., and Hethersett Hotels Ltd., being companies involved in the promotion of tourism are liable to tax at a concessionary rate of 15%, in terms of Section 45 of the Inland Revenue Act No.10 of 2006.
- The profits of B.I.R Hotel Management (Pvt) Ltd., Jetan Travel Services Company (Pvt) Ltd., Cowrie Investment (Pvt) Ltd., Crest Star Ltd., Crest Star (BVI) Ltd., being non-resident companies in Sri Lanka and not deriving income from Sri Lanka, are out of scope of income taxation in Sri Lanka.

**7.2 Cargo Logistics sector**

- The qualified export profits of Ace Container Repair (Pvt) Ltd., being a specified undertaking under Section 60 are liable to income tax at a concessionary rate of 15% upto and including year of assessment 2014/2015, in terms of Section 52 of the Inland Revenue Act No.10 of 2006.
- The profits and income earned by Spence Shipping (Pvt) Ltd., on transshipment agency fees are liable to income tax at a concessionary rate of 15%, in terms of Section 59 of the Inland Revenue Act No.10 of 2006.
- The profits and income of GAC Marine Services (Private) Limited is liable to tax at a concessionary rate of 15% as per the agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No 4 of 1978.
- The profits of Ace Bangladesh Ltd., are liable to income tax at 37.5% in Bangladesh.

- The profits of Port Management Container Service (Pvt) Ltd., are exempt from income tax in terms of Section 13 of the Inland Revenue Act No.10 of 2006, however the profits and income derived in South Africa are taxed at 34% as per the South African tax laws.
- The profits and income of Cey Capital Shipping (Pvt) Ltd., and Cey Aki Shipping (Pvt) Ltd., are exempt from income tax for a period of five years, in terms of agreements concluded with the Board of Investment of Sri Lanka under section 17 of the BOI Law No. 4 of 1978.

### 7.3 Strategic Investments

- The export profits of Ace Exports (Pvt) Ltd., are liable to tax at a concessionary rate of 15% upto and including year of assessment 2014/2015, in terms of Section 52 of the Inland Revenue Act No.10 of 2006.
- The export profits and income of Aitken Spence Exports Ltd., are liable to tax at a concessionary rate of 15% in terms of Section 52 of the Inland Revenue Act No.10 of 2006.
- The export profits and income of Aitken Spence (Garments) Ltd., are liable to tax at a concessionary rate of 15% in terms of Section 52 of the Inland Revenue Act No.10 of 2006.
- The profits and income of Ace Power Generation Matara Ltd., are exempt from income tax for a period of 10 years from the year of assessment 2002/2003 in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.
- The profits and income of Ace Power Generation Horana (Pvt) Ltd., are exempt from income tax for a period of 10 years from the year of assessment 2002/2003 in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.
- The profits and income of Ace Power Embilipitiya (Pvt) Ltd., are exempt from income tax for a period of 10 years from the year of assessment 2005/2006 in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.
- The profits and income of Aitken Spence GTECH (Pvt) Ltd., are exempt from income tax for a period of 3 years in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.
- Vauxhall Property Developments Ltd., has completed its tax exempt period and as per the agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978 the company is liable to income tax at a tax rate of 2% of turnover.

### 7.4 Associate Companies

- The relevant profits and income of Aitken Spence Plantation Managements (Pvt) Ltd., and Hayleys Plantation Services Ltd., being companies providing management services to agricultural undertakings are liable to tax at a concessionary rate of 15% in terms of Section 46 of the Inland Revenue Act No.10 of 2006.
- The relevant profits and income of Elipitiya Plantations Ltd., and Talawakelle Plantations Ltd., being agricultural undertakings are exempt from income tax for a period of 5 years commencing from the year of assessment 2005/2006, in terms of Section 16 of the Inland Revenue Act No 10 of 2006.
- The profits and income of Ceyspence (Pvt) Ltd., is exempt from income tax for a period of five years, in terms of an agreement concluded with the Board of Investment of Sri Lanka under section 17 of the BOI Law No.4 of 1978.
- The profit and income of Browns Beach Hotels Ltd., and MPS Hotels Ltd., being companies involved in the promotion of tourism are liable to tax at a concessionary rate of 15%, in terms of Section 45 of the Inland Revenue Act No.10 of 2006.

7.5 All subsidiaries and associate companies whose taxable income is less than Rs.5 million for the year, are liable to income tax at 15%.

7.6 Social Responsibility Levy of 1 % which is payable on the income tax liability of the companies, as per the Finance Act No 11 of 2006 has being accounted and provided for in the income tax provision.

7.7 The companies in the Group have losses amounting to Rs. 1,168 million which are available to be set off against the future tax profits of those companies

**7.8 Provision for taxation**

	Group		Company	
	2006/2007 Rs. '000	2005/2006 Rs. '000	2006/2007 Rs. '000	2005/2006 Rs. '000
Income tax on current year profits	216,473	181,099	21,150	20,750
Under/(over) provision in previous years	(5,607)	-	-	-
Tax on dividends	69,116	12,719	-	-
Deferred tax charge/(reversal)	31,885	15,248	(2,450)	(1,562)
	311,867	209,066	18,700	19,188

**7.9 Reconciliation of accounting profit to income tax expense**

	Group		Company	
	2006/2007 Rs. '000	2005/2006 Rs. '000	2006/2007 Rs. '000	2005/2006 Rs. '000
Profit from operations after interest	2,548,130	1,856,881	684,952	546,749
Share of Profits of Associate Companies	47,808	64,677	-	-
Other consolidation adjustments	(90,790)	9,185	-	-
Profit from operations after adjustments	2,505,148	1,930,743	684,952	546,749
Income not liable for income tax	(1,848,411)	(865,322)	(703,473)	(512,148)
Accounting losses adjusted for tax purposes	467,096	5,789	216,288	-
Accounting Profit Liab to income tax	1,123,833	1,071,210	197,767	34,601
Non - taxable receipts / gains	(1,311)	(263,682)	(180,773)	(7,774)
Aggregate disallowed expenses	448,083	443,643	61,675	64,642
Capital allowances	(935,319)	(127,684)	(11,238)	(8,321)
Aggregate allowable expenses	(80,257)	(113,099)	(7,978)	(14,373)
Utilisation of tax losses	(20,207)	(46,134)	-	-
Current year tax losses not utilised	477,647	2,352	-	-
Taxable income	1,012,469	966,606	59,453	68,775
<b>Income Tax charged at</b>				
Standard rate	136,825	103,035	21,150	20,750
Concessionary rate of 15%	21,819	18,534	-	-
Income taxed at other rates	43,980	48,087	-	-
Share of associate company income tax	13,849	11,443	-	-
	216,473	181,099	21,150	20,750
Dividend tax	69,116	12,719	-	-
Deferred tax charge/(reversal)	31,885	15,248	(2,450)	(1,562)
Under/(Over) provision for previous year	(5,607)	-	-	-
	311,867	209,066	18,700	19,188

## 8 Earnings Per Share

Basic Earnings Per Share is calculated by dividing the net Profit/(Loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic Earnings Per Share computations.

	<b>Group</b>		<b>Company</b>	
	<b>2006/2007</b>	<b>2005/2006 Restated</b>	<b>2006/2007</b>	<b>2005/2006</b>
Net profit attributable to ordinary shareholders of the parent (Rs.)	1,459,775,119	1,213,661,496	666,261,880	527,561,101
Weighted average number of ordinary shares in issue	27,066,403	27,061,329	27,066,403	27,061,329
Earnings Per Share (Rs.)	53.93	44.85	24.62	19.50

As there were no options outstanding at year end diluted earnings per share is equal to the basic earnings per share for the year.

## 9 Dividends

	<b>2006/2007 Rs. '000</b>	<b>2005/2006 Rs. '000</b>
Interim ordinary dividend declared : Rs.3.00 per share (2005/2006 : Rs.3.00 per share) (paid on 21st April 2006)	81,199	81,199
Final ordinary dividend recommended Rs.3.50 per share. (2005/2006 : Rs.3.50 per share)	94,732	94,732
	175,931	175,931

Directors have recommended a Rs. 3.50 per share final dividend payment for the year ended 31st March 2007.(2005/06 - Rs. 3.50 per share), to be approved at the Annual General Meeting on the 28th of June 2007, and if approved it would be paid on 5th July 2007.

Entire dividend for the year is paid out of exempt dividends received by the company during the year and is exempt in the hands of the shareholders.

**10 Property, Plant & Equipment****10.1 Group**

	Freehold Land Rs.'000	Freehold Buildings Rs.'000	Plant Machinery & Equipments Rs.'000	Motor Vehicles Rs.'000	Furniture & Fittings Rs.'000	Leased Assets Rs.'000	Vessels Rs.'000	Capital Work-in- Progress Rs.'000	Total Rs.'000
<b>Cost or Valuation</b>									
Balance as at 01.04.2006	1,553,314	5,226,679	10,062,249	506,232	710,714	14,534	280,712	161,030	18,515,464
Revaluation	128,969	-	-	-	-	-	-	-	128,969
Companies acquired during the year	-	-	3,275	469	2,172	-	-	-	5,916
Companies disposed during the year	-	(448)	(381,063)	(30,794)	(3,688)	-	-	-	(415,993)
Exchange difference	-	149,250	28,420	3,105	16,743	-	-	-	197,518
Additions	197,512	1,215,029	303,167	79,621	172,146	-	4,861	343,100	2,315,436
Transfers	-	(1,417)	6,924	2,670	23,693	(270)	-	(31,600)	-
Disposals	-	(9)	(22,066)	(12,152)	(21,512)	(3,263)	-	-	(59,002)
<b>Balance as at 31.03.2007</b>	<b>1,879,795</b>	<b>6,589,084</b>	<b>10,000,906</b>	<b>549,151</b>	<b>900,268</b>	<b>11,001</b>	<b>285,573</b>	<b>472,530</b>	<b>20,688,308</b>
<b>Accumulated Depreciation</b>									
Balance as at 01.04.2006	-	763,027	1,746,397	244,076	284,246	6,900	17,199	3,352	3,065,197
Companies acquired during the year	-	-	849	56	495	-	-	-	1,400
Companies disposed during the year	-	(321)	(86,075)	(19,669)	(3,367)	-	-	-	(109,432)
Exchange difference	-	25,525	16,769	2,511	9,916	-	-	-	54,721
Charge for the year	-	189,933	605,716	53,390	94,911	559	4,601	7,110	956,220
Transfers	-	-	-	162	-	(162)	-	-	-
Disposals	-	(2,599)	(17,938)	(11,547)	(17,847)	(362)	-	-	(50,293)
<b>Balance as at 31.03.2007</b>	<b>-</b>	<b>975,565</b>	<b>2,265,718</b>	<b>268,979</b>	<b>368,354</b>	<b>6,935</b>	<b>21,800</b>	<b>10,462</b>	<b>3,917,813</b>
<b>Written Down Value</b>									
as at 31.03.2007	<b>1,879,795</b>	<b>5,613,519</b>	<b>7,735,188</b>	<b>280,172</b>	<b>531,914</b>	<b>4,066</b>	<b>263,773</b>	<b>462,068</b>	<b>16,770,495</b>
<b>Written Down Value</b>									
as at 31.03.2006	1,553,314	4,463,652	8,315,852	262,156	426,468	7,634	263,513	157,678	15,450,267

Value of property, plant & equipment pledged as securities for facilities obtained from Banks amounted to Rs. 1,222 million (2005/06 - Rs. 1,360 million) Company - nil.

The exchange difference has arisen as a result of the translation of property, plant & equipment of foreign entities which are accounted for in United States dollars and translated to the reporting currency at the closing rate.

The group revalued the land in Ahungalla belonging to Aitken Spence Hotel Holdings Ltd., whose revaluation was due as per the group policy. This was done by an independent professional valuer as at 31st March 2007. Details of the revalued land and the Group's share are given in the note 10.3 to the financial statements. The group's share of the revaluation surplus of Rs. 95,953,122/- over the net book value as at 31st March 2007 has been placed to the credit of the revaluation reserve.

## 10.2 Company

	Plant Machinery & Equipments Rs.'000	Motor vehicles Rs.'000	Furniture & Fittings Rs.'000	Total Rs.'000
<b>Cost or Valuation</b>				
Balance as at 01.04.2006	118,567	5,977	22,787	147,331
Additions	14,309	-	464	14,773
Disposals/write offs	(8,537)	(11)	(5,228)	(13,776)
<b>Balance as at 31.03.2007</b>	<b>124,339</b>	<b>5,966</b>	<b>18,023</b>	<b>148,328</b>
<b>Accumulated Depreciation</b>				
Balance as at 01.04.2006	78,725	2,988	18,655	100,368
Charge for the year	12,903	1,494	762	15,159
Disposals/write offs	(8,382)	(8)	(5,228)	(13,618)
<b>Balance as at 31.03.2007</b>	<b>83,246</b>	<b>4,474</b>	<b>14,189</b>	<b>101,909</b>
<b>Written down value as at 31.03.2007</b>	<b>41,093</b>	<b>1,492</b>	<b>3,834</b>	<b>46,419</b>
Written down value as at 31.03.2006	39,842	2,989	4,132	46,963

\* Pursuant to the adoption of SLAS 40 -Investment Property, Land & Building that were held by the company and rented to its subsidiaries was transferred to Investment Property in the company financial statements during the year 2005/2006.

## 10.3 Details of Land Revaluation

Company	Location	Last revaluation Date	WDV as at 31.03.2007 Rs. '000	Revaluation Surplus Rs. '000	Carrying Amount at 31.03.2007 Rs. '000
Aitken Spence & Co., Ltd.	315, Vauxhall Street, Colombo 02	31.03.2004	160,000	158,843	1,157
Aitken Spence & Co., Ltd.	316, K. Cyril C. Perera Mw., Colombo 13	31.03.2004	76,379	71,388	4,991
Aitken Spence & Co., Ltd.	170, Sri Wickrema Mw., Colombo 02	31.03.2004	87,760	44,799	42,961
Aitken Spence & Co., Ltd.	Neptune Hotel, Moragalla, Beruwala	29.09.2003	244,458	243,504	954
Aitken Spence Hotel Holdings Ltd.	"Heritage Ahungalla", Galle Road, Ahungalla	31.03.2007	260,839	243,398	17,441
Ace Containers (Pvt) Ltd.	775/5, Negombo Road, Wattala	31.03.2004	354,500	259,109	95,391
Ace Containers (Pvt) Ltd.	385, Colombo Road, Welisara	31.03.2004	113,000	26,327	86,673
Vauxhall Property Developments Ltd.	305, Vauxhall Street, Colombo 02	31.03.2004	94,000	76,269	14,731
Vauxhall Investments Ltd.	316, K. Cyril C. Perera Mw., Colombo 13	31.03.2004	33,594	11,755	21,839
Aitken Spence (Garments) Ltd.	222, Agalawatte Road, Matugama	31.03.2004	6,000	3,420	2,580
Clark Spence & Co., Ltd.	24-24/1, Church Street, Galle	31.03.2004	54,300	54,265	35
Pearl Beach Hotels Ltd.	Moragalla, Beruwala	31.03.2004	121,640	110,560	11,080
			1,606,470	1,303,637	299,833

The above land has been revalued by an independent, qualified valuers on the basis of current market value.  
Value of land purchased since last revaluation hence recorded at cost amounts to Rs. 273.32 million.

**11 Intangible Assets****11.1 Goodwill on Consolidation**

	<b>Group</b>	
	<b>31.03.2007</b>	<b>31.03.2006</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Balance brought forward	240,265	206,588
Less: Accumulated amortisation as at 31.03.2006	(48,454)	-
Goodwill on acquisition of subsidiaries	24,869	33,677
Impairment during the year	(57,273)	-
<b>Balance carried forward</b>	<b>159,407</b>	<b>240,265</b>
<b>Accumulated amortisation</b>		
Balance brought forward	(48,454)	(36,530)
Transfer of accumulated amortisation on adopting SLAS 41	48,454	-
Amortisation during the year	-	(11,924)
<b>Balance carried forward</b>	<b>-</b>	<b>(48,454)</b>
<b>Unamortised goodwill as at the end of the year</b>	<b>159,407</b>	<b>191,811</b>

There has been no permanent impairment of intangible assets which requires a provision.

**12 Investments****12.1 Investments in Subsidiaries - Unquoted**

	<b>Number of Shares</b>	<b>Company Holding %</b>	<b>Group Holding %</b>	<b>31.03.2007 Rs. '000</b>	<b>31.03.2006 Rs. '000</b>
<b>a) Ordinary Shares</b>					
<b>Subsidiary companies</b>					
Aitken Spence Exports Ltd. <sup>(a)</sup>	52,500	100.0	100.0	514	514
Aset Ltd. <sup>(a)</sup>	10,000	100.0	100.0	820	820
Clark Spence & Co Ltd. <sup>(a)</sup>	25,000	100.0	100.0	357	357
Aitken Spence Insurance (Pvt) Ltd. <sup>(a)</sup>	10,000	100.0	100.0	100	100
Ace Container Repair (Pvt) Ltd.	2,250,000	100.0	100.0	22,500	22,500
Aitken Spence Printing (Pvt) Ltd. <sup>(a)</sup>	4,760,000	100.0	100.0	47,600	47,600
Ace Exports (Pvt) Ltd. <sup>(a)</sup>	1,400,000	100.0	100.0	14,000	14,000
Aitken Spence Apparels (Pvt) Ltd.	700,000	100.0	100.0	7,000	-
Ace Containers (Pvt) Ltd. <sup>(a)</sup>	4,010,000	100.0	100.0	40,100	40,100
Aitken Spence Developments (Pvt) Ltd.	46,000	92.0	92.0	1,825	1,825
Ace Container Terminals (Pvt) Ltd. <sup>(a)</sup>	1,550,002	100.0	100.0	15,500	15,500
Vauxhall Investments Ltd. <sup>(a)</sup>	1,320,000	100.0	100.0	13,200	13,200
Aitken Spence Hotel Management (Pvt) Ltd. <sup>(a)</sup>	20,000	100.0	100.0	200	200
Aitken Spence Hotel Management Asia (Pvt) Ltd. <sup>(a)(b)</sup>	24,500	49.0	86.9	245	-
Aitken Spence Group Ltd. <sup>(a)(b)</sup>	10,000	100.0	100.0	100	100
Ace Distriparks (Pvt) Ltd. <sup>(a)</sup>	8,900,000	100.0	100.0	89,000	89,000
Vauxhall Property Developments Ltd. <sup>(a)</sup>	11,270,000	100.0	100.0	153,401	153,401
Kandalama Hotels Ltd. <sup>(a)</sup>	6,000,000	37.0	82.8	182,050	182,050
Ace Freight Management (Pvt) Ltd. <sup>(a)</sup>	5,222,500	100.0	100.0	36,307	36,307
Elevators (Pvt) Ltd. <sup>(a)</sup>	133,400	66.7	66.7	7,269	7,269
Triton Ltd. <sup>(a)</sup>	10,000	100.0	100.0	50	50
Ace Power Generation Horana (Pvt) Ltd. <sup>(a)(b)</sup>	20,046,998	51.0	51.0	200,470	200,470
Ace Power Generation Matara Ltd. <sup>(a)(b)</sup>	21,523,362	51.0	51.0	215,234	215,234
Ace Power Embilipitiya (Pvt) Ltd. <sup>(a)</sup>	124,033,413	74.0	74.0	1,404,415	1,404,415
Aitken Spence Hotels (International) Ltd. <sup>(a)</sup>	11,067,808	49.9	87.9	1,000	1,000

<sup>(a)(b)</sup> - refer Note 31.

**12.1 Investments in Subsidiaries - Unquoted (Contd.)**

	Number of Shares	Company Holding %	Group Holding %	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Aitken Spence Moscow (Pvt) Ltd. <sup>(a)</sup>	37,500	75.0	75.0	375	375
Aitken Spence Corporate Finance (Pvt) Ltd. <sup>(a)</sup>	2	100.0	100.0	-	-
Ace Cargo (Pvt) Ltd. <sup>(a)</sup>	922,500	93.2	93.2	231,547	231,547
Ace International (Pvt) Ltd. <sup>(a)</sup>	280,000	100.0	100.0	2,800	-
Aitken Spence Property Developments Ltd. <sup>(a)</sup>	74,865,000	90.0	100.0	748,650	748,650
Ace Freight Logistics (Pvt) Ltd. <sup>(a)</sup>	10,000	100.0	100.0	100	100
Ace International Express (Pvt) Ltd. <sup>(a)</sup>	10,000	100.0	100.0	100	100
Aitken Spence Shipping Services (Pvt) Ltd. <sup>(a)</sup>	140,000	100.0	100.0	1,400	-
Pearl Beach Hotels Ltd. <sup>(a)</sup>	1	-	72.7	-	-
Ahungalla Resorts Ltd. <sup>(a)</sup>	1	-	74.4	-	-
PR Holiday Homes (Pvt) Ltd. *	-	-	69.6	-	-
Ace Haulage (Pvt) Ltd. <sup>(a)</sup>	-	-	100.0	-	-
Aitken Spence Hotels Ltd. <sup>(a)</sup>	-	-	72.7	-	-
Aitken Spence Aviation (Pvt) Ltd. (Formerly known as Aset Airways Ltd.) <sup>(a)</sup>	-	-	100.0	-	-
BIR Hotel Management Pvt Ltd. <sup>(a)</sup>	-	-	70.7	-	-
Jetan Travel Services Company (Pvt) Ltd. <sup>(a)</sup>	-	-	70.7	-	-
Hethersett Hotels Ltd. <sup>(a)</sup>	-	-	37.4	-	-
Crest Star Ltd. <sup>(a)</sup>	-	-	74.4	-	-
Crest Star (BVI) Ltd. <sup>(a)</sup>	-	-	74.4	-	-
Cowrie Investments (Pvt) Ltd. <sup>(a)</sup>	-	-	44.6	-	-
Ace Ayurvedic (Pvt) Ltd. <sup>(a)</sup>	-	-	74.4	-	-
Neptune Ayurvedic (Pvt) Ltd. <sup>(a)</sup>	-	-	74.4	-	-
ADS Resorts (Pvt) Ltd. * <sup>(a)</sup>	-	-	87.9	-	-
Port Management Container Services (Pvt) Ltd. <sup>(a)</sup>	-	-	100.0	-	-
<b>Joint Ventures</b>					
Aitken Spence Travels Ltd. <sup>(a)</sup>	1,704,000	50.0	50.0	60,876	87,351
MMBL Money Transfer (Pvt) Ltd.	3,000,000	50.0	50.0	30,000	-
Aitken Spence Garments Ltd. <sup>(a)</sup>	998,750	50.0	50.0	26,257	26,257
Vauxhall Shipping (Pvt) Ltd.	12,250	49.0	49.0	150	150
Spence Mac Holdings (Pvt) Ltd. * <sup>(a)</sup>	5,000,000	50.0	50.0	50,000	50,000
Aitken Spence Shipping Ltd. * <sup>(a)</sup>	-	-	50.0	-	-
Spence Shipping (Pvt) Ltd. * <sup>(a)</sup>	-	-	60.0	-	-
Clark Spence Garments Ltd. * <sup>(a)</sup>	-	-	50.0	-	-
Ace Travels & Conventions (Pvt) Ltd. * <sup>(a)</sup>	-	-	50.0	-	-
Aitken Spence Overseas Travel Services (Pvt) Ltd. * <sup>(a)</sup>	-	-	50.0	-	-
Shipping & Cargo Logistics (Pvt) Ltd. * <sup>(a)</sup>	-	-	25.0	-	-
Ultimate Freight Services (Pvt) Ltd. *	-	-	50.0	-	-
Delta Shipping (Pvt) Ltd. * <sup>(a)</sup>	-	-	51.0	-	-
GAC Shipping Ltd. *	-	-	25.0	-	-
GAC Logistics Ltd. *	-	-	25.0	-	-
GAC Marine Services (Pvt) Ltd *	-	-	25.0	-	-
Mc Ships Agencies (Colombo) Ltd *	-	-	50.0	-	-
Ace Global Aviation Services (Pvt) Ltd. * <sup>(a)</sup>	-	-	60.0	-	-
Ace Bangladesh Ltd * <sup>(a)</sup>	-	-	45.7	-	-
Ceyaki Shipping (Pvt) Ltd. *	-	-	25.0	-	-
Ceycapital Shipping (Pvt) Ltd. *	-	-	27.5	-	-
Spence Mac Bangladesh *	-	-	25.0	-	-
Spence Logistics (Pvt) Ltd * <sup>(a)</sup>	-	-	50.0	-	-
Aitken Spence GTECH (Pvt) Ltd. <sup>(a)(b)</sup>	-	-	-	-	168,300
				3,605,512	3,758,842

<sup>(a)(b)</sup> - refer Note 31.

**b) Preference Shares**

Aitken Spence (Garments) Ltd *	1,500,000	50.0	50.0	15,000	15,000
Kandalama Hotels Ltd *	17,500,000	100.0	100.0	175,000	175,000
Aitken Spence Hotel Holdings Ltd *	16,500,000	100.0	100.0	165,000	165,000
Asset Airways Ltd *	500,000	100.0	100.0	5,000	5,000
Hethersett Hotels Ltd *	-	-	74.4	-	-
				360,000	360,000
				3,965,512	4,118,842

**12.2 Investments in Subsidiaries - Quoted**

	Number of Shares	Company Holding %	Group Holding %	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Aitken Spence Hotel Holdings Ltd (Ordinary Shares of Rs.10/- each)	27,368,127	71.2	74.4	679,300	679,300
<b>Net Book Value as at 31st March</b>				679,300	679,300
<b>Market Value as at 31st March</b>				1,915,769	2,278,397

\* Investments are held by one of the following companies - Aitken Spence Hotel Holdings Ltd., Aitken Spence Hotels Ltd., Aitken Spence Travels Ltd., Aitken Spence (Garments) Ltd., Spence Mac Holdings (Pvt) Ltd., Ace Cargo (Pvt) Ltd., Triton Ltd., Ace Containers (Pvt) Ltd., Aitken Spence Shipping Ltd., Aset Ltd., Aitken Spence Shipping Services (Pvt) Ltd., Aitken Spence Hotels (International) Ltd., Crest Star (BVI) Ltd. and Aitken Spence Hotel Management Asia (Pvt) Ltd.

\*\* Jetan Travel Services Company (Pvt) Ltd., B.I.R Hotel Managements (Pvt) Ltd., Cowrie Investments (Pvt) Ltd. and ADS Resorts are incorporated in the Republic of Maldives. Crest star (BVI) Ltd., is incorporated in the British Virgin Islands. Crest Star Ltd., is incorporated in Hongkong. Ace Bangladesh Ltd. and Spence Mac Bangladesh are incorporated in Bangladesh and PR Holiday Homes (Pvt) Ltd., is incorporated in India, while all other companies are incorporated in Sri Lanka.

The nominal value per share of Aset Ltd., is Rs 100/-. The nominal value of all other quoted and unquoted shares of companies incorporated in Sri Lanka is Rs.10/-.

(a)/(b) - refer note 31.

**13 Investment in Associate Companies****13.1 Investment in Associate Companies - Unquoted**

	Group				Company			
	No. of Shares	Holding %	31.03.2007 Rs.'000	31.03.2006 Rs.'000	No. of Shares	Holding %	31.03.2007 Rs.'000	31.03.2006 Rs.'000
Aventis Pharma Ltd. <sup>(a)</sup> (Ordinary Shares of Rs.10/- each)	612,865	49.0	5,689	5,689	612,865	49.0	5,689	5,689
M.P.S. Hotels Ltd. (Ordinary Shares of Rs.10/- each)	985,000	22.0	32,912	32,912	-	-	-	-
Aitken Spence Plantation Managements (Pvt) Ltd. <sup>(a)(b)</sup> (Ordinary Shares of Rs.10/- each)	8,300,000	39.0	165,000	165,000	8,300,000	39.0	165,000	165,000
Hayleys Plantation Services Ltd. <sup>(a)(b)</sup> (Ordinary Shares of Rs.10/- each)	6,700,000	33.3	170,515	170,515	6,700,000	33.3	170,515	170,515
Elipitiya Plantations Ltd. <sup>(a)(b)</sup> (Ordinary Shares of Rs.10/- each) (Subsidiary of Aitken Spence Plantation Management (pvt) Ltd.)	-	23.7	-	-	-	-	-	-
Talawakelle Plantations Ltd. <sup>(a)(b)</sup> (Ordinary Shares of Rs.10/- each) (Subsidiary of Hayleys Plantation Services Ltd)	-	23.3	-	-	-	-	-	-
Ceyspence (Pvt) Ltd. (Ordinary Shares of Rs.10/- each)	5,723,712	40.0	57,237	57,237	5,723,712	40.0	57,237	57,237
Ceyfirst Shipping (Pvt) Ltd. (Ordinary Shares of Rs.10/- each) (Associate of Spence Mac Holdings (Pvt) Ltd.)	-	20.0	9,412	9,412	-	-	-	-
Ceyserv Lines (Pvt) Ltd. (Ordinary Shares of Rs.10/- each) (Associate of Spence Mac Holdings (Pvt) Ltd.)	-	12.5	15,000	15,000	-	-	-	-
Net Book Value as at 31st March	-	-	455,765	455,765	-	-	398,441	398,441
Share of movement in equity value	-	-	183,985	176,085	-	-	-	-
Equity value of investments	-	-	639,750	631,850	-	-	-	-

<sup>(a)(b)</sup> - refer note 31.**13.2 Investment in Associate Companies - Quoted**

	Group				Company			
	No. of Shares	Holding %	31.03.2007 Rs.'000	31.03.2006 Rs.'000	No. of Shares	Holding %	31.03.2007 Rs.'000	31.03.2006 Rs.'000
Browns Beach Hotels Ltd (Ordinary Shares of Rs.10/- each)	2,841,718	21.9%	67,810	67,810	-	-	-	-
<b>Net book value as at 31st March</b>	-	-	67,810	67,810	-	-	-	-
Share of movement in equity value	-	-	(10,499)	(9,286)	-	-	-	-
<b>Equity Value of Investments</b>	-	-	57,361	58,524	-	-	-	-
Market value of quoted investments as at 31st March	-	-	76,726	98,750	-	-	-	-
Equity Value - unquoted	-	-	639,750	631,850	Net book value - Unquoted	-	398,441	398,441
Equity Value - quoted	-	-	57,361	58,524	Net Book Value -quoted	-	-	-
Equity Value as at 31st March	-	-	697,111	690,374	Net book value as at 31st March	-	398,441	398,441

**14 Long-term investments**

	No. of Shares	Group 31.03.2007 Rs.'000	31.03.2006 Rs.'000	No. of Shares	Company 31.03.2007 Rs.'000	31.03.2006 Rs.'000
Sumiko Lanka Hotels (Pvt) Ltd. (Preference Shares of Rs 10/- each)	7,500,000	75,000	75,000	7,500,000	75,000	75,000
Sumiko Lanka Hotels (Pvt) Ltd. (Secured Redeemable Debentures of Rs.100/- each)	1,016,000	59,400	101,600	1,016,000	59,400	101,600
Palm Village Hotels Ltd (Ordinary Shares of Rs 10/- each)	1,815,674	10,068	10,068	606,099	3,530	3,530
Rainforest Ecolodge (Pvt) Ltd (advance against investment)	2,500,000	25,000	25,000	2,500,000	25,000	25,000
Hotel Training Institute (Pte) Ltd. (Ordinary Shares of Rs 10/- each)	1,000	10	10	-	-	-
Ceylon Holiday Resorts Ltd (Ordinary Shares of Rs 10/- each)	250	2	-	250	2	-
Cargo Village Ltd (Ordinary Shares of Rs 10/- each)	38,571	357	357	-	-	-
Wilkin Spence Packaging Lanka (Pvt) Ltd. (Ordinary Shares of Rs 10/- each)	125,000	312	1,250	-	-	-
Ingrin Institute of Printing & Graphics Sri Lanka Ltd (Ordinary Shares of Rs 10/- each)	10,000	100	100	-	-	-
Skynet Worldwide Express Management Company Ltd (Ordinary Shares of \$ 1/- each)	1,000	99	99	-	-	-
		170,348	213,484		162,932	205,130
Provision for fall in value of Investments		(250)	(250)		-	-
Net Book Value as at 31st March		170,098	213,234		162,932	205,130

**15 Investment Property****15.1 Movement during the year**

	Group 31.03.2007 Rs. '000	31.03.2006 Rs. '000	Company 31.03.2007 Rs. '000	31.03.2006 Rs. '000
<b>Cost or valuation</b>				
Balance as at 01.04.2006	28,936	28,936	776,674	28,936
Transferred from Property, plant & equipment	-	-	-	747,738
<b>Balance as at 31.03.2007</b>	28,936	28,936	776,674	776,674
<b>Accumulated depreciation</b>				
Balance as at 01.04.2006	-	-	(55,741)	-
Transferred from Property, plant & equipment	-	-	-	(51,090)
Charge for the year	-	-	(4,329)	(4,651)
<b>Balance as at 31.03.2007</b>	-	-	(60,070)	(55,741)
<b>Written Down value as at 31.03.2007</b>	28,936	28,936	716,604	720,933

**15.2 Market value**

Investment properties in the group are accounted on the cost model. The open market value of the above property based on a valuation carried out by an independent qualified valuer as at 31st March 2004 was Rs. 28.9 million (2005/2006 - Rs. 28.9 million) company Rs. 877.4 million (2005/2006 Rs.877.4 million)

**15.3 Income earned from investment property**

Total rent income earned by the company from the investment property in Rs. 37.7 million (2006 Rs. 38.4 million) (Group-nil). There were no direct operating expenses arising from any of the above investment properties.

**15.4** In accordance with the transitional provision of SLAS 40-Investment Property, Rs. 518 million of revaluation surplus has been reclassified in the opening balance of reserves of the company during 2005/2006.

**16 Inventories**

	Group		Company	
	31.03.2007 Rs. '000	31.03.2006 Rs. '000	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Raw materials	706,643	406,794	-	-
Work in progress and finished goods	81,165	79,199	-	-
Consumables	81,820	206,147	1,420	983
Land	2,599	2,599	-	-
	872,227	694,739	1,420	983

Value of inventories pledged as security for facilities obtained from banks amounted to Rs. 576,785,707 (2005/2006-Rs. 404,685,917)  
Company-nil

**17 Trade & Other Receivables**

	Group		Company	
	31.03.2007 Rs. '000	31.03.2006 Rs. '000	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Trade debtors	3,298,028	3,972,034	-	-
Other debtors	1,054,293	551,482	345,847	78,213
Provision for bad debts	(105,987)	(87,531)	(5,496)	(5,496)
	4,246,334	4,435,985	340,351	72,717
Loans to employees	10,666	12,214	7,898	10,495
	4,257,000	4,448,199	348,249	83,212

The movement of loans above Rs.20,000/- given to executive staff is as follows:

**Loan to Company Officers - Summary**

	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Balance as at the beginning of the Year	10,495	10,600
Loans Granted During the Year	3,279	3,675
	13,774	14,275
Recoveries during the year	(5,876)	(3,780)
Loans as at 31st March	7,898	10,495

No loans have been given to the directors of the company.

**18 Current Investments**

	Group			Company		
	No. of Shares	31.03.2007 Rs.'000	31.03.2006 Rs.'000	No. of Shares	31.03.2007 Rs.'000	31.03.2006 Rs.'000
Ceylon Holiday Resorts Ltd (Ordinary Shares of Rs 10/- each)	-	-	2	-	-	2
DFCC Bank (Ordinary Shares of Rs 10/- each)	5,505	110	110	5,505	110	110
Overseas Realty (Ceylon) Ltd. (Ordinary Shares of Rs 10/- each)	3,750	37	37	3,750	37	37
Colombo Dockyard Ltd. (Ordinary Shares of Rs 10/- each)	5,850	59	59	-	-	-
Hatton National Bank Ltd (Non-voting ordinary Shares of Rs 10/- each)	63,800	4,060	4,060	-	-	-
		4,266	4,268		147	149
Provision for fall in value of Investments		-	-		-	(10)
<b>Net Book value as at 31st March</b>		4,266	4,268		147	139
Market Value as at 31st March		8,017	4,975		1,651	1,314

**19 Segmental information****a. Business Segment**

	Total Assets		Total Liabilities	
	31.03.2007 Rs. '000	31.03.2006 Rs. '000	31.03.2007 Rs. '000	31.03.2006 Rs. '000 Restated
Tourism sector	8,854,491	7,200,485	3,495,824	2,688,893
Cargo logistics sector	2,422,585	1,886,848	1,136,579	714,125
Strategic investments	14,891,400	13,927,550	8,570,648	8,558,801
	26,168,476	23,014,883	13,203,051	11,961,819
Goodwill on consolidation/deferred income	159,407	191,811	-	36,678
	26,327,883	23,206,694	13,203,051	11,998,497

	Additions to Property, Plant & Equipment		Depreciation & Amortisation	
	31.03.2007 Rs. '000	31.03.2006 Rs. '000	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Tourism sector	1,774,185	1,787,164	370,788	202,781
Cargo logistics sector	180,998	334,694	88,778	65,691
Strategic investments	360,253	324,332	553,732	384,916
	2,315,436	2,446,190	1,013,298	653,388

**19 Segmental information (Contd.)****b. Geographical Segment**

	Total Assets		Total Liabilities	
	31.03.2007 Rs. '000	31.03.2006 Rs. '000	31.03.2007 Rs. '000	31.03.2006 Rs. '000 Restated
Sri Lanka	21,285,815	19,502,933	11,786,112	10,620,826
South Asia (Maldives, Bangladesh & India)	4,882,661	3,511,950	1,416,939	1,340,993
	26,168,476	23,014,883	13,203,051	11,961,819
Goodwill on consolidation/ deferred income	159,407	191,811	-	36,678
	26,327,883	23,206,694	13,203,051	11,998,497

	Additions to Property, Plant & Equipment		Depreciation & Amortisation	
	31.03.2007 Rs. '000	31.03.2006 Rs. '000	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Sri Lanka	1,050,682	2,055,621	757,814	526,955
South Asia (Maldives, Bangladesh & India)	1,264,754	390,569	198,406	126,433
	2,315,436	2,446,190	956,220	653,388

**20 Share Capital & Reserves****20.1 Share Capital**

	31.03.2007 Rs. '000	31.03.2006 Rs. '000
<b>Authorised</b>		
75,000,000 ordinary shares of Rs. 10/- each	750,000	750,000
<b>Issued and fully Paid</b>		
As at 01st		
April 27,066,403 ordinary shares at Rs.10/- each (2005/06 - 27,056,903)	270,664	270,569
Issued during the year	-	95
As at 31st March		
27,066,403 ordinary Shares at Rs.10/- each (2005/06 - 27,066,403)	270,664	270,664

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per individual present at meetings of the shareholders or one vote per share in the case of a poll.

**20.2 Reserves****Share premium**

The share premium reflects the amount received in excess of the par value of the shares issued by the holding company.

**Revaluation Reserve**

Revaluation reserve relates to the amount by which the Group has revalued its property, plant & equipment

**General Reserve**

The General reserve reflects the amount the Group has reserved over the years from its earnings

**Exchange Fluctuation Reserve**

Exchange fluctuation reserve comprises of all foreign exchange differences arising from the translation of foreign subsidiaries in the Group and the portion of exchange gain or loss arising from the translation of the hedge instrument in relation to cash flow hedges.

**Other Capital Reserves**

This represents the portion of share premium of subsidiaries attributable to the Group.

**21 Deferred Income****Negative goodwill on consolidation**

	<b>Group</b>	
	<b>31.03.2007</b>	<b>31.03.2006</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Balance brought forward	54,957	46,183
Transfer of accumulated amortisation on adoption of SLAS 25 (Revised 2004)	(18,279)	-
Net balance	36,678	46,183
Surplus on acquisitions and change in percentage holding in subsidiaries	-	8,774
Derecognition of opening negative goodwill on adoption of SLAS 25 (Revised 2004)	(36,678)	-
Balance carried forward	-	54,957
<b>Accumulated amortisation</b>		
Balance brought forward	(18,279)	(15,540)
Amortisation during the year	-	(2,739)
Transfer on adopting SLAS 25 (Revised 2004)	18,279	-
Balance carried forward	-	(18,279)
<b>Net balance</b>	-	36,678

Due to the adoption of SLAS 25 (Revised 2004) Business combinations, the unamortised negative goodwill balance that was remaining at the end of the last year was derecognised with a corresponding adjustment to the opening balance of the retained earnings of current year in line with the transitional provision of the standard.

**22 Interest-bearing Liabilities****22.1 Analysed by Lending Institution**

	<b>Group</b>		<b>Company</b>	
	<b>31.03.2007</b>	<b>31.03.2006</b>	<b>31.03.2007</b>	<b>31.03.2006</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
Hatton National Bank Ltd.*	1,013,764	1,241,221	-	-
Commercial Bank of Ceylon Ltd.	1,505,694	649,252	1,000,000	-
People's Bank	902,334	1,091,391	-	-
Hongkong & Shanghai Banking Corporation Ltd.	418,628	399,777	-	-
Bank of Ceylon	1,008,780	1,150,351	-	-
DFCC Bank*	831,794	912,427	-	-
Sri Lanka Insurance Corporation Ltd.*	412,032	492,960	60,000	80,000
Seylan Bank Ltd.	176,016	206,480	-	-
Pan Asia Bank Ltd.	36,754	54,077	-	-
Standard Chartered Bank	6,635	9,704	-	-
National Development Bank of Sri Lanka	325,027	431,853	300,000	400,000
National Savings Bank	370,000	160,000	370,000	160,000
Waldock Mackenzie Ltd.	120,000	160,000	120,000	160,000
Nations Trust Bank	297,323	-	-	-
Indian Bank	200,000	-	200,000	-
Union Assurance Ltd	250,000	-	250,000	-
Eagle Income Fund	6,000	-	6,000	-
Trustees of Church of England	2,000	-	2,000	-
International Water MGT Institute Pension Fund	2,000	-	2,000	-
Employee Trust Fund	250,000	-	250,000	-
Central Finance Co., Ltd	5,647	7,009	-	-
Quoted Debentures	107,500	352,500	-	200,000
Advances from tour operators	-	26,843	-	-
	8,247,928	7,345,845	2,560,000	1,000,000
Current portion of interest-bearing liabilities	(1,824,022)	(1,921,261)	(250,000)	(400,000)
Non-current interest-bearing liabilities	6,423,906	5,424,584	2,310,000	600,000

\* Refer note 32.

**22.2 Analysed by Repayment Period**

	Group		Company	
	31.03.2007 Rs. '000	31.03.2006 Rs. '000	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Payable within one year	1,824,022	1,921,261	250,000	400,000
Payable between one and two years	1,951,740	1,642,288	320,000	200,000
Payable between two and five years	3,400,813	3,415,389	1,446,000	400,000
Payable after five years	1,071,353	366,907	544,000	-
	8,247,928	7,345,845	2,560,000	1,000,000

**22.3 Analysed by Currency Equivalent in Rupees**

	31.03.2007 Rs. Equivalent Rs. '000	%	Group 31.03.2006 Rs. Equivalent Rs. '000	%	Company 31.03.2007 Rs. Equivalent Rs. '000	31.03.2006 Rs. '000
United States Dollars	5,017,491	61	5,655,017	77	-	-
Sri Lankan Rupees	3,230,437	39	1,690,828	23	2,560,000	1,000,000
	8,247,928	100	7,345,845	100	2,560,000	1,000,000

**22.4 Movement of Interest-Bearing Liabilities**

	Group		Company	
	31.03.2007 Rs. '000	31.03.2006 Rs. '000	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Total outstanding as at 01st April	7,345,845	4,952,706	1,000,000	1,200,000
Exchange difference	317,949	171,761	-	-
Loans received during the year	2,616,718	3,050,518	1,960,000	-
	10,280,512	8,174,985	2,960,000	1,200,000
Loan repayments during the year	(2,032,584)	(829,140)	(400,000)	(200,000)
	8,247,928	7,345,845	2,560,000	1,000,000
Current portion of interest-bearing liabilities	(1,824,022)	(1,921,261)	(250,000)	(400,000)
Non-current interest-bearing liabilities	6,423,906	5,424,584	2,310,000	600,000

**23 Deferred Taxation**

	Group		Company	
	31.03.2007 Rs. '000	31.03.2006 Rs. '000 Restated	31.03.2007 Rs. '000	31.03.2006 Rs. '000
Balance as at the beginning of the Year *	199,622	184,425	9,497	11,059
Companies disposed during the year	(384)	(51)	-	-
Transferred from/(to) income statement	31,885	15,248	(2,450)	(1,562)
Balance at the end of the year	231,124	199,622	7,047	9,497

The deferred tax asset not accounted for in the financial statements amounts to Rs. 68.75 million.

\* Opening balance of the group has been restated on adopting SLAS 14 - Income Taxes (Revised 2005) as further explained in Note 33.

**24 Retirement Benefits Obligations**

	<b>Group</b>		<b>Company</b>	
	<b>31.03.2007</b>	<b>31.03.2006</b>	<b>31.03.2007</b>	<b>31.03.2006</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
Balance as at the beginning of the year	154,656	135,736	17,333	14,471
Companies acquired during the year	286	214	-	-
Companies disposed during the year	(7,352)	(634)	-	-
Provision for the Year	53,294	33,922	6,402	4,026
Payments during the Year	(23,802)	(14,582)	(760)	(1,164)
Balance as at the end of the year	177,082	154,656	22,975	17,333

The provision for retiring gratuity for the year is based on the actuarial valuation carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd., as at 31st March 2007. The Actuarial present value of the promised retirement benefits as at 31st March 2007 amounted to Rs. 177,082,076/- (Company -Rs.22,975,355/-)

**25 Provisions and Other Payables**

	<b>Group</b>		<b>Company</b>	
	<b>31.03.2007</b>	<b>31.03.2006</b>	<b>31.03.2007</b>	<b>31.03.2006</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
Accruals and other payables	1,993,026	1,185,271	345,102	210,872
Provisions *	38,947	23,339	-	-
Unclaimed dividends	1,750	1,420	1,750	1,420
	2,033,723	1,210,030	346,852	212,292

\* Out of the Rs.127.9 million provision made during 2004/2005 for the reconstruction of damaged hotel buildings caused by the tsunami on 26th December 2004, Rs. 23.4 million remained outstanding throughout the financial year. During the year Group made a further provision for staff compensation of Rs. 15.6 million.

**26 Joint Ventures**

The Groups interest in joint ventures and their principal activities are described in note 12.1 and pages 134 to 135 respectively. Included in the consolidated financial statements are the following items that represent the Group interest in the assets and liabilities, revenue and expenses of the joint ventures.

	<b>31.03.2007</b>	<b>31.03.2006</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Income	1,539,830	1,546,296
Expenses	1,603,474	1,565,301
Current assets	339,843	503,250
Non-current assets	409,007	694,327
Current liabilities	566,915	626,221
Non-current liabilities	159,143	177,798

**27 Foreign Currency Translation**

The principal exchange rates used for translation purposes were:

	<b>31.03.2007</b>	<b>31.03.2006</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
US Dollar	109.32	102.71
Pound Sterling	214.62	179.34
Taka	1.66	1.66
Euro	145.74	124.96

**28 Contracts for Capital Expenditure**

The following commitments for capital expenditure approved by the Directors as at 31st March 2007 have not been provided for in the accounts:

	<b>31.03.2007</b> <b>Rs. '000</b>	<b>31.03.2006</b> <b>Rs. '000</b>
Approximate amount approved but not contracted for	672,917	522,748
Approximate amount contracted for but not incurred	66,004	1,114,147
	<b>738,921</b>	<b>1,636,895</b>

**29 Contingent Liabilities**

The contingent liability as at 31.03.2007 on guarantees given by Aitken Spence & Co. Ltd., to third parties amounted to Rs. 600,934,000/- Of this sum, Rs.455,684,000/- and Rs.145,250,000/- relates to facilities obtained by subsidiaries and joint ventures respectively and none to Associate companies. Liability as at 31.03.2007 on guarantees given by subsidiaries to third parties amounted to Rs. 1,167,202,109/- None of the above guarantees were in relation to facilities obtained by companies other than companies within the Group. There were no guarantees given in relation to facilities obtained by Aitken Spence & Co. Ltd.

**30 Directors' Fees**

The directors of the Company have received fees amounting to Rs.122,400/- from subsidiaries for the year ended 31st March 2007.

**31 Directors Interest in Contracts**

Mr. D.H.S. Jayawardena Chairman of the company is also a director of two of its subsidiaries Ace Power Horana (Pvt) Ltd., and Ace Power Matara Ltd., He was also the Chairman, Managing director or a Director of the companies indicated by a \* in the companies listed under note 32.4.

Mr. J.M.S Brito, Deputy Chairman /Managing Director of the company was also the Chairman or a Director of the subsidiaries, joint ventures and associate companies that are indicated by "a" in Notes 12 and 13 to the financial statements. Mr. J.M.S Brito is also a Director of Sri Lanka Insurance Corporation Ltd., DFCC Bank and DFCC Vardhana Bank.

Mr. R.M Fernando was also the Managing Director or a Director of the companies marked by "b" in note 12 and 13 to the financial statements.

Transactions between the companies within the group and the above companies are given in note no. 32.

The Directors had no other direct or indirect interest in any other contract with the company. The Directors have disclosed their interest in contracts of the Company at meetings of the directors. The directors interest in contracts should be read in conjunction with Note 32 on Related Party Transactions.

**32 Related party transactions**

Aitken Spence Group carries out transactions in the ordinary course of business with parties who are defined as related parties in the Sri Lanka Accounting Standard no 30 – Related Party Disclosures. The pricing policy applicable to such transactions are comparable with those that would have been charged from unrelated companies. Details of significant related party disclosures are given below.

	Transactions with Aitken Spence & Co		Transactions with the Group companies	
	2006/2007	2005/2006	2006/2007	2005/2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>32.1 Transactions with subsidiary companies listed in note 12</b>				
Income from services rendered	146,019	136,701	N/A	N/A
Rent income received	33,234	31,896	N/A	N/A
Allocation of common personnel and administration expenses	38,035	50,083	N/A	N/A
Purchase of goods and services	16,374	16,395	N/A	N/A
Interest income received	174,497	82,449	N/A	N/A
Interest paid	23,895	29,142	N/A	N/A
Amounts receivable as at 31st March 2007	198,447	1,730,623	N/A	N/A
Amounts payable as at 31st March 2007	1,162,934	1,537,634	N/A	N/A

**32.2 Transactions with Associate companies listed in note 13**

Sale of goods and services	3,244	3,255	12,441	13,736
Purchase of goods and services	173,350	67,680	13,715	22,510
Provisions/(Repayments) of short term finances	-	-	(22,427)	22,427
Amounts receivable as at 31st March 2007	108,732	90,566	115,134	103,990
Amounts payable as at 31st March 2007	34	14	1,528	951

**32.3 Transactions with Joint venture companies listed in note 12**

Sale of goods and services	50,215	40,398	N/A	N/A
Purchase of goods and services	394	384	N/A	N/A
Amounts receivable as at 31st March 2007	219,980	484,095	N/A	N/A
Amounts payable as at 31st March 2007	225,754	252,739	N/A	N/A

**32.4 Transactions with other related companies**

Sale of goods and services	-	-	57,782	86,040
Purchase of goods and services	30,928	29,632	695,779	506,415
Loans obtained	-	-	145,764	884,669
Repayment of loans and debentures	20,000	20,000	559,615	149,487
Short/ long term facilities as at 31st March	-	-	2,523,283	3,310,923
Amounts receivable as at 31st March 2007	-	-	11,233	19,259
Amounts payable as at 31st March 2007	61,222	81,466	3,234,970	3,690,973

Transactions with Stassen Exports Ltd. \*, Stassen International Ltd. \*, Stassen Natural Foods (Pvt) Ltd. \*, Milford Exports (Ceylon) Ltd. \*, Lanka Dairies (Pvt) Ltd. \*, Ambewela Livestock Company Ltd. \*, Pattipola Live Stock Company Ltd. \*, Sri Lanka Insurance Corporation Ltd. \*, Periceyl (Pvt) Ltd. \*, Lanka Bell (Pvt) Ltd. \*, Lanka Milk Foods (CWE) Ltd. \*, Distilleries Company of Sri Lanka Ltd. \*, Hatton National Bank Ltd. \*, Lanka Hospitals Corporation Limited. \*, Sri Lankan Airlines Ltd. \*, DFCC Bank, DFCC Vardhana. are given in the above other related party transactions details.

\* Refer note 31

**32.5 Transactions with Key Management Personnel**

Aitken Spence & Co. Ltd considers its Board of Directors as the Key Management personnel of the company. Board of Directors of subsidiary companies are considered as key management personnel of individual companies.

compensation paid to key management personnel of the Company is as follows:

	<b>Company Rs. '000</b>	<b>Group Rs. '000</b>
Short term employee benefits	10,989	130,066
Post employment benefits	-	136

The company/Group did not have any material transactions with its key management personnel or their close family members during the year.

**33 Comparative information**

The Accounting Policies have been consistently applied by the Group and are consistent with those used in the previous year, other than the adoption of Revised Sri Lanka Accounting Standards as detailed in Accounting Policies of these financial statements.

**33.1 Effect of Adopting SLAS 14 (Revised 2005) - Income Taxes**

During the year company adopted the revised Sri Lanka Accounting Standard 14 - Income taxes. This has been accounted for retrospectively and the comparative statements for 2005/2006 have been restated.

The effect of the change on 2005/2006 is tabulated below. opening retained earnings for 2005/2006 is reduced by Rs. 61,972,557/-, which is the amount of the adjustment relating to periods prior to 2005/2006.

	<b>Holding Company Rs. '000</b>	<b>Group Minority Interest Rs. '000</b>
<b>Effect on 2005/2006</b>		
Decrease in deferred tax expense	2,378	663
<b>Effect on periods prior to 2005/2006</b>		
Decrease in profits	(61,973)	(18,828)
Increase in deferred tax liability	80,800	-

**34 Number of Employees**

The number of employees of the Group as at end of the year was 4,199 (2006 - 4209 ). The number of employees of the Company at end of the year was 98 (2006 - 94).

**35 Events Occurring after Balance Sheet Date**

There were no material events that occurred after the balance sheet date that require adjustments to or disclosure in the financial statements.

**36 Director's Responsibility**

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

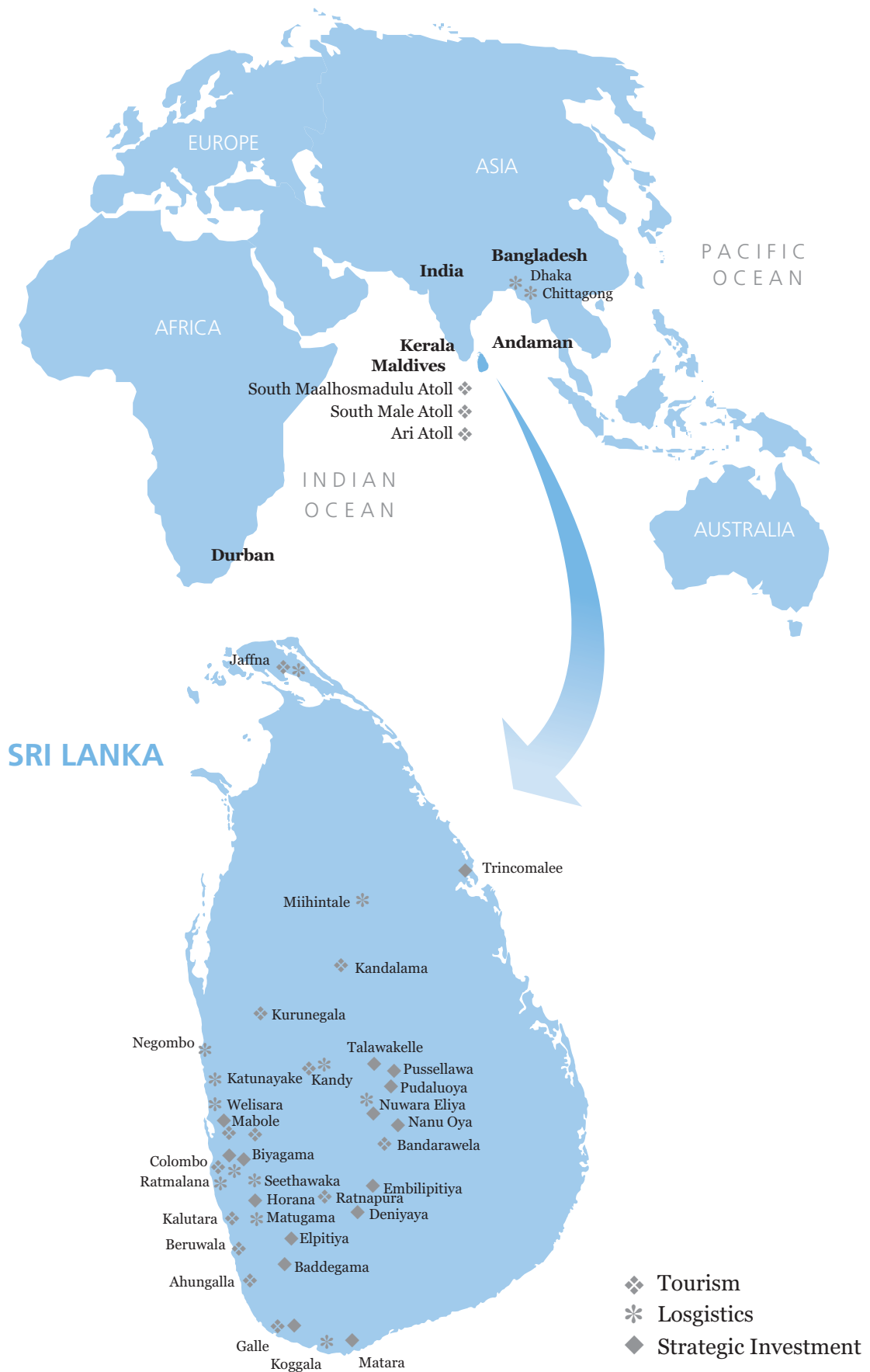
## > Consolidated Income Statement in USD

For the year ended 31st March	2007 US\$ '000	2006 US\$ '000 Restated
<b>Revenue</b>	180,805	132,346
Revenue tax	(2,158)	(1,601)
<b>Net Revenue</b>	178,647	130,745
Other operating income	2,837	4,802
Changes in inventories of finished goods and work-in progress	42	(57)
Raw materials and consumables used	(68,991)	(52,311)
Staff costs	(14,533)	(11,923)
Depreciation and amortisation	(9,269)	(6,361)
Other operating expenses - direct	(36,973)	(27,017)
Other operating expenses - indirect	(22,201)	(16,231)
<b>Operating profit before financing cost</b>	29,559	21,647
Financial income	1,366	694
Financial expenses	(7,616)	(4,263)
<b>Net financing cost</b>	(6,250)	(3,569)
Share of associate companies profit before taxation	437	630
<b>Profit on ordinary activities before taxation</b>	23,745	18,709
Taxation	(2,853)	(2,035)
<b>Net profit for the period</b>	20,893	16,673
<b>Attributable to:</b>		
Equity Holders of the parent	13,353	11,816
Minority interest	7,540	4,857
	20,893	16,673
<b>Net profit attributable to Aitken Spence &amp; Co., Ltd</b>	13,353	11,816
Unappropriated profit brought forward	36,269	28,915
Transfer from / to reserves	-	922
Negative goodwill written back	-	357
<b>Profit available for appropriation</b>	49,622	42,010
<b>Appropriations</b>		
Transfer to general reserve	2,021	773
Final dividend for the year ended 31.03.2006	867	922
Gross dividend	743	1,713
Retained in the business	45,991	38,602
Earnings per share (US\$ cents)	49	44
Exchange rate	US \$ = 109.32	102.71

Figures in brackets indicates deductions.

## > Consolidated Balance Sheet in USD

As at 31st March	2007 US\$ '000	2006 US\$ '000 Restated
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant & equipment	153,407	150,426
Intangible assets	1,458	1,868
Investments in associates	6,377	6,722
Long-term investments	1,556	2,076
Investment Property	265	282
	163,063	161,374
<b>Current assets</b>		
Inventories	7,979	6,764
Amount due from associates	1,053	1,012
Trade & other receivables	38,941	43,308
Current investments	39	42
Deposits and prepayments	4,729	3,372
Short-term deposits	20,149	6,002
Cash & cash equivalents	4,880	4,070
	77,770	64,570
<b>Total assets</b>	<b>240,833</b>	<b>225,944</b>
<b>Equity and liabilities</b>		
<b>Equity attributable to equity holders of the parent</b>		
Issued and fully paid share capital	2,476	2,635
Reserves	41,511	41,231
Retained earnings	46,858	39,168
	90,845	83,034
Minority interest	29,214	26,090
<b>Total equity</b>	<b>120,059</b>	<b>109,124</b>
<b>Non-current liabilities</b>		
Deferred income	-	357
Interest bearing borrowings	58,762	52,815
Deferred tax	2,114	1,944
Retirement benefit obligations	1,620	1,506
	62,496	56,622
<b>Current liabilities</b>		
Trade and other payables	29,625	24,571
Interest bearing liabilities repayable within one year	16,685	18,706
Amount due to associates	14	8
Provision for taxation	860	609
Interim dividend declared	743	791
Short-term bank borrowings	10,351	15,513
	58,278	60,198
<b>Total equity and liabilities</b>	<b>240,833</b>	<b>225,944</b>
Exchange rate	US \$ =	109.32
		102.71



## > Ten Year Summary

Year Ended 31st March	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
	(Restated)									
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Operating Results</b>										
Revenue	19,765,632	13,593,263	10,063,989	9,157,160	7,030,843	4,536,324	4,524,020	3,724,595	3,353,175	3,297,559
Profit before taxation	2,595,938	1,921,558	1,733,654	1,888,676	884,070	552,398	654,931	496,958	392,362	236,577
Taxation	311,867	209,066	175,130	189,180	151,654	112,855	106,632	90,723	62,779	46,954
Profit after taxation	2,284,071	1,712,492	1,558,524	1,699,496	732,416	439,543	548,299	406,235	329,583	189,623
Profit attributable to Aitken Spence & Co. Ltd.	1,459,775	1,213,661	1,116,776	1,275,523	525,185	346,082	452,720	352,579	279,642	157,192
<b>Equity &amp; Liabilities</b>										
Share capital	270,664	270,664	270,569	269,949	268,158	265,722	265,139	264,962	264,306	145,080
Reserves	4,537,987	4,234,859	4,169,832	3,899,020	2,819,818	2,640,116	2,632,471	2,606,740	2,616,403	2,103,816
Retained earnings	5,122,472	4,022,929	3,126,517	2,405,847	1,626,591	1,303,856	1,064,503	754,720	496,473	240,734
Minority interest	3,193,710	2,679,745	1,774,362	1,765,622	1,433,522	1,252,413	1,146,962	477,875	440,673	416,249
Non-current liabilities	6,832,112	5,815,540	4,476,808	2,504,832	3,439,933	2,517,504	1,088,454	478,078	816,309	1,276,667
Current liabilities	6,370,939	6,182,957	3,288,637	3,432,392	2,492,515	3,638,465	3,156,661	2,395,046	1,985,640	1,595,497
	26,327,883	23,206,694	17,106,725	14,277,662	12,080,537	11,618,076	9,354,190	6,977,421	6,619,804	5,778,043
<b>Assets</b>										
Property, plant & equipment	16,770,495	15,450,267	11,005,913	8,576,500	7,754,569	6,791,715	4,801,965	3,336,790	3,363,336	3,267,846
Intangible assets	159,407	191,811	170,058	92,017	98,117	102,251	117,417	269,535	190,164	170,860
Investments	896,145	932,544	1,231,412	1,150,139	856,579	933,971	981,392	1,133,604	750,423	722,886
Current assets	8,501,836	6,632,072	4,699,342	4,459,006	3,371,272	3,790,139	3,453,416	2,237,492	2,315,881	1,616,451
	26,372,883	23,206,694	17,106,725	14,277,662	12,080,537	11,618,076	9,354,190	6,977,421	6,619,804	5,778,043
<b>Share Information</b>										
Earnings per share (Rs.)	53.93	44.85	41.32	47.36	19.69	13.05	17.08	13.33	11.93	8.13
Market value per share (Rs.)	380	339.00	380.00	263.50	140.00	90.00	78.25	120.00	90.00	190.00
Highest market value per share (Rs.)	400	410.00	390.00	319.00	156.00	125.00	121.00	140.00	200.00	225.25
Market capitalisation on 31st March (Rs. mn)	10,285	9,176	10,282	7,113	3,754	2,391	2,075	3,180	2,379	2,757
Price earnings ratio	7.05	7.56	9.20	5.56	7.11	6.90	4.58	9.00	7.54	23.37
Net assets per share (Rs.)	366.92	315.09	279.67	243.56	175.81	158.42	149.44	136.87	127.78	171.60
<b>Employees Information</b>										
No. of employees	4,199	4,209	4,209	4,112	3,590	3,783	4,040	3,967	4,558	4,686
Value added per employee (Rs. '000)	1,470	1,038	857	897	697	482	441	366	276	239
<b>Ratios &amp; Statistics</b>										
Ordinary dividend (Rs. '000)	175,931	175,931	162,341	161,969	120,974	106,243	106,077	92,757	79,292	50,818
Effective rate of dividend (%)	65.00	65.00	60.00	60.00	45.00	40.00	40.00	35.00	30.00	30.00
Dividend cover (times covered)	8.30	6.90	6.88	7.88	4.34	3.26	4.27	3.68	3.53	3.09
Dividend - payout ratio	0.12	0.14	0.15	0.13	0.23	0.31	0.23	0.26	0.25	0.37
Current ratio (times covered)	1.33	1.07	1.43	1.30	1.35	1.04	1.09	0.93	1.17	1.01
Debt / Equity	0.49	0.48	0.45	0.27	0.53	0.43	0.18	0.08	0.18	0.39
ROE (%)	15.82	15.08	15.79	22.60	11.77	8.47	11.93	9.72	9.15	6.36
Interest cover ratio	4.93	6.38	9.66	12.12	5.10	4.55	5.75	5.96	3.59	2.11

## > Share & Debenture Information

### Stock Exchange Listing

Aitken Spence & Company Limited is a Public Quoted Company, the issued ordinary shares of which are listed with the Colombo Stock Exchange.

**Market Sector :** Diversified Holdings

**Reuters Code :** SPEN.CM

### Shareholders

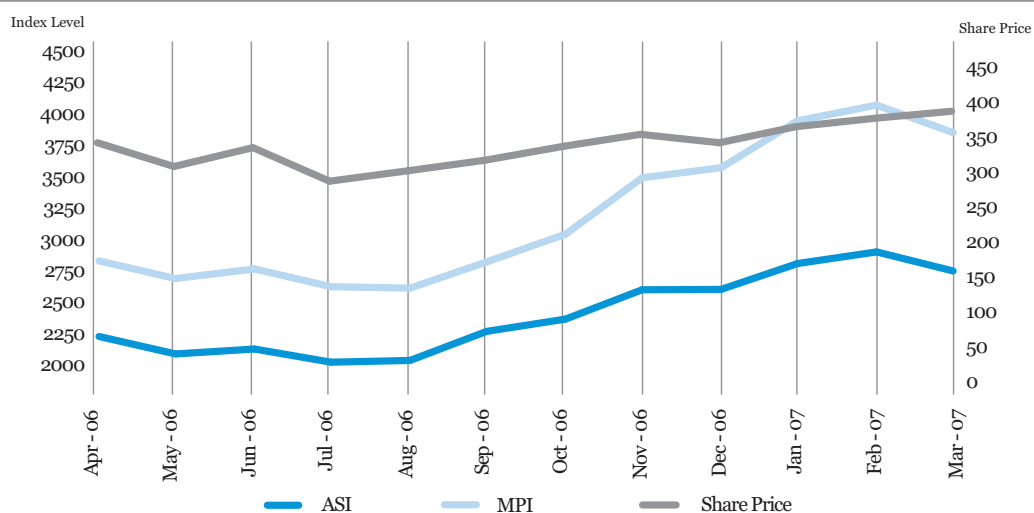
There were 1,659 (31st March 2006 – 1,593) registered shareholders as at 31st March 2007, whose shareholding is distributed as follows:

Category	31st March 2007			31st March 2006		
	No. of Shareholders	No. of Shareholding	%	No. of Shareholders	No. of Shareholding	%
1 - 1,000	1,218	285,907	1.06	1,156	273,796	1.01
1,001 - 5,000	268	628,188	2.32	273	633,075	2.34
5,001 - 10,000	58	417,214	1.54	57	419,652	1.55
10,001 - 50,000	71	1,535,050	5.67	60	1,328,232	4.91
50,001 - 100,000	13	1,017,442	3.76	12	901,500	3.33
100,001 - 500,000	23	5,697,660	21.05	28	6,782,706	25.06
500,001 - 1,000,000	3	1,823,639	6.74	2	1,066,139	3.94
Over 1,000,001	5	15,661,303	57.86	5	15,661,303	57.86
<b>All Holdings</b>	<b>1,659</b>	<b>27,066,403</b>	<b>100.00</b>	<b>1,593</b>	<b>27,066,403</b>	<b>100.00</b>

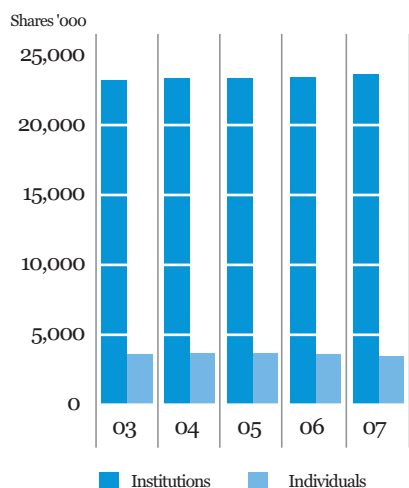
	31st March 2007		31st March 2006	
	Shareholding	%	Shareholding	%
Institutions	23,607,537	87.22	23,429,618	86.56
Individual	3,458,866	12.78	3,636,785	13.44
<b>All Holdings</b>	<b>27,066,403</b>	<b>100.00</b>	<b>27,066,403</b>	<b>100.00</b>

	31st March 2007		31st March 2006	
	Shareholding	%	Shareholding	%
Nationals	13,586,415	50.20	14,245,667	52.63
Non-Nationals	13,479,988	49.80	12,820,736	47.37
<b>All Holdings</b>	<b>27,066,403</b>	<b>100.00</b>	<b>27,066,403</b>	<b>100.00</b>

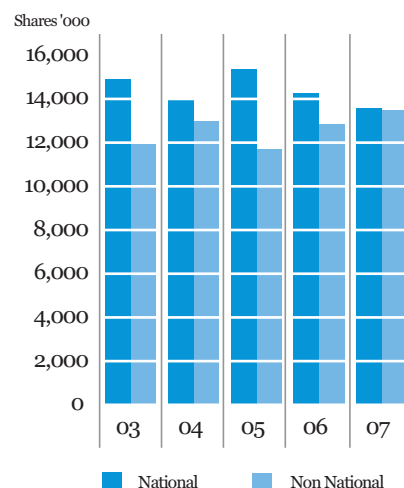
Share Prices vs Indices - 2006/2007 12 Months Trend



Shareholding of Institutions & Individuals *As at 31st March*



Shareholding of Nationals & Non-Nationals *As at 31st March*



### Substantial Shareholdings

The twenty largest shareholdings as at 31st March 2007, are given below.

Name	No of Shares	%
Distilleries Company of Sri Lanka Limited	4,658,355	17.21
Rubicond Enterprises Limited	4,399,343	16.25
Sri Lanka Insurance Corporation Ltd – General Fund	2,935,505	10.85
HSBC International Nominees Ltd – SNFE - Arisaig India Fund Ltd.	2,512,700	9.28
HSBC International Nominees Ltd – BPSS LDN - Aberdeen Asia Pacific Fund	1,155,400	4.27
Northern Trust Company S/A Murray Johnstone International Delaware Business Trust	736,900	2.72
HSBC International Nominees Ltd – BPSS LDN - Aberdeen Investment Fund		
ICVC Aberdeen Emerging Markets Fund	554,500	2.05
Employees Provident Fund	532,239	1.97
HSBC International Nominees Ltd – BPSS LUX - Aberdeen Global Asian Smaller Companies Fund	495,700	1.83
Mr. G.C. Wickremasinghe	487,216	1.80
HSBC International Nominees Ltd – JPMCB-SCOTTISH ORL SML TR GTI 6018	482,000	1.78
Placidrange Holdings Limited	368,100	1.36
HSBC International Nominees Ltd – HSBC Bank Plc - CMG First State Indian - Subcontinent	350,000	1.29
HSBC International Nominees Ltd – BPSS LUX - Aberdeen Global Emerging Market Fund	327,400	1.21
HSBC International Nominees Ltd – SSBTL - Aberdeen New Dawn Investment Trust	300,237	1.11
Milford Exports (Ceylon) Ltd	288,100	1.06
Hongkong & Shanghai Banking Corp. Ltd. – National Equity Fund	241,400	0.89
Mr. R. Sivaratnam	224,790	0.83
Stassen Exports Limited	216,300	0.81
Ms. A.T. Wickremasinghe	209,465	0.77
<b>Total</b>	<b>21,475,650</b>	<b>79.34</b>

### Share Valuation

The market value of the ordinary shares as at 31st March 2007 was Rs. 380.00 per share (31st March 2006 – Rs. 339.00).

The market value of ordinary shares as at 24th May 2007 was Rs. 345.00 per share.

### Earnings

Earnings per share for 2006/2007 was Rs. 53.93 (2005/2006 – Rs. 44.76). The price earnings ratio (P/E) was 7.05 (2005/2006 – 7.56).

### Dividends

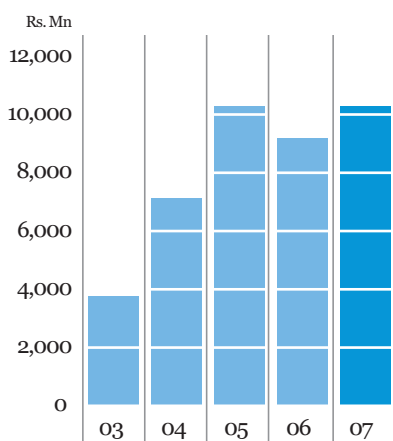
An interim dividend of Rs. 3.00 per share (2005/2006 – Rs. 3.00 per share) was paid on 10th April 2007. A final ordinary dividend of Rs. 3.50 per share (2005/2006 – Rs 3.50 per share) is proposed and payable on 5th July 2007. (2005/2006 – 29th June 2006).

The dividend per share amounted to Rs. 6.50 per share (2005/2006 – Rs. 6.50), while the dividend cover was 8.30 times (2005/2006 – 6.90 times).

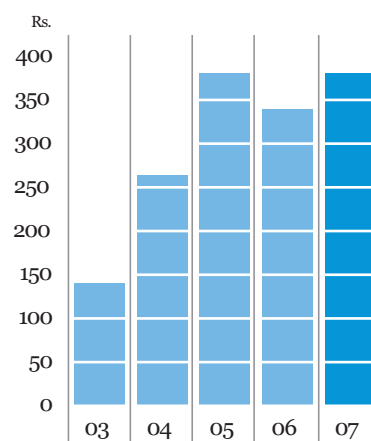
### Unquoted Debentures

1. The Company raised by a private placement Rs. 1 billion by way of 10,000 unsecured redeemable debentures of Rs. 100,000/- each. Fitch Ratings Lanka Limited, granted a credit rating of AA (Sri) on these debentures. The details of the unquoted debentures issued and redeemed to date are as follows:
  - (i) 5,000 fixed rate unsecured redeemable debentures of Rs. 100,000/- each was issued on the 30th June 2004, with interest payable semi annually at an interest rate of 10.96% p.a., 1,000 debentures of the above were redeemed on 29th June 2006. The applicable interest on these debentures were duly paid on 29th June 2006 and 29th December 2006.
  - (ii) 5,000 floating rate unsecured redeemable debentures of Rs. 100,000/- each was issued on the 30th July 2004, with interest payable semi annually at an interest rate of six month net treasury bill rate + 2.15% p.a., 1,000 debentures of the above were redeemed on 29th July 2006. The applicable interest on these debentures were duly paid on 29th July 2006 and 29th January 2007.
2. The Company raised by a private placement Rs. 960 million by way of a 9,600,000 unsecured redeemable debentures of Rs. 100.00 each. Fitch Rating Lanka Limited granted a credit rating of AA (Sri) on these debentures. The details of the unquoted debentures issued to date are as follows:
  - (i) 3,000,000 fixed rate unsecured redeemable debentures of Rs. 100.00 each was issued on the 25th October 2006, with interest payable annually at an interest rate of 13.75% p.a. The applicable interest on these debentures are payable on 25th October of every year until redeemed.
  - (ii) 6,600,000 floating rate unsecured redeemable debentures of Rs. 100.00 each was issued on the 25th October 2006 and 24th November 2006, with interest payable semi annually at an interest rate of six month gross treasury bill rate + 1.25% p.a. The applicable interest on these debentures are payable on 25th April and 25th October , of every year until redeemed.

Market Capitalisation As at 31st March



Market Value per Share As at 31st March



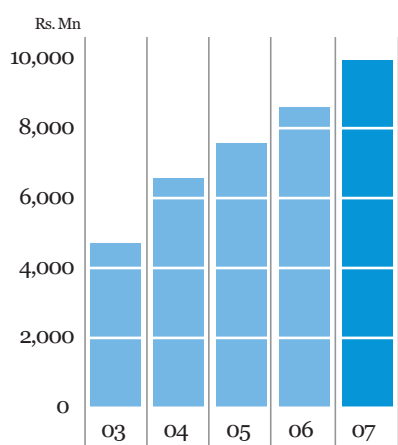
### Shares Traded during the year

	2006/2007	2005/2006
Number of transactions	1,042	1,347
Number of shares	2,086,500	3,596,800
Total value (Rs. million)	680	1,322
Percentage of Total Value Transacted	0.59%	1.16%
Highest Price Traded (Rs.)	400.00 (19.02.2007)	410.00 (20.05.2005)
Lowest Price Traded (Rs.)	270.00 (24.04.2006)	286.00 (17.01.2006)
Market Capitalization on 31st March (Rs. million)	10,285.2	9,175.5
Percentage of Total Market Capitalization	1.18%	1.33%

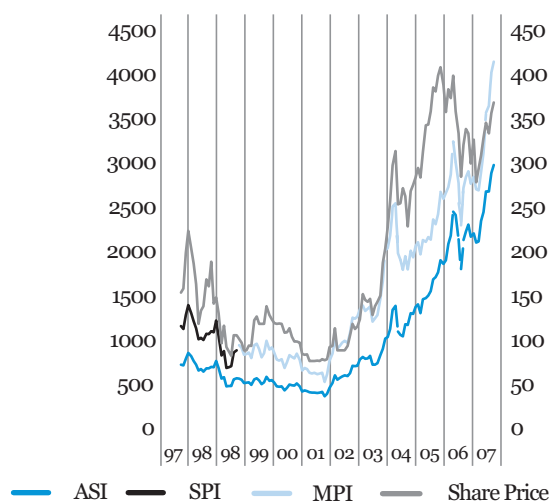
### History of Dividend Per Share and Share prices for the Past 10 Years

Year	Dividend Per Share (Rs)	Share Price as at 31st March
1997/98	3.00	190.00
1998/99	3.00	90.00
1999/00	3.50	120.00
2000/01	4.00	78.25
2001/02	4.00	90.00
2002/03	4.50	140.00
2003/04	6.00	263.50
2004/05	6.00	380.00
2005/06	6.50	339.00
2006/07	6.50	380.00

### Shareholder's Funds As at 31st March



### Share Prices vs Indices - 10 Year Trend



## > Group Companies

Aitken Spence & Company Ltd., is a Company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange . It is the Holding Company of the Group which provides management and other related services to the entire Group.

SUB SECTOR	COMPANY	ACTIVITY
Inbound Travel	Aitken Spence Travels Ltd.	Destination Management Company. Represents world renowned tour operators including TUI the largest in Europe.
	Ace Travels & Conventions (Pvt) Ltd.	Professional Conference, Exhibition & Event organiser. Also offer Destination Management Services.
Outbound Travel	Aitken Spence Aviation (Pvt) Ltd.	General Sales Agents for Singapore Airlines and Singapore Airlines Cargo.
	Aitken Spence Overseas Travel Services (Pvt) Ltd.	An IATA agent and General Sales Agent for Tradewinds and Rail Europe Organises outbound Holiday Packages.
	Aitken Spence Moscow (Pvt) Ltd.	General Sales Agents for Aeroflot Russian Airlines.
Hotels	Aitken Spence Hotel Holdings Ltd.	The holding company of the Group's hotel interests. Owns and operates the Heritance Ahungalle.
	Aitken Spence Hotels Ltd.	Owns and operates Neptune Hotel. Holding Company of Kandalama Hotels Ltd.
	Pearl Beach Hotels Ltd.	Leases the Company owned land to Aitken Spence Hotels Ltd.
	Kandalama Hotels Ltd.	Owns and operates Heritance Kandalama.
	Hethersett Hotels Ltd.	Owns and operates the Heritance Tea Factory.
	Neptune Ayurvedic Village (Pvt) Ltd.	Owns and operates Neptune Ayurvedic Village.
	Ahungalla Resorts Ltd.	Owns a land for a proposed future hotel.
	Crest Star (B.V.I.) Ltd.	The holding company and managing agents of B.I.R. Hotel Management (Pvt.) Ltd., and Jetan Travel Services Company (Pvt.) Ltd.
	BIR Hotel Management (Pvt) Ltd.	Owns and operates Adaaran Club Bathala - Maldives.
	Jetan Travel Services Co. (Pvt) Ltd.	Owns and operates Adaaran Club Rannalhi - Maldives
	Cowrie Investments (Pvt) Ltd.	Owns and operates Adaaran Select Meedhupparu Island Resort - Maldives.
	Ace Ayurvedic (Pvt) Ltd.	Operates the Ayurvedic centre in Adaaran Select Medhupparu Island Resorts - Maldives.
	Aitken Spence Hotel Managements (Pvt) Ltd.	Manages Resorts in Sri Lanka.
	Aitken Spence Hotels (International) Ltd.	Owns ADS Resorts (Pvt) Ltd., Manages Meedhupparu, ADS Resorts and Crest Star.
	Aitken Spence Hotel Managements Asia (Pvt) Ltd.	Manages Resorts in India.
	ADS Resorts (Pvt) Ltd.	Owns and operates Adaaran Select Huduranfushi - Maldives.
	Ace Cargo (Pvt) Ltd.	Provides international freight forwarding services.
	Ace Bangladesh Ltd.	Provides international freight forwarding services in Bangladesh.
	Ace International Express (Pvt) Ltd.	Provides international air express, domestic delivery and international mailing.
	Aitken Spence Cargo (Pvt) Ltd.	International freight forwarding & General Sales Agents for Airline Cargo.
	Ace Global Aviation Services (Pvt) Ltd.	Operates as General Sales Agents for Airline Cargo.
	Ace Freight Logistics (Pvt) Ltd.	Import/ Export brokerage and supply chain management.
Integrated Logistics	Ace Containers (Pvt) Ltd.	Operates an inland container depot and a freight station.
	Ace Container Terminals (Pvt) Ltd.	Provides container storage , customs brokerage and warehousing services.
	Ace Haulage (Pvt) Ltd.	Transporters of laden and empty containers.
	Ace Container Repair (Pvt) Ltd.	Provides Container repairing and GOH Conversion.
	Ace Distriparks (Pvt) Ltd.	Provides total logistics support and warehousing with multicountry cargo consolidation.
	Ace Freight Management (Pvt) Ltd.	Provides clearing, forwarding and consolidation of cargo and operates an inland container depot and freight station.
Maritime Transport	Spence Mac Holdings (Pvt) Ltd.	Holding company of the Maritime Transport sector of the Group.
	Aitken Spence Shipping Services (Pvt) Ltd.	Holding Company of Spence Shipping (Pvt) Ltd., and Port Management Container Services (Pvt) Ltd.
	Aitken Spence Shipping Ltd.	Liner, Cruise and Tramp agency representation, NVOCC and an international freight forwarder.
	Clark Spence & Co. Ltd.	Shipping and bunkering agents in the ports of Colombo, Galle and Trincomalee and an international freight forwarder.

SUB SECTOR	COMPANY	ACTIVITY
	Shipping & Cargo Logistics (Pvt) Ltd.	Liner Agency representation.
	Spence Logistics (Pvt) Ltd.	NVOCC Freight forwarding operator.
	Mcship Agencies (Colombo) Ltd.	Provides shipping agency services.
	GAC Shipping Ltd.	Provides shipping agency services in Colombo and Galle ports, P & I Club Services, Overseas recruitment of employees.
	GAC Marine Services Ltd.	Provides off-shore ship supply services , marine contracting, managers of fleet of supply vessels.
	GAC Logistics Ltd.	Providers of logistic warehouse management & freight forwarding services
	Ceyaki Shipping (Pvt) Ltd.	Owners and operators of Eco Dani , a 580 TEU container vessel.
	Ceycapital Shipping (Pvt) Ltd.	Owners and operators of Safmarine Bomar, a multi purpose container vessel.
	Spence Mac Bangladesh	Handles shipping operations in Bangladesh.
	Port Management Container Services (Pvt) Ltd.	Operating & Training in Port Management.
	Spence Shipping (Pvt) Ltd.	Shipping Agent.
Printing & Packaging	Ace Exports (Pvt) Ltd.	Provides Printing & Packaging services to the export market.
	Aitken Spence Printing (Pvt) Ltd.	Provides Printing & Packaging services to the local market.
Property Development	Vauxhall Property Developments Ltd.	Owens and operates the multi-storied office complex ; " Vauxhall Towers" which serves as the Group's corporate office at Vauxhall Street in Colombo.
	Aitken Spence Property Developments (Pvt) Ltd.	Future owners and operators of a multi-storied office complex to be used by companies within the Group.
	Vauxhall Investments Ltd.	Owens and operates the printing office complex.
Garment Manufacture	Aitken Spence (Garments) Ltd.	Manufacturer and exporter of high quality mens, boys, ladies & girls shirts and blouses to prestigious departmental stores.
	Clark Spence Garments Ltd.	
	Aitken Spence Apparels (Pvt) Ltd.	Exporters of readymade garments.
Insurance Survey and claim settling agency	Aitken Spence Insurance (Pvt) Ltd.	Survey and claim settling agents for several reputed insurance companies and organisations worldwide, including Lloyd's, Cesam, Groupama, PICC and Tokio Marine & Fire Insurance Company Ltd., Oriental Insurance Co. of India. Superintendents for UN World Food programme in Sri Lanka and the Maldives.
Elevator Agency	Elevators (Pvt) Ltd.	Solely responsible in Sri Lanka and Maldives for OTIS products, the world leader in Elevators, Escalators, Moving Walkways and Dumb Waiters.
Infrastructure	Ace Power Generation Matara Ltd.	Owens and Operates a 20MW power plant in Marara to supply power to the national grid
	Ace Power Generation Horana (Pvt) Ltd.	Owens and Operates a 20MW power plant in Horana to supply power to the national grid
	Ace Power Embilipitiya (Pvt) Ltd.	Owens and Operates a 100MW power plant in Embilipitiya to supply power to the national grid.
Financial Services	MMBL Money Transfer (Pvt) Ltd.	Principal Agent for Western Union, for Money Transfer Services in Sri Lanka.
Management Services	Aitken Spence Corporate Finance (Pvt) Ltd.	Agents and secretaries to the companies of the Aitken Spence Group.
	Aitken Spence Group Ltd.	Overall management of the Aitken Spence Group Companies.
	Aitken Spence Exports Ltd.	Exports dry rations and perishables to the Group's resorts in the Maldives. Also bottles and markets " Hethersett bottle water".
Associate Companies	Aitken Spence Plantation Managements (Pvt) Ltd.	Managing agents for Elipitiya Plantations Ltd.
	Elipitiya Plantations Ltd.	Owens 15 tea and rubber estates in the Pundaluoya, Pussellawa and Galle regions with a total land extent of 8,851 hectares.
	Talawakelle Plantations Ltd.	Owens 18 estates with total land extent of 6,519 hectares. The Company producers a mix of high and low grown teas.
	Hayleys Plantation Services Ltd.	Managing agents for Talawakelle Plantations Ltd. and owns majority share of Talawakele Plantations Ltd.
	Browns Beach Hotels Ltd.	Owens and operates Browns Beach Hotel, Negambo.
	M.P.S. Hotels Ltd.	Owens and operates Hotel Hill Top, Kandy.
	Aventis Pharma Ltd.	Markets pharmaceutical products for the health sector.
	Ceyspence (Pvt) Ltd.	Owens and operators of M.V. X Press Resolve, a fully cellular 500 TEU container vessel.

*The origins of the Aitken Spence Group trace back to a partnership born one hundred and thirty eight years ago in the southern port of Galle. Then the hub of commercial activity, Galle was a thriving thoroughfare for entrepreneurial success. Taking advantage of this central location, Scotsmen Thomas Clark and Patrick Gordon Spence founded Clark Spence & Company in 1868, the seed of the present day conglomerate. The entry of brothers Edward and S.R. Aitken to the business saw the birth of Aitken Spence & Company in 1870.*

Engaged primarily in trading, the enterprise was a typical colonial trading company, dealing in export and import. However, following its appointment in 1876 as an agent for Lloyds of London – the world’s most renowned insurer - the company diversified into other aspects of business notably insurance and shipping, representing global players from both the industries. To date, Aitken Spence values its relationship with Lloyds, a notable catalyst in the change of structure and stature of the company.

With the growth of business, a move to Colombo’s commercial district was imminent in the early 1900s. Relocating to the heart of Fort, the Company purchased the Freudenberg building renaming it “Lloyd’s Building”. It continued to headquarter the conglomerate till

1995, after which the business moved to its custom-built premises on Vauxhall Street.

The 1920’s and 1930’s heralded further changes to the nature of the business. Given the expansion of plantations and the prominence of tea as a growing industry in the country’s economy, Aitken Spence & Company seized yet another opportunity for diversification. Becoming an agency house for plantation companies Aitkens Spence & Company plunged in to the flourishing tea industry that later evolved in to plantation management. The Great Depression in the 1930’s curtailed trading prompting the Company to intensify its interests in shipping, insurance and plantation management. These new ventures contributed to the Company’s growth and reputation as

a veritable commercial force among the then Ceylonese corporates.

World War II followed by the country’s Independence from British rule in 1948 opened up vistas of opportunity for the Company. Transformed into a private limited company in 1950, ownership continued to be unchanged. Business opportunities intensified and the firm diversified into industrial printing, light engineering and travel, obtaining IATA membership. Upon the retirement of P.W.G. Spence – the last Chairman representing the founding families - in 1952, the first Sri Lankan Chairman E.L. Van Langenberg was appointed to lead the Company.

In 1968, Aitken Spence became a wholly Sri Lankan owned business venture – exactly 100 years after its

inception. Nationalization of industries in the early 1970s propelled the Company into uncharted waters including freight forwarding, marine container allied services, courier services, property development, garment manufacture and most importantly tourism. During the period of economic liberalization the Company was converted to a public listed company in 1983, with an issued share capital of Rs. 51 million.

Tourism soon became the Company's core area of business, mainly as a result of the potential in the global tourism and hospitality industry. The Neptune Hotel initiated Aitken Spence & Company to the industry in 1974. The Heritance Ahungalla, then known as "Triton", the Company's flagship property and Sri Lanka's first five star resort followed in 1981. Concept properties Heritance Kandalama and the Tea Factory followed in 1994 and 1996. The Heritance Kandalama Hotel, built by the renowned architect Geoffrey Bawa, is noted for its ecologically conscious outlook, a fact that was underlined when the hotel achieved the prestigious "Green Globe 21" certification in 1999 at the World Travel Market, the first hotel to be recognized in the Asian region. Heritance Kandalama remains as one of the highlights of the Sri Lankan hospitality industry. It has received many accolades for its unique architectural style and operational approach. Winning the Ultimate Service Award presented by CNN in 2001 for the Indian Ocean Region as well as the CIMA Community Leader Award and the Presidential Award for

Environmental Management during the year 2003 and 2004, and has been acclaimed as one of the most environmentally friendly resorts. As a tribute to the legacy of service excellence and the Group's commitment to the locality and heritage of Sri Lanka, the Group launched the brand Heritance during the year 2005/2006.

The Group's investment in hotels and tourism, extended to the Maldives, with the acquisition of Bathala Island resort in 1993. In the year 2006/2007, the Group launched the flagship brand Adaaran for the boutique, upscale, niche properties in its resort chain which now comprises of four properties with the latest addition Adaaran Select Hudhuranfushi. In the year 2006/2007, the Group made further headway into global markets expanding to India with properties in Kerala, Andaman, Delhi and Madurai which will become operational over the course of the next two years.

Following the development of the Colombo Port, Aitken Spence has rapidly claimed its stake as a front runner in inland container operations, integrated warehousing, shipping and freight forwarding, the core of the Group's cargo logistics sector today.

In response to the government's privatization programme the company re-entered the plantation business with strategic investments in two of the privatized regional plantation companies. More recently, the company took the opportunity to venture into infrastructure development, with the commissioning

of operations of two 20 MW thermal power plants in Horana and Matara in 2000, and another 100MW thermal plant in Embilipitya in 2005/2006.

Having received a AA(Ika) Rating from Fitch Ratings Lanka Limited, for Rs. 400 million debentures issued in 2001, the Group maintained the same rating for the successful issue of a Rs. 1 billion debentures in 2004. Rated amongst the "Best Under a Billion" companies in USD revenues outside of the United States by the prestigious Forbes Global, for three consecutive years the Group has climbed to the highest echelons in Sri Lanka's Corporate standing.

Subsequent to 138 years of passionate entrepreneurship, Aitken Spence & Company in 2005/2006 relaunched its corporate identity as a stylized rendition of the components of the signatures of its founder chairmen, Edward Aitken and Patrick Spence. The brand builds on time-honored values and rich traditions that will continue to translate into energy, entrepreneurship, and exceptional service in the twenty-first century.

In 2006/2007, the Group fortified its foundations by acquiring the esteemed Hapag Lloyd agency and by exploring the progress of Money Transfer market by investing in a principal agency holder of the global money transfers giant Western Union.

Now looking to the future, the Group grows with the strength of its past and fortitude of its leadership to surmount not only Sri Lanka, with its brilliance but the region and the world.

### Assets Turnover

Total turnover (including share of Associate Companies turnover) divided by average total assets.

### Bond

A long-term debt instrument carrying an interest coupon.

### Capital Expenditure

The total of additions to property, plant & equipment and the purchase of outside investments.

### Capital Reserves

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

### Commercial Paper

Short-term promissory note issued in the open market that represents obligations of the issuing entity, guaranteed by a standby credit line with a commercial bank.

### Compound Shareholder Return

Total Shareholder Return (TSR) for the time length of three years.

### Current Ratio

Current assets divided by current liabilities.

### Debenture

A long-term debt instrument issued by a corporate.

### Debt/Equity Ratio

Non-current interest bearing borrowing divided by the total equity and minority interest. It shows the extent to which the firm is financed by debt.

### Diluted EPS

Net profit for the period attributable to ordinary shareholders divided by the weighted average of ordinary shares in issue during the period, adjusted for the effects of all dilutive potential ordinary shares.

### Dividend Cover

Net profit attributable to the ordinary shareholders divided by the total dividend.

### Dividend – Payout Ratio

Dividends per share divided by earnings per share. This indicates the percentage of the Company's earnings that is paid out to shareholders in cash.

### Dividend Yield

Dividend per share divided by the market value of a share.

### Dividend per Share

Dividends paid and proposed divided by the number of issued shares, which ranked for those dividends.

### DuPont Analysis

An analysis of the relationship between return on investment, asset turnover, financial leverage and the profit margin.

### Earnings per Share

Net profit for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period.

### Economic Value Added

The measure of wealth created after funding the total investment of the Company.

### Effective Rate of Dividend

Rate of dividend per share paid on the number of shares ranking for dividend at the time of each payment.

### Effective Rate of Interest

Total long-term and short-term interest divided by average long-term and short-term liabilities at the beginning and end of the year.

### Financial Leverage

Total average assets divided by total average equity.

### Goodwill on Consolidation

The excess of the cost of acquisition over the fair value of the share of net assets acquired when purchasing an interest in a company.

### Intangible Assets

An identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services for rental to others or for administrative purposes.

### Interest Cover

Operating profit before interest divided by the total interest.

### Interest Rate Cap

An agreement where the lender agrees to compensate the borrower when the floating reference rate exceeds a pre-determined level.

### Interest Rate Floor

An agreement where the borrower agrees to compensate the lender when the floating reference rate falls below a pre-determined level.

### Interest Rate Swap

An arrangement whereby two parties swap interest rate commitments with each other to reduce interest rate risks on fixed or floating rate loans.

### Investment Property

Investments in land and buildings that are held to earn rentals or for capital appreciation or for both.

### LIBOR

London Inter Bank Offered Rate.

### Market Capitalisation

The number of ordinary shares in issue multiplied by the market price per share.

### Minority Interest

Part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.

### Net Assets per Share

Total assets less total liabilities including minority interest divided by the number of shares in issue as at 31st March

### Net Treasury Bill Rate

Weighted average treasury bill rate net of withholding tax published by the Central Bank of Sri Lanka at the auction immediately preceding an interest determination date.

### Negative Goodwill

The excess of the fair value of net assets acquired over the cost of acquisition of a company.

### Price Earnings Ratio

Market value per share divided by the earnings per share.

### Price to Book Ratio

Market price per share divided by net assets per share.

### Quick Asset Ratio

Total current assets less inventories divided by total current liabilities.

### Related Parties

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

### Return on Equity

Profit after tax and minority interest divided by average equity less minority interest at the beginning and end of the year.

### Revaluation Surplus

Surplus amount due to revaluing assets in accordance with its fair value.

### Revenue Reserves

Reserves set aside for future distributions and investments.

### Share Option Scheme

The right but not the obligation to purchase an agreed number of shares at a fixed price within a pre-determined time period.

### SIBOR

Singapore Inter Bank offered rate.

### Total Equity

Total of share capital, reserves, retained earnings and minority interest.

### Total Shareholder Return (TSR)

Change in market price of the share between end and beginning of the financial year, plus dividend for the year, divided by the market price of the share at the beginning of the financial year.

### Unquoted Shares

Shares which are not listed in the Stock Exchange.

### Yield to Maturity

The Discount rate that equals present value of all expected interest payment and the repayment of principal.

## > Notice of Meeting

Notice is hereby given that the Fifty Fifth Annual General Meeting of Aitken Spence & Company Limited will be held at the “Sapphire Ballroom” Ceylon Continental Hotel Colombo 1 at 10.00 a.m. on Thursday, June 28, 2007, for the following purposes :-

- To receive and consider the Statement of Accounts for the year ended 31st March 2007 with the Reports of the Directors and Auditors thereon.
- To declare a dividend as recommended by the Directors.
- To re-elect Mr. R Sivaratnam, who retires in terms of Article 85 of the Articles of Association, as a Director.
- To elect Mr. N. J. de S Deva Aditya, who retires in terms of Article 91 of the Articles of Association, as a Director.
- To re-elect Mr. G. C Wickremasinghe, who is over the age of 70 years, as a Director by passing the following resolution.

“That the age limit stipulated in Section 210 of the Companies Act No 7 of 2007 shall not apply to Mr. G. C. Wickremasinghe who has attained the age of 73 years and that he be re-elected a Director of the Company”

- To authorise the Directors to determine contributions to charities.
- To re-appoint the retiring Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co., and authorise the Directors to determine their remuneration.
- To consider any other business of which due notice has been given.

### BY ORDER OF THE BOARD OF DIRECTORS

**R.E.V. Casie Chetty**

F.C.A, F.C.M.A, M.C.M.I. J Dip. M.A.

*Company Secretary*

Colombo

25th May 2007

### Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote in his/her stead and a Form of Proxy is enclosed for this purpose. A Proxy need not be a member of the Company.
2. The completed Form of Proxy must be deposited at the Registered Office No. 305, Vauxhall Street, Colombo 2, not less than forty eight hours before the time fixed for the meeting.
3. Any member or proxy holder attending the meeting is kindly requested to bring this report.
4. It is proposed to post the dividend warrants on July 5, 2007, provided that the Final Dividend recommended is approved. In accordance with the rules of the Colombo Stock Exchange the shares of the Company will be quoted ex- dividend with effect from June 29, 2007.





I/We .....  
of .....  
being a member/members of Aitken Spence & Company Limited hereby appoint .....  
..... of .....  
..... (whom failing)

Don Harold Stassen Jayawardena of Colombo (whom failing)

Joseph Michael Suresh Brito of Colombo (whom failing)

Rohan Marshall Fernando of Colombo (whom failing)

Gaurin Chandraka Wickremasinghe of Colombo (whom failing)

Ratneswara Sivaratnam of Colombo (whom failing)

Charles Humbert Gomez of Gibraltar (whom failing)

Niranjan Joseph de Silva Deva Aditya of United Kingdom

as my/our Proxy to represent me/us and to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on the 28th day of June 2007, and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this ..... day of ..... June Two Thousand and Seven.

.....  
Signature

*Note : Instructions as to completion are noted on the reverse hereof.*

#### **INSTRUCTIONS AS TO COMPLETION**

Kindly perfect the form of proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.

If the proxy form is signed by an Attorney, the relative power of attorney should also accompany the proxy form for registration, if such power of attorney has not already been registered with the Company.

In the case of a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.

The completed form of proxy should be deposited at the Registered Office of the Company, No. 305 Vauxhall Street, Colombo 2 before 10.00 a.m. on June 26, 2007, being 48 hours before the time appointed for the holding of the meeting.

# Corporate Information

## **Name**

Aitken Spence & Company Ltd

## **Legal Form**

A Public quoted Company with limited liability,  
incorporated in Sri Lanka in 1952

## **Company Registration Number**

PVS/1120 PBS

## **Registered Office**

No. 305, Vauxhall Street, Colombo 02, Sri Lanka.

## **Directors**

D.H.S. Jayawardena

*Chairman*

J.M.S. Brito LLB., F.C.A, MBA

*Deputy Chairman and Managing Director*

R.M Fernando Ph.D., MBA, MCIM (UK)

G.C. Wickremasinghe

R. Sivaratnam

C.H. Gomez

N.J. de S Deva Aditya

## **Audit Committee**

G.C. Wickremasinghe

*Chairman*

R. Sivaratnam

C.H. Gomez

## **Remuneration Committee**

D.H.S. Jayawardena

*Chairman*

G.C. Wickremasinghe

R. Sivaratnam

## **Company Secretary**

R.E.V. Casie Chetty F.C.A, F.C.M.A, M.C.M.I., J. Dip.M.A.

## **Auditors**

KPMG Ford, Rhodes, Thornton & Co.,

*Chartered Accountants*

## **Contact Details**

No. 305, Vauxhall Street

Colombo 02.

Sri Lanka.

Telephone : (94 11) 2308308

Facsimile : (94 11) 2445406

Internet : [www.aitkenspence.lk](http://www.aitkenspence.lk)

