



**AITKEN SPENCE
& CO., LTD.**

ANNUAL REPORT 2003-04

A Virtuoso Performance



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.

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.

Our Governing Principles

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Since 1868



We are proud of our performance over the year, and our ability to hit the key to success with regularity. We have always striven for that root note which, when played in concert with others, produces the mellifluous tones of success. The keys of our business lie in the areas of Tourism and Logistics. Providing the harmony that makes it complete is our strategic involvement in the fields of Power Generation, Insurance, Plantations and Printing.

We struck a chord in the Power Generation sector relatively recently. But growth has been substantial. The search for the ultimate blend within our business portfolio sees the Group constantly exploring, adding depth and range to our strategic investments whilst strengthening the core.

Our chain of top-class **hotels** in Sri Lanka and the Maldives is among the best in the industry. Numerous international awards recognise their achievements across a range of aspects - from cordon bleu cuisine and all round service excellence, to care for heritage and environment. Decades of experience have given us a unique expertise in designing, building, managing and marketing hotels and resorts of class.

Complementing our investment in hotels is our activity in the **travel sector**. Offering comprehensive packages for both inbound and outbound travellers, we account for nearly 10% of tourist arrivals to Sri Lanka. We also represent top tour operators such as TUI - the largest tour operator in Europe, and are General Sales Agents for Singapore Airlines in Sri Lanka. Our ethic of care for heritage and environment applies to this sector too and has received international acclaim.

Our **cargo logistics sector** offers a wide array of services. Their interplay offers unparalleled synergies. From freight forwarding by both air and sea, to international and domestic markets, to couriering where we represent TNT Express, warehousing, transport, documentation handling, container repair facilities and a distribution park facility, we offer a total physical cargo flow service to our customers.

The symphony of business is a constantly evolving one. Since our inception in 1868, the “scores and notes” that guided us reflected changing times - and our quest for success.

A virtuoso performance - year after year.



Profit attributable to the shareholders

**Up by 143% to
Rs. 1.3 billion**

(2002/2003 - Rs. 0.5 billion)

Earnings per share

**Up by 141% to
Rs. 47.36 per share**

(2002/2003 - Rs. 19.69 per share)

Dividend per share

**Up by 33% to
Rs. 6.00 per share**

(2002/2003 - Rs. 4.50 per share)

EVA

**Up by 116% to
Rs. 895 million**

(2002/2003 - Rs. 415 million)



Best under a Billion

Aitken Spence was listed by Forbes Magazine as among the 200 most successful companies outside the United States with an annual revenue of under a billion dollars.

Chairman's Message

A Virtuoso Performance

It was another outstanding year, despite a challenging start particularly for our tourism business, due to the war in Iraq and the outbreak of SARS. Not only has after tax profits surpassed the billion rupee mark but it also represents solid returns in every sense; with earnings per share of Rs. 47.36 and a return on equity of 22.6%. This also represents a positive economic value added (EVA) of Rs. 895 million, signifying that we have created this quantum of wealth.

Our record of wealth creation and returns to shareowners was recognised in the October 2003 issue of the Forbes Magazine where we were listed among the 200 most successful companies outside the United States with annual sales below a billion dollars. Along with our major shareholder, Distilleries Company of Sri Lanka Limited, we were one of the two companies selected from Sri Lanka and among 18 companies from India.

In acknowledgement of our excellent results and in line with our policy of providing an attractive return to shareholders, the Board recommends a final dividend of 35%. This together with the interim dividend of 25% already paid will amount to a total dividend of 60%. This represents a 33% increase over the dividends paid last year.

With the exception of plantations and shipping which performed disappointingly, it was a good all round performance by all sectors. Tourism, especially our hotels in the Maldives, made the greatest contribution to our profits and had an exceedingly good year. Our logistics

sector and its freight forwarding business in particular showed excellent growth. Our power projects in Matara and Horana continued to do extremely well. All other businesses among our strategic investments performed well too. Insurance doubled their contribution to Group profits. Garments turned around and Elevators had another good year. Printing posted an enhanced profit but not yet commensurate with the investment.

We made substantial new investments during the year in line with our philosophy of consolidating core businesses and growing into new areas of activity. As such we invested Rs. 303 million in the acquisition of a 5% stake in the recently privatised Sri Lanka Insurance Corporation Limited (SLIC). At the same time we divested our 24% stake in Union Assurance Limited. Our close relationship with SLIC has enabled us to get a number of value added services for our customers and this contributed towards the markedly improved performance of our insurance business which is expected to grow considerably in the future.

We invested another Rs. 838 million taking a 50% stake in the construction of a 100 MW power plant in Embilipitiya in equity partnership with Caterpillar Power Ventures of USA. Some delays were experienced in getting the lease of the land but all this has been tied up now and we will be generating power at Embilipitiya in March 2005.

We ventured into a new area when we teamed up with GTECH Global Services (Pvt) Limited of the USA, to commence the business of providing IT related transaction processing services in

Chairman's Message

Sri Lanka. Commercial Operations are due to commence in the ensuing year.

Although tourism has been the bedrock of the Company, we have been delaying our investments in this sector in recent times due to the uncertainties that prevailed in the country. We now plan going full steam ahead. Tourism will be our major focus for growth this year with extensive refurbishment programmes planned in several of our hotel properties, the addition of spas and an overall re-positioning. We have already invested in a significant stake in the new eco-lodge project in the Sinharaja. We will also be exploring plans to develop our two beach properties in Ahungalla and Nilaveli.

While we expand into local markets we are also considering expanding our role as a regional and global player. Our investments in the Maldives leisure industry are paying rich dividends and the Company is looking at other investment possibilities in South Asia. Our Company in Bangladesh is performing very well and we want to gradually expand there. The lack of direct flights between Colombo and Dhaka has hindered progress in this direction so far but we see it opening up in the future.

Stable interest rates and currencies, made the year under review a favourable year for business. A stable rate of taxation is also essential and we also hope that peace will continue. What remains a serious concern is the instability and inconsistency of Government policy. This is further exacerbated by the constant change of officials in the country. Under the current Proportional Representation System of

electing members to Parliament, coalition governments appear to be mandatory. This leads to weak governments, unable to enforce strong policies which are essential for a robust economy.

The prospects for the next year seem good and we expect another year of all round good performance. Although we have made substantial investments in the past year and many more investments are underway in the current year, much of the required funds have been generated internally and through low cost debt; thus without burden to shareholders.

Joining our other prestigious investing partners will be one of the largest tour operators in the world, who will take a stake in our inbound travel business.

Our performance in the year under review bears testimony to the sound mix of our businesses. We're very well focused on major growth areas in the economy. We're also well poised to effectively go into new areas which can complement our core as well as provide resilience for a smooth performance in the long haul. In the medium term, significant increases in profits will come from tourism and power where substantial new investments are currently being made. Logistics could also become a major contributor but it all depends on a rebound of the Sri Lankan economy. Our strategic investments which have been considerably re-vamped in recent years and are now



contributing towards profits should continue to play their part. We are re-building our shipping business and hope to find ways to make our plantations more profitable.

Mr. M. Bhatkuly resigned from the Board with effect from 8th March 2004. We thank him for his services.

In conclusion, I would like to thank our employees for their dynamism and commitment. The Company's virtuoso performance is a reflection of the powerful contribution of our four thousand one hundred strong workforce. To all our loyal customers, all our invaluable partners and all our shareholders who have placed their trust in Aitken Spence - thank you.

A stylized, handwritten signature in black ink, consisting of a large loop and a trailing line.

D.H.S. Jayawardena
Chairman

Colombo
28th May 2004

Growing Classic Winners.....

When we embarked on this journey, we set ourselves standards never to be compromised. From the first foundation stone, to the last tile, from the firing of our kitchen to the serving of a gourmet dish, every facet would reflect - uncompromising, cordon bleu quality and sustainable, eco-friendly practices.



	2003/2004	2002/2003
Tourist arrivals		
Sri Lanka	512,048	393,171
Maldives	581,451	484,680
Average occupancy of hotel rooms		
Sri Lanka	49%	41%
Maldives	74%	61%
Aitken Spence Hotels		
Room Capacity	900	900
No. of Employees	1,530	1,447

Tourism

Profit **Rs. 859 million**

(2002/03 - Rs. 489 million)



Managing Director's Review

Lest we rest on our laurels

We have every reason to be satisfied owing to an excellent all round performance. Yet we cannot bask in the glory of what is now a year that is past. Relentless focus on market orientation, customer centricity and a performance based culture has been the keys to our success and will be pursued with even greater vigour. Results are dealt with more fully in the Operational and Financial Review that follows. The review that appears below spells out some of the key initiatives in the year and those that are planned, in an attempt to give you an idea of how we are strategising to manage our business in the future.

We continued to invest in our major businesses, widening their scope and positioning them for sustained growth in the future. At the same time we are venturing into select new areas expanding the breadth of our strategic investments. These will, as always, provide a resilient cushion enabling us to be committed to the long haul in our core businesses.

The brain drain remains a grave problem and stymies our plans. We are losing our talented and trained people for more competitive salaries abroad. Notwithstanding this, we remain committed to attracting, developing and retaining the best talent.

Tourism

Tourism performed exceedingly well and contributed in great measure to our excellent results. Yet it was not long ago

that the tourism business was fraught with severe challenges. Our commitment towards the industry through all these difficult times has paid off.

We now face challenges of different sorts. Tourism trends are changing the world over. We no more refer to our customer as a tourist. Today's customer is referred to as a traveller. The distinction is centered on the free spirited nature of the latter that wants to discover rather than being shown. The modern customer seeks authenticity, wants to be close to nature and most importantly wants to be a responsible citizen contributing towards sustainability. At the same time the mix of generating markets is changing from the traditional western markets. India is now a major generating market for Sri Lanka tourism and China is rapidly growing.

These trends influence our strategy for growth which is centered on catering to a more spirited up-market clientele, developing tourism activities involving local communities and offering nature based holidays. We intend going into far more hotels along these lines in Sri Lanka, the Maldives and South India. We will also leverage our expertise in hospitality to get into other service businesses.

A major refurbishment and re-positioning programme is being planned next year in several of our



hotels, namely Kandalama, Triton, Tea Factory and Neptune. We have also added spas at Triton and Tea Factory and will be adding one at Kandalama. The Neptune Ayurvedic Village we opened last year in Beruwela has proven to be very successful and we will continue with more investments in this direction. We will be managing the banqueting halls and restaurants in the 'Waters Edge' golf course and leisure complex opening in Colombo in the latter part of 2004. This will add a new dimension to our mix which was hitherto confined to the resort and 'round-trip' hotels. Our Maldives hotels have consistently done very well and we are now bidding for more islands in the Maldives.

We reckon our rates are still low compared to the neighbouring countries. With peace in the country and following the re-positioning and refurbishment we hope to endear ourselves to attract a more up market clientele.

**PERFORMANCE OF CONTAINER AND FREIGHT SERVICES -
COUNTRY STATISTICS**

	2003	2002
Vessels arrivals to the country (No.)	4,032	4,062
Total container traffic (TEU'S '000)	1,959	1,765
Transshipment containers (TEU'S '000)	1,370	1,218
Air freight tonnage (MT '000)	124,000	118,095
Total cargo handled (MT '000)	30,500	28,363

CARGO

	2003/2004	2002/2003
Dependency on key customers %	14	10
Average length of customer relationship (years)	9	8
Customer retention ratio %	90	95
Increase in customer base%	15	20

On-time delivery - courier %	93	95
On-time delivery - sea%	95	95
On-time delivery - air %	98	98
No. of employees	252	253

CONTAINERS

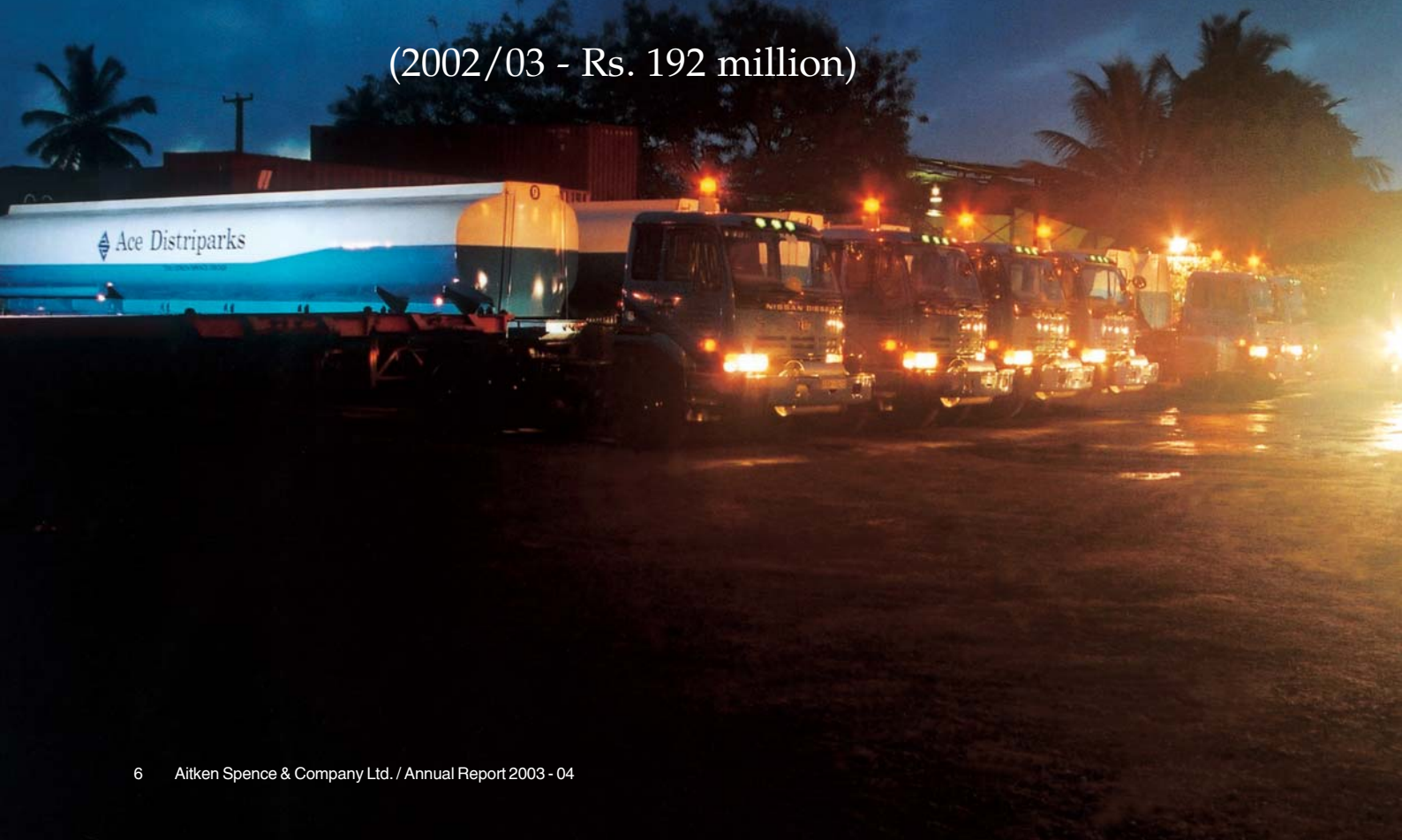
	2003/2004	2002/2003
Customers who use our IT infrastructure (% of turnover)	45	40
Average length of customer relationship (years)	13	12
No. of new customers won during the year	79	58

Average containers transported per machine per day (TEU)	14	14
Average warehouse utilisation %	89	82
No. of employees	360	355

Logistics

Profit **Rs. 287 million**

(2002/03 - Rs. 192 million)





Our destination management services which have very successfully entered new markets especially in the Eastern European countries and in South Asia will continue the process of market expansion.

We have catered to the increasing number of arrivals to Sri Lanka by strengthening our transport fleet.

On the National policy front; we would like to see the proposed new Tourism Act to take on the task of developing an all embracing tourism policy being in place soon. The setting up of the Marketing Authority as proposed in the Act and entailing the task of marketing and promoting Sri Lanka is very urgently required. We would also like to see a more integrated effort by the various government institutions concerned to ensure that our environment and its natural beauty are

preserved in earnest. As of now it appears to be left to chance... and is in dire want of planning and monitoring.

Logistics

Given Sri Lanka's strategic location and increasing globalised trade, the need for seamless, integrated and efficient transportation services remain. We have endeavoured to build a robust business along these lines with the focus of developing tailor-made logistics solutions that will give our customers a competitive edge in the global market.

However, Sri Lanka has in recent years not seen the levels of growth envisaged. Major new projects have been sparse and the need for innovative logistics solutions has therefore not grown in significant measure. Thus our new investments in this area will closely follow the overall economic progress in Sri Lanka. We are however hopeful that it is only a matter of time.

The speed at which development of Sri Lanka's ports are taking place remains a grave concern to us. Much

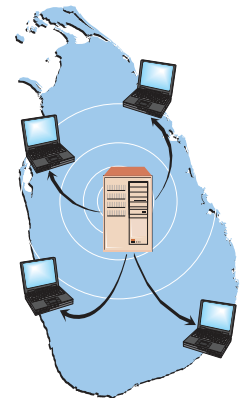
Managing Director's Review

more needs to be done, much faster... lest we may lose forever, any comparative advantage we may have enjoyed by virtue of our location in the midst of major sea routes.

Our freight forwarding business continues to perform exceptionally well. Working closely with our network of principals, we managed to secure a number of new business contracts. Our customs brokerage division that handles inward clearances had a very good year and has been selected for the pilot project concerning the computerisation of Sri Lanka Customs. The worry in the future however, is the end of the quota system which could have an adverse impact on this area of our business. Our business in Bangladesh is doing extremely well and we're exploring opportunities for expansion there.

The performance of our shipping business has been disappointing. We have taken major steps to strengthen this business and are confident of re-building it. We also intend expanding into port related activities.





*We have teamed up with
GTECH Global Services, USA to
provide IT related transaction
processing services in Sri Lanka.*



Power Plant	Installed Capacity (kW)	Guaranteed Capacity (kW)	Contracted Generation as a % of Total National Generation
Matara	24,400	20,000	2.4
Horana	24,600	20,000	2.4

Strategic Investments

Profit **Rs. 1,060 million**
(2002/03 - Rs. 317 million)



Strategic Investments

Our two 20 MW power generation projects in Matara and Horana are doing extremely well as planned. The third project which is a 100 MW power plant in Embilipitiya in collaboration with Caterpillar Power Ventures of USA experienced major delays in getting the lease of the land. The problems are now overcome and we will be commencing operations in March 2005.

Our involvement continues to extend beyond the power plants with extensive community development programmes in the respective areas. Activities include support for schools and temples and electrification of neighbouring villages.

Our acquisition of a 5% stake in Sri Lanka Insurance Corporation (SLIC) during the year enabled us to get a number of value added services for our customers. As such our Insurance business with a long standing representation of Lloyds Insurance since 1876 fared very well and this trend is expected to continue giving rise to considerable growth in the future. During



the early part of the year we divested our holding in Union Assurance.

Our Plantation companies had a difficult year. Although we attempt to improve productivity on the fields and factories, these measures alone don't seem to have any significant effect on assuring a sustainable return. The problem is that we cannot seem to get a fair price for our teas, whilst we are saddled with a wage bill that is not related to productivity or prices. We are heavily dependent on an auction system which doesn't seem to serve the interests of the most important stakeholder of the industry - the plantations... and consequently the many thousands who work in them. To add to this we are continuously losing good land to village development and highways.

We have started diversification into oil palm. We have also set up a joint venture factory to produce furniture for export, making use of rubber wood timber. Mini hydro power plants are also being set up.

Our printing business did well in terms of profit growth although return on capital is yet inadequate. In spite of the relatively low returns we cannot hold back on investments that are needed to keep abreast of market demands. We are now on the verge of expanding by adding new machinery although the trade is very competitive and price sensitive.

Garments which was under close scrutiny due to poor performance in the past, did satisfactorily. From May 2002

Managing Director's Review

we were able to take over the management control completely from our joint venture partner and have since revamped the entire operation and made a major turnaround. Profits during the year were most significant and we expect the trend to continue despite ending of quotas.

Our representation of OTIS elevators in Sri Lanka and Maldives which had huge losses a few years ago had a good year. Profits have improved considerably and we expect further growth through aggressive and focused marketing.

Acknowledgements

Market orientation, customer centricity and a performance based culture have paid rich dividends. I am grateful to our employees at every level for their dynamic role. Without their commitment we would not have had the results we had and on behalf of the Board, I would like to say a special word of thanks.

We are now well positioned to harness the vast opportunities in our interesting mix of businesses and look to the future with confidence.


J.M.S. Brito
Managing Director

Colombo
28th May 2004

Financial Highlights

<i>For the year</i>	2003/2004	2002/2003	%
	Rs. '000	Rs. '000	Change
Revenue	9,157,160	7,030,843	30.2
Profit from operations	2,040,003	1,075,402	89.7
Net finance cost	(184,912)	(222,603)	(16.9)
Profit before taxation	1,888,676	884,070	113.6
Profit after taxation	1,699,496	732,416	132.0
Net profit attributable to shareholders	1,275,523	525,185	142.9

Dividend

Interim 25% (2002/03 - 20%) paid on			
26th March 2004	67,487	53,740	—
Final 35% (2002/03 - 25%)			
proposed & payable on 29th June 2004	94,482	67,235	—

At year end

Total equity	6,574,816	4,714,567	39.5
Total assets	14,277,662	12,080,537	18.2
Non-current interest bearing borrowings	2,235,722	3,196,070	(30.0)
Economic Value Added	895,476	415,166	115.7

Per Ordinary Share

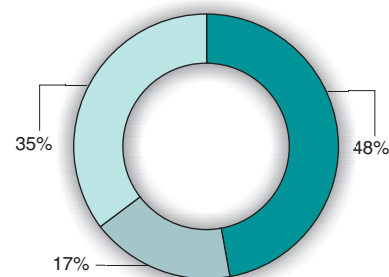
Earnings per share (Rs.)	47.36	19.69	140.5
Dividends per share (Rs.)	6.00	4.50	33.3
Net assets per share (Rs.)	244.73	177.08	38.2
Market value per share (Rs.)			
as at 31st March	263.50	140.00	88.2

Ratios

Price earnings ratio	5.56	7.11	(21.8)
Interest cover (times)	12.12	5.10	137.6
Debt : Equity ratio	0.27	0.53	(49.1)
ROCE (%)	22.60	11.77	92.0

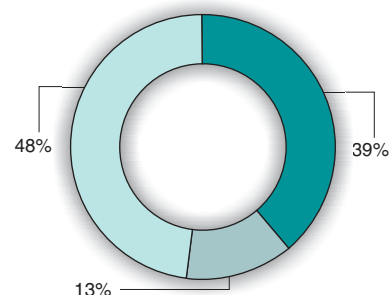
Sectoral Revenue

For the year ended 31st March 2004



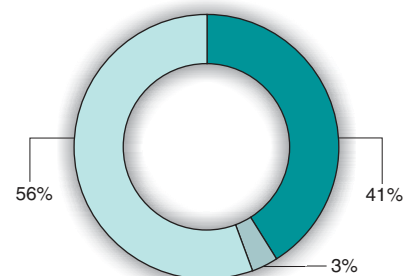
Sector Profit before Income Tax

For the year ended 31st March 2004



Capital Employed

as at 31st March 2004



- Tourism
- Logistics
- Strategic Investments

Operational & Financial Review

During the year 2003, the Sri Lankan economy continued to grow and consolidate the improved economic conditions of 2002. The year began with high expectations for rapid economic growth as the cease-fire agreement with the LTTE in late 2002 brought peace to the country. The positive response from donors at the Tokyo conference was cause for further optimism. However, the political uncertainty resulting from the takeover of key Ministries by the President in November followed by the dissolution of Parliament and the call for snap elections in February dampened economic growth at the end of the financial year.

National Economy: *Return to stability*

In 2003, Sri Lanka achieved a GDP growth of 5.9% despite the political instability from November to March 2004, and the drought conditions that persisted through three quarters of the year. By April, the installation of a new government after a relatively peaceful election, and the arrival of much-needed rain, brought a return of stability.

The quick recovery has inspired a new positive outlook that may revive economic activity. The Group is therefore cautiously optimistic about prospects for financial year 2004/2005. However, the year's economic performance will largely depend on the success of the new government in carrying out its mandate to sustain economic stability and resume the now-dormant peace process with the LTTE.

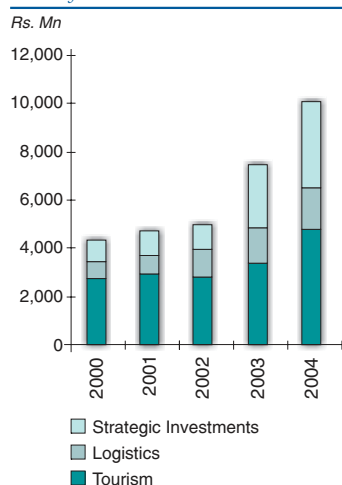
During the year under review the Colombo Stock Exchange achieved a growth of 78.6% and the ASPI improved from 739 points to 1,320 points, indicating sustained investor confidence despite the negative influences prevalent toward the latter part of the financial year.

In the Tourism sector, Sri Lanka had one of its best years ever, recording 512,048 arrivals in 2003/04. If the new government can move the peace process forward, we can expect those numbers to increase further in the coming year.

Group Results

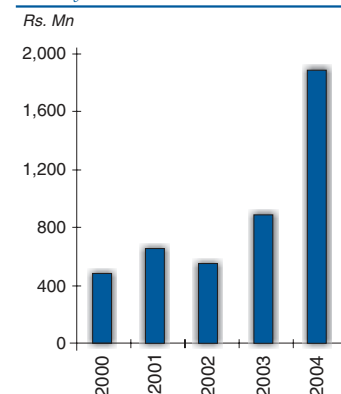
Total Revenue generated by the Group for the year ended 31st March 2004, reached Rs. 10.1 billion compared to Rs. 7.5 billion in the previous year, an increase of 34.6%. Revenue generated from Sri Lanka accounted for 80.0%, whereas the overseas operations mainly from the Maldives generated 20.0% of the overall Group revenue.

Group Gross Revenue For the year ended 31st March



Profit on ordinary activities before tax eclipsed the billion-rupee mark for the first time to Rs. 1.9 billion, which represented an increase of 113.6% compared to the previous year. Profit after taxation was recorded at Rs. 1.7 billion, an increase of 132%, while Profit attributable to shareholders increased to Rs. 1.3 billion, a growth of 142.9% as compared to the previous year.

Profit before Taxation For the year ended 31st March



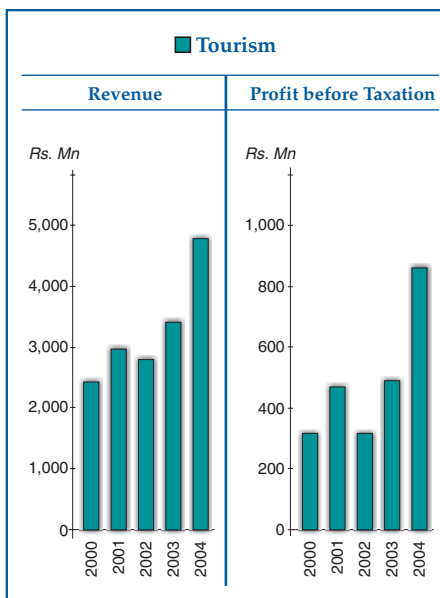
The phenomenal growth of the tourism industry in Sri Lanka, as well as the strong performance from the Group's power sector, enabled the Group to achieve its highest-ever revenue and profits during the year under review.

Tourism sector: *Still the largest contributor*

The Group's Tourism sector, which consists of the travel and hotel sectors, contributed Rs. 4.8 billion to the Group revenue. The Tourism sector remains the largest contributor to the Group revenue, accounting for 47.3% of revenue and representing a 40%

Operational & Financial Review

increase in revenue from the previous year. The main contribution from the Tourism sector was from the Maldivian hotels, which accounted for 42.1% of the sector's turnover. In addition, local hotels accounted for 27.5% and Travel sector accounted for 30.4% of the Tourism sector's revenue.



The year's record tourist arrivals improved hotel occupancy and revenue across the board, with our hotels recording an increase in average occupancies to 49% and an increase in revenue of 31.5%. The Sri Lankan Hotel sector recorded a remarkable profit growth over the previous year.

Although negatively impacted by the SARS epidemic early in the year, the Maldivian hotels nonetheless recorded an occupancy increase to 74% and a profit growth of 17% for the financial year.

Although the occupancy rates for the Sri Lanka hotels show an increase over the previous year, we are confident that these can increase further with more aggressive marketing, and undertaking physical improvements on the hotels. We hope the peace initiative and the political stability necessary to sustain and develop the Tourism industry will remain in the ensuing years.

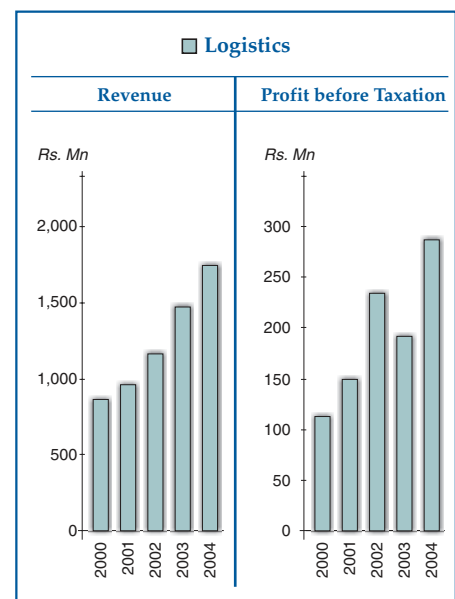
Destination Management: Record contribution

The Destination Management arm and out bound operations contributed 14.4% to the Group's revenue, making the highest-ever contribution made by the division to the Group. Arrivals handled by the Destination Management division increased by 50.1% compared to last year. This represents a 102% increase in contribution to the Group profits by this division.

The Destination Management arm also successfully entered into the Eastern European markets, increasing the number of pax handled there by 46.6% as compared to the previous year. With the relaxation of the visa requirements for countries in the South Asian Association for Regional Co-operation (SAARC), we secured a significant market share during the year from the region, increasing the number of pax handled by nearly 75% compared to the previous year. After a nine-year lapse, the Company was able to reactivate Friditresor, Finnmatkat and Nordic tour operators to recommence charter flights to Sri Lanka.

Logistics Sector: 'Landmark' online clearing

The Group's Logistics sector recorded a revenue of Rs. 1.7 billion, representing a growth of 18.7% compared to the previous year. The sector contributed Rs. 287 million to Group profits, which is an increase of 49.5% over 2002/2003. This increase in profit is mainly attributable to freight forwarding and special operations.



During the year under review, the Group provided logistical support for both the BIA, Katunayake Project and the Galle Water Project. The fuel transport operation that commenced for the power projects significantly contributed to the profits of this sector. The Company is well-poised to handle any further fuel transportation projects that could arise from development of additional thermal power projects. Record profits from the

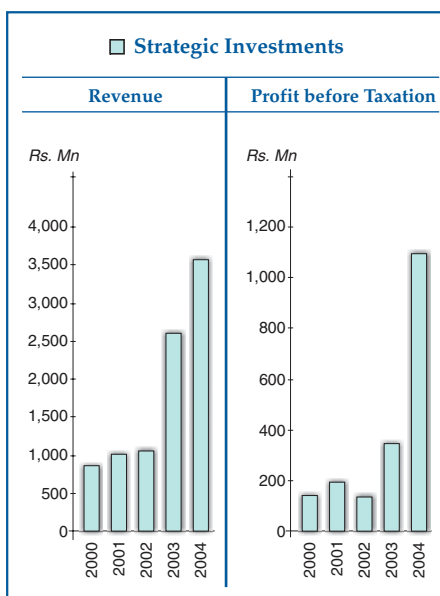
Operational & Financial Review

Freight Forwarding division were due to an overall increase in freight forwarding and courier operations. The Freight Forwarding revenue increased by nearly 20% compared to the previous year. Ace Cargo (Pvt) Ltd. became the first freight forwarder to handle online clearing in Sri Lanka, which is yet another landmark in the history of the Logistics sector.

Strategic Investments

This year was significant in terms of Company investments in the Power sector. This was the first financial year where we obtained a full year's contribution from the two power plants at Matara and Horana, which together contributed 265,450 MW of power to the national grid during the year.

Investment for construction of a 100 MW power plant at Embilipitya was made during the year under review. This new power plant is expected to commence operations in March 2005.



Printing: 'Severe competition'

The Printing segment witnessed a slight decline of 2.5% in revenue compared to the previous year with its contribution to the Group revenue recording the same marginal drop. Despite being the market leader in the printing and packaging industry, we face severe price competition from smaller companies. We are trimming overhead costs in this sector and carefully controlling the cost of our main raw materials to remain competitive in the printing industry.

Garment Manufacturing Sector: Turnaround

Restructuring of the Group's Garment Manufacturing sector, which began last year, led to improvements over the previous years, with the award of ISO 9002 certification being the year's highlight. Statistically, revenue increased by 55% and the operation turned around from a loss in 2002/2003 to a profit in 2003/2004. During the past few years, this operation had been a drain on Group profits, but we now expect this year's turnaround to be sustained by establishing and maintaining better relationships with our customers, while further improving operational efficiency.

Services

The Services sector also recorded a growth in profits with the contribution to Group profits from the OTIS elevator agency and insurance survey and claim settling agency more than doubling during the year under review. The elevator agency handled the highest number of new installations during the year under review and together with

streamlining of operations and prudent cash management was able to achieve a 100% growth in profits. The insurance agency was also able to achieve a similar growth in profits mainly as a result of the added synergies from the Group's investment in Sri Lanka Insurance Corporation Ltd., and the provision of ancillary services.

Divestment

During the year under review, the Group disposed of its 24% investment in Union Assurance at a sum of Rs. 349.8 million. The capital gain on the consolidated profit from the sale of this investment amounted to Rs. 163.9 million.

Associate Company Profit

The profit contribution from the Group's associate companies amounted to Rs. 33.6 million, which represents an increase of 7.4%. The increase in profits from this sector came largely from the contribution made by the two hotel companies and Aventis Pharma, which performed exceptionally well.

Plantation Sector: 'Soft'

During the year under review, the Plantation sector did not contribute significantly to the Group profits. This is attributable to adverse weather conditions that prevailed during the year, coupled with falling tea prices internationally. Profit contribution from Elpitiya Plantation fell by 43%, again due to severe drought suffered by the up-country estates, called the worst experienced by the region in the last seven years.

Operational & Financial Review

Hayleys Plantation Services Ltd., contributed 19.8 million to Group profits, an increase of 30.6% compared to the previous year mainly due to other income earned during the year.

Taxation: Investment creates favourable rates

The Group's provision for taxation increased to Rs. 189.2 million from Rs. 151.7 million last year. This included a deferred tax provision of Rs. 2.4 million. Although the Group's tax liability rose by 24.7%, the effective tax

rate reduced, mainly due to Group investments being made in priority sectors such as tourism, exports and infrastructure development projects, which are entitled to tax exemptions and or concessionary tax rates.

The Group is concerned with the frequent regulatory changes in fiscal policy, which has an impact on the decision-making process of its businesses. Over the last three years, the Government has changed revenue taxes drastically, from a single rate to a multiple rate, and then

again to a single rate, within a period of just 15 months. Moreover, the country's corporate tax laws undergo frequent and rapid changes, also adding to the dilemma facing the corporate sector, as most of these laws are passed with retrospective effect, which hinders the decision making process of a company.

The debit tax introduced in the previous financial year as a temporary revenue generation method continued throughout the year, costing the Group an additional Rs. 14.6 million.

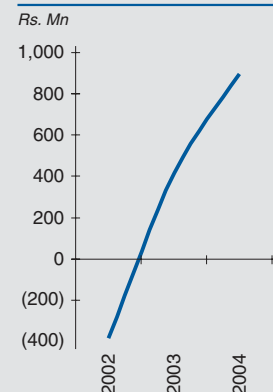
Economic Value Added

	2003/2004 Rs. '000	2002/2003 Rs. '000	2001/2002 Rs. '000
Earnings			
Net Profit Attributable to Shareholders including Minority Interest	1,699,496	732,416	438,000
Add:			
Total Interest on Debt	259,187	264,599	161,605
Depreciation and amortisation	444,833	414,064	289,866
Provisions to other Intangible Reserves	63,794	99,943	43,692
Adjusted Earnings	2,467,310	1,511,022	933,163
Total Invested Capital			
Net Assets	8,372,143	6,181,981	5,498,028
Add:			
Total Debt	3,703,633	3,934,274	3,347,358
Cumulative Depreciation and amortisation	2,616,463	1,844,639	1,500,042
Other Intangible Reserves	237,405	209,971	152,103
Adjusted Total Investment	14,929,644	12,170,865	10,497,531
WACC	11.6%	9.7%	13.8%
(based on Cost of Debt and Cost of Equity. Cost of Equity calculated based on the Dividend growth model)			
Cost of Average Investment	1,571,834	1,095,856	1,318,199
Economic Value Added	895,476	415,166	(385,036)

Economic Value Added (EVA) is a measure of value created over and above the cost of funding the total investment in the Company.

The Group has recorded a positive EVA of Rs. 895.5 million for 2003/2004. This is an increase of Rs. 480.3 million over 2002/2003, during which year the Group has been able to convert the negative EVA recorded in 2001/2002 into a positive of Rs. 415.2 million.

Economic Value Added

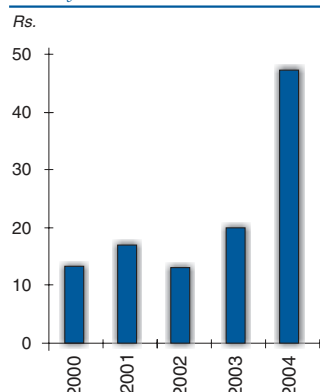


Operational & Financial Review

Shareholder Value: 'Record EPS'

With the exceptional growth in profits of the Group, the Earnings per Share (EPS) for the year increased to Rs. 47.36 as compared to the previous year's figure of Rs. 19.69. This represents an improvement of 140.5% and is the highest ever EPS recorded by the Group.

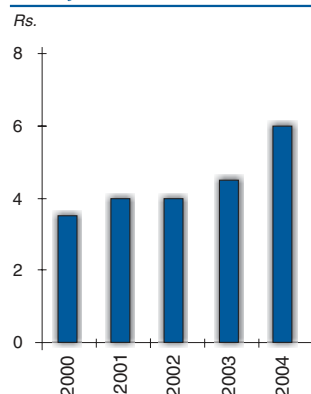
Earnings per Share For the year ended 31st March



An interim dividend of 25% was paid in March 2004, and considering the Group's excellent performance, the Board has recommended the payment of a further 35% dividend. This total payment of 60%, compared to 45% last year, is a 33% increase of the total payment. The total dividend declaration as a percentage of attributable profits was 12.7%.

The share price closed at Rs. 263.50 as compared with Rs. 140.00 the previous year, an improvement of 88.2%. The increase as a percentage is higher than the overall increase in the All Share Price Index (ASPI) for the same period.

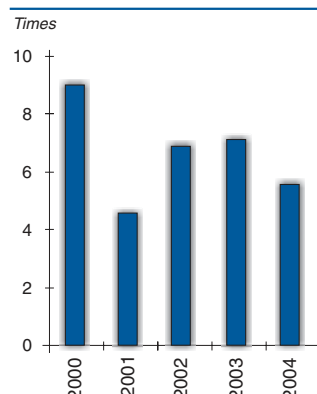
Dividends per Share For the year ended 31st March



Price Earnings: Record NAPS

The Company's price earning ratio was 5.56 at a price of Rs. 263.50 per share, compared with the diversified sector price earnings of 23.

Price Earnings Ratio As at 31st March



The Net Assets per Share (NAPS) has grown from 177.08 to a record Rs. 244.73, the highest ever seen by the Group.

Investments: Three new ventures

During the year under review, the Company invested in three new ventures. With an outlay of Rs. 303 million, the Group invested 5% in Sri Lanka Insurance Corporation Ltd. This investment was carried out via the Milford Holdings Ltd., the holding company of Sri Lanka Insurance Corporation Ltd. Although a minor holding, it has opened up new markets and new opportunities for ancillary services including valuations, claims and surveys for the Company, which has been the long-standing agent for Lloyds Insurance.

The Company invested in a 50% stake in a 100 MW power plant located in Embilipitiya with an outlay of Rs. 838 million to Ace Power Embilipitiya Ltd., a joint venture with Caterpillar USA. Commercial operations are expected to commence in March 2005.

During the year under review, the Company teamed up with GTECH Global Services (Pvt) Ltd., a subsidiary of the GTECH Corporation of USA to launch an Information Technology related transaction processing company in Sri Lanka. Commercial operations are expected to commence this August.

Additionally, the Company invested Rs. 132 million in debentures of Sumiko Lanka (Pvt) Ltd., which owns the Earls Regency Hotel in Kandy. It also invested Rs. 18.6 million in Neptune Ayurvedic Hotel, a new theme hotel adjacent to the Neptune Hotel, which will provide Ayurvedic wellness services to a niche market.

Operational & Financial Review

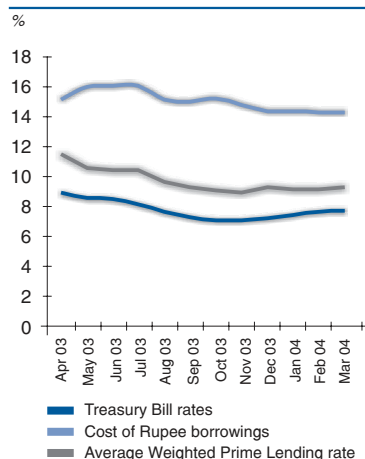
The Group's investment in property, plant & equipment amounted to Rs. 543 million for the year under review, of which Rs. 124 million was towards the Tourism sector for refurbishments of existing hotel properties, and the purchase of luxury coaches for tourist transport. The Group invested a further Rs. 36 million in information technology upgrades.

Financial Market Developments

The Government launched its first 20-year Bond in October at an interest rate of 6.08% during the year under review. This was in accordance with its policy of developing a long-term debt market in Sri Lanka, which commenced with the launch of 10-year and 15-year Bonds last year.

During the year 2003, the country witnessed a significant drop in the medium and long-term bond rates, with 10-year bond rates falling from 9.07% to 6.65%, 15-year bonds dropping from 9.08% to 7.63% and 5-year bonds reducing from 10.10% to 7.06%, at year end.

Effective Interest Rate vs Market Rates For the year ended 31st March 2004



Foreign Currency Generation

	2003/2004 Rs. '000	2002/2003 Rs. '000	2001/2002 Rs. '000	2000/2001 Rs. '000	1999/2000 Rs. '000
Travel & Tourism Sector	4,020,576	3,045,786	2,318,737	2,398,719	1,816,900
Cargo Handling Sector	500,227	458,535	550,945	833,971	714,120
Strategic Investments					
- Manufacturing Sector	367,357	311,003	390,268	383,192	326,621
- Services & Others	73,431	65,872	105,754	99,949	103,441
- Associate Companies	713,096	684,482	505,030	526,325	483,358
Total	5,674,687	4,565,678	3,870,734	4,242,156	3,444,440

This statement sets out the Group's direct and indirect revenue streams which contribute to the foreign currency generation of the country for the period 1999/2000 to 2003/2004. The Groups' total foreign currency generation increased to Rs. 5.67 billion, a 24% growth when compared with last financial year.

The main contributor towards the Group's foreign currency generation, the Tourism sector has secured around 71% of the total generation. A growth of 32% was recorded by this sector when compared to the previous financial year, mainly due to the rejuvenation of travel and tourism industries in Sri Lanka.

The Group's Cargo Logistics sector has also contributed 9% towards the foreign currency generation, which is also a 9% growth over last year.

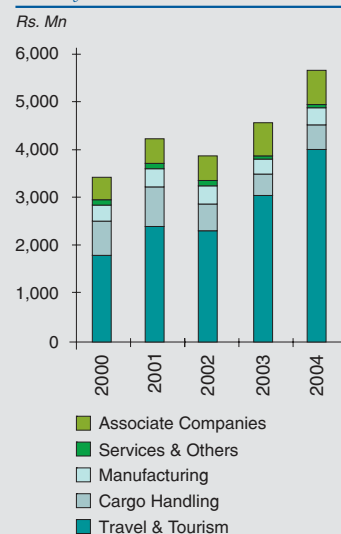
Improvement in the Group's Garment sector resulted in an 18% growth of manufacturing sector's contribution to the Group's foreign currency generation. This sector accounted for 6.5% of the total generation.

The associate companies have contributed 12.6% and witnessed a marginal increase of 4%. Plantation companies continued to be the main contributors of this sector.

The Sri Lankan rupee continued to be stable against the US dollar during 2003/2004.

The rupee devalued by only 0.5% against the dollar during the year under review.

Foreign Currency Generation For the year ended 31st March



Operational & Financial Review

However, due to uncertainty in the long-term perspectives of the financial market and interest rates caused by the political changes from November, the Government chose to concentrate on short-term borrowings, and did not launch any primary issues of medium and long-term bonds during the latter part of the year.

The economy grew steadily during the year, showing an improvement in foreign reserves. As a result, the Sri Lankan rupee depreciated by only 0.5% during the financial year 2003/2004.

The continuing decline in inflation and the Government's commitment to bolstering economic activity through lower interest rates led to a decrease in the six-month Treasury bill rate from 9.18% to 7.60% at end of the year. In addition, the overnight Repo rates were reduced during the year from 9.0% to 7.0%.

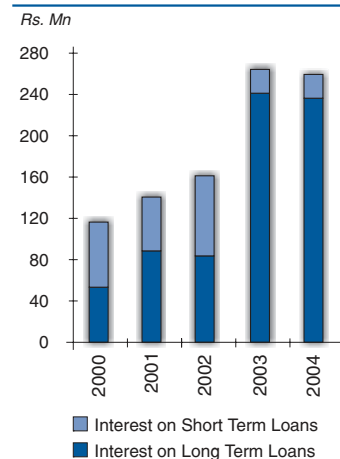
In the international markets, the euro maintained its consistent growth last year and appreciated another 13% against the US dollar.

The US Government continued its policy of maintaining low interest rates in a bid to revive their economy. As a result, the six-month London Inter Bank Offered Rate (LIBOR) fell from 1.26% on 31st March 2003 to 1.17% a year later. This policy, in place since 2001, has reduced the six-month LIBOR from 6.53% on 31st March 2000 to 1.17% at the end of the year under review.

Interest & Foreign Exchange Management

The Group's interest cost this year decreased to Rs. 259 million from Rs. 265 million last year. This was mainly due to the impact of interest on loans taken to fund the Horana 20 MW power plant, which completed its first year of operations in 2003 being offset by the reduced interest costs on the Maldivian hotel borrowings and the Matara power project borrowings which were reduced during the year with loan repayments made possible by the positive cash generation from these operations. The Group's interest costs also benefited by a reduction in the Maldivian hotels loan interest rates negotiated with the banks. With interest costs remaining at the same levels and with substantial increases in Group profits the Group interest cover improved significantly to 12.1 from the 5.1 we saw in the previous financial year.

Long Term & Short Term Interest Cost



Interest Income: 'Substantial revenues'

Despite the drop in interest rates, interest income earned from investments in the money market for the Group's surplus funds was Rs. 92 million, compared to Rs. 61 million last year, reflecting the substantial revenues and cash flows generated by the Group during the year under review.

The Group's US dollar-denominated borrowings are linked to dollar revenue streams, and therefore are not exposed to currency rate risk due to the dollar's fluctuations.

Funding & Liquidity

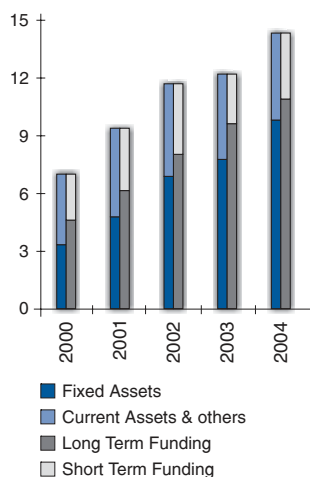
The Group's long-term borrowing decreased from Rs. 3.2 billion at the start of the year to Rs. 2.2 billion at the end. This was mainly due to loan repayments of Rs. 222 million related to the 20 MW power projects and the settlement of Rs. 137 million for Maldivian hotel projects, as well as long-term loan amounts being converted to loans repayable within one year for these projects. In addition, of the Rs. 400 million debentures of the holding company at the beginning of the year Rs. 200 million was shown under current liabilities. Accordingly, the debt-to-equity ratio improved from 0.53 to 0.27. As of 31st March 2004, the Group holds substantial unutilised borrowing facilities, amounting to Rs. 1.3 billion available for short-term funding if necessary.

Operational & Financial Review

Assets & Funding

As at 31st March

Rs. Bn



Funding arrangements of the Group's latest 100 MW power plant project at Embilipitiya were completed in October by signing financing agreements valued at more than \$40 million debt on a non-recourse project financing basis. The funding commitments came from local banks, and the Sri Lanka Insurance Corporation Ltd., and is one of the largest non-recourse project financing deals carried out in the country. The Group's equity investment of Rs. 838 million in this project was financed mainly from internal resources of the Group.

Risk Management

As a multi-sector organisation, the Group is exposed to myriad kinds of risk, making a systematic risk management system essential to ensure minimum risk with maximum value creation for stakeholders. Such a system is required to identify and

analyse potential risk factors, and address the implications of this risk in a streamlined and efficient manner. Given below is a description of the risks affecting the Group and risk mitigation systems that are employed.

Investment and Industry Risk

The Group has a stringent investment policy that gives prominence to the development of a comprehensive risk profile for each individual investment. Each risk identified within the profile is addressed in order to develop a least-risk model. All new investment opportunities are benchmarked for risk factors, and anticipated returns using state-of-the-art financial and risk appraisal tools.

The Group utilises its investment resources in a two-pronged approach, through which it develops and maintains standards and value creation of its core sectors. Simultaneously, it diversifies into more strategic investments to mitigate the risk posed by global and local shifts that affect its core sectors.

Operational Risk

Operational risk arises due to any single or combination of sources including natural disasters, fraud, technological failure, and human error. The Group has designed effective systems to manage such risk.

There are detailed organisational and reporting frameworks that plan, control and monitor the Group's operational activities. In addition, the Group

effectively delegates authority and accountability with due regard given to risk arising from fraud, omissions and errors.

The Group's internal audit function, along with the Audit Committee, carries out systematic checks to ascertain whether the established systems and procedures are being followed, and recommends corrective measures where necessary.

Technology Risk

The Group has invested extensively on the latest technology to improve productivity and value addition. However, increased dependence on technology brings with it increased technology risk.

There are safeguards in place such as firewalls and encryption keys, the use of anti-virus and anti-spam software to assure the integrity of the systems is not compromised internally or externally. All systems are continually monitored, with adequate back up systems to ensure minimum down time in the event of unforeseen disasters.

Credit Risk

Credit risk arises due to the possibility of debtors defaulting on their payments. While the Group takes every measure to minimise credit exposure, it appreciates that a certain level of credit is required for the smooth flow of transactions. However, credit facilities are only offered after a stringent process of evaluation and establishment

Operational & Financial Review

of the debtor's credit worthiness. All facilities are monitored on a monthly basis, and appropriate action is taken against default.

The Group also has a prudent policy of provisioning for doubtful debtors, with a general provision for bad debts on debts based on the outstanding period.

Legal Risk

As a public listed company, a taxpayer, and an employer, the Group has to fulfil many legal obligations and statutory requirements. The Board of Directors has set in place an effective compliance system to make certain all these obligations and requirements are fulfilled.

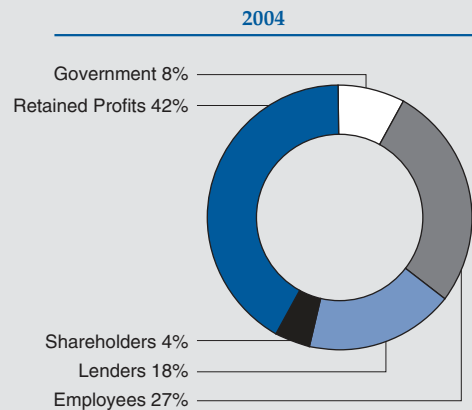
This is facilitated by the Group's Legal division which continuously compiles and monitors a detailed list of all requirements to be addressed. When the Group requires expert opinions, it seeks them from external consultants.

Statement of Value Added

This statement indicates the wealth created by the Group and its distribution for the period of 1999/2000 to 2003/2004. Wealth has been distributed by way of payments to Government, employees, lenders of capital, shareholders and also retained a portion for future investments.

The Group created a wealth of Rs. 3,686.5 million for the period under review, a 47% increase when compared to last financial year. This drastic increase is mainly due to the excellent performance in power, travels and tourism sectors.

Out of the Group total value created Rs. 311.7 million was contributed to the Government, which was an increase of 11% over last financial year. Employees received Rs. 997.4 million in the form of salaries and other staff expenses and it is an increase of 19% when compared to last year. From the wealth created Rs. 162 million was distributed to the shareholders in the form of dividends. Rs. 1,552 million was retained to utilise in future growth opportunities. The value added for every rupee of revenue earned during the year was Rs. 0.40, an increase of 11% over the last year figure Rs. 0.36.



	2003/2004		2002/2003		2001/2002		2000/2001		1999/2000	
	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000
Total revenue		9,157,160		7,030,843		4,536,324		4,524,020		3,724,595
Purchase of goods & services		(5,842,674)		(4,647,171)		(2,869,660)		(2,900,852)		(2,406,318)
		3,314,486		2,383,672		1,666,664		1,623,168		1,318,277
Other operating & interest income		338,407		88,311		91,152		72,206		73,767
Share of associate companies'										
profit before tax		33,585		31,271		65,762		87,323		58,685
Others		—		—		(1,544)		—		(7,980)
Total value added by the Group		3,686,478		2,503,254		1,822,034		1,782,697		1,442,749
Distributed as follows:										
To Government of Sri Lanka										
(income tax & other taxes)	8	311,694	11	281,674	14	260,833	11	203,390	10	148,799
To employees (salaries & other costs)	27	997,416	33	837,539	42	755,105	42	743,252	44	638,203
To lenders of capital (interest on loan capital & minority interests)	18	663,144	18	450,924	10	175,785	10	179,975	7	97,404
To shareholders (dividends)	4	161,969	5	120,779	6	106,243	6	106,077	6	92,757
Retained for reinvestments & future growth (depreciation & retained profits)	42	1,552,255	32	812,338	28	524,068	31	550,003	32	465,586
	100	3,686,478	100	2,503,254	100	1,822,034	100	1,782,697	100	1,442,749

Operational & Financial Review

Reputation Risk

The Group believes in maximising its triple bottom line-social, environmental and financial. As a responsible corporate citizen, the Group encourages active stakeholder involvement in every sphere of Company activity to minimise any negative impact on its reputation.

The Group strictly adheres to all environmental regulations, along with all other local regulations. Active local community involvement is encouraged where possible. Operationally, systems are in place to address issues faced by clients, and proactive measures are taken to ensure that such issues are never repeated.

Foreign Exchange Risk

The Group is subject to two types of risk with regard to its foreign exchange transactions, which are systematically managed by the central treasury. The Group minimises structural risk associated with exposure to foreign currency liabilities by matching these liabilities against dollar-denominated assets. Risk arising on import and export transactions is minimised by forward bookings of currencies on selected transactions and matching of foreign currency inflow and outflow on a consolidated basis across Group companies. The risk associated with

future payments of foreign currency loan repayments and interest is mitigated by ensuring such outflows is matched by foreign currency inflows.

By closely studying the movement of the US dollar internationally as well as in the local currency market, the central treasury advises the relevant subsidiaries on the optimum timing for the conversion of surplus US dollars into Sri Lankan rupees, while negotiating the best possible rates on behalf of the subsidiaries. Having observed the stability achieved by the Euro since its launch in 1998, the Group now conducts its transactions with European tour operators in Euros as well as in US dollars.

Interest Rate Risk

The Group manages its exposure to interest rate risk through the centralised treasury function with the use of appropriate accepted financial instruments.

The Group continues to maintain a lower effective interest rate compared to market rates due to efficient management of the rupee cash flows across the Group on a systematic basis, which includes netting off subsidiary cash flows through the centralised treasury.

The Company keeps a continuous watch on market trends, and takes preventive measures where necessary to guard against adverse effects of anticipated fluctuations in interest rates.

In the year under review, the Company made considerable gains in income from surplus funds through the movement of bond rates, especially during the first half of the year. However, instability in the financial markets arising from political uncertainty prompted the Company to make a prudent decision to exit from the majority of its bond investments during the last quarter of the 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.

Corporate Governance

At Aitken Spence we place great emphasis and importance on the principles and practices of good corporate governance. We are mindful of the fact that in the recent past stakeholder confidence has been severely dented due to numerous large scale corporate scandals that have surfaced globally over the last few years.

We firmly believe that our implementation of sound principles of corporate governance is important to the Group's overall success, and has enabled the Group to secure the confidence and trust of its shareholders, customers, employees and other stakeholders.

Corporate governance is defined as the system by which companies are directed, managed and controlled. The shareholders rely on the Directors appointed by them to oversee the management and conduct of the business on their behalf. The Board of Directors is responsible for the governance of the Group and maintaining an equitable balance between the achievement of corporate objectives and the alignment of corporate behaviour with the expectations of all the stakeholders.

The Board of Directors of the Company is committed to upholding the highest standards of integrity and transparency in the governance of the Company and its subsidiaries.

The recent failures of corporate organisations around the world, has led to an increase focus by both internal and external stakeholders on listed companies to conform with appropriate codes, rules and regulations in respect of corporate governance. The Group is guided by the Code of Best Practice of the Institute of Chartered Accountants of Sri Lanka, the requirements of the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.

The Board of Directors

The Board of Directors accepts ultimate responsibility for good corporate governance of the Company. The Board currently comprises of six Directors some of whom act in an executive capacity while the others act in a non-executive capacity. The functions of the Chairman and the Managing Director are clearly separated and defined, which ensures the balance of power and authority within the organisation. The Directors individually and collectively possess a wide range of aptitude, skill, business acumen, knowledge and experience. The names and profiles of the Directors are given in pages 78 & 79 of this report.

The Board of Directors met nine times during the financial year under review.

The Board has access to all relevant information it needs to carry out its duties efficiently and effectively. All Directors receive a detailed agenda with related papers prior to each Board meeting. This enables them to be

properly prepared for active participation at Board discussions and render Board meetings meaningful and effective.

The Responsibilities of the Board include inter alia the following:

- Ensuring that each Director is fully conscious of his duties and responsibilities and ensuring that the Board is in a position to carry out its functions and responsibilities in the best interest of all stakeholders.
- Ensuring that the Board of Management and the various Subsidiary Boards have a competent Managing Director and a team of competent Directors.
- Reviewing and approving the business and financial strategies, policies and long-term goals of the Company and the Group.
- Approving the revenue and capital budgets of the Group. At the commencement of each financial year a detailed business plan is prepared for each strategic business unit within each sector of the Group and is presented to the Board for consideration and approval after due amendments. The business plan is prepared within the three-year strategic plan and summarises the key financial and operational targets and the business drivers for each strategic business unit within the overall business plan of the Company and the Group.

Corporate Governance

- Reviewing the performance of each Business Sector on a regular basis where the implementation of the approved strategies are evaluated and monitored and necessary corrective action, if any, taken.
- Ensuring strict compliance with legal and ethical standards.
- Ensuring the establishment of effective information, compliance, control and audit systems.
- Ensuring proper selection, evaluation, development, compensation and terms of employment of Senior Management.

The Board of Directors has delegated the day to day operations of the Company and the Group, to the Board of Management. The Board of Management consists of the Managing Director of Aitken Spence & Co. Ltd. as its Chairman and nine other Directors. The names of the Directors on the Board of Management and their profiles are disclosed in page 80. The Board of Management meets regularly to discuss key strategies and operational, business and financial issues. The members of the Board of Management are the Managing Directors of the key strategic business units of the Group. The Board of Management is also responsible for identifying and exploiting business opportunities, and mitigating business risks.

Audit Committee

The Audit Committee is a sub committee of the Board and plays an important role by ensuring that effective systems of internal and financial and operational controls are maintained in the Group.

The objective of the Audit Committee is to assist the Board in carrying out their responsibilities in relation to the internal and financial controls in accordance with best accepted practices. The Audit Committee has specific terms of references and specific areas of concentration to ensure that established procedures are followed.

The Audit Committee examines the adequacy and effectiveness of internal control systems. The Audit Committee also ensures that there is an effective internal audit function in place. The Audit Committee monitors, compliance with established policies, plans, procedures and laws and regulatory requirements. The Committee also evaluates all services provided by and fees payable to External Auditors to ensure that an objective and professional relationship is maintained. The Audit Committee considers reports prepared by internal and External Auditors on financial and operational issues particularly any comments and responses in management letters in order to be satisfied that appropriate action is being taken.

The Committee comprises of three Directors and is accountable to the Board of Directors. The members of the

Committee are listed on the inner back cover of the report. The Secretary of the above committee is the Company Secretary of the Company. The Audit Committee met formally five times during the year. The External Auditors, the Managing Director, the Group Financial Controller and the Chief Internal Auditor attend meetings by invitation. In addition the Chairman of the Audit Committee had regular informal meetings on audit related issues with the Managing Director of the Company, the Chief Internal Auditor, the Group Financial Controller and the Company Secretary.

The report of the Audit Committee is set out on page 29 of the Annual Report.

Remuneration Committee

The Remuneration Committee consists of three Directors and met four times during the financial year. The names of the members of the Committee are listed on the inner back cover of the report. The Committee monitors and determines the remuneration packages and other terms and conditions of employment, including appropriate performance related rewards of executives inclusive of Executive Directors. The details of the remuneration of the Directors of the Group are disclosed on page 44 of the financial statements.

The Remuneration Committee sources information from leading companies who operate in similar industries and peruse statistics compiled by professional firms to formulate an acceptable remuneration

Corporate Governance

packages. Executive remuneration packages are designed so that the Executive Directors and executives are duly motivated and fairly rewarded in terms of their contribution to the performance of the Company, their experience and qualifications while ensuring that it is in line with industry standards. An incentive bonus scheme is in operation, to directly link rewards to performance.

Shareholder Relationship

The Board recognises the importance of maintaining good relationships with shareholders. The Company prepares an annual report, and quarterly interim reports, which are all circulated to the shareholders. The Managing Director and the senior management also meet regularly with institutional shareholders and fund managers who conduct periodic reviews of the performance of the Company and its activities.

The Annual General Meeting provides an opportunity for the shareholders to seek clarification and information on the activities of the Company and to informally meet the Directors after the Annual General Meeting. The principle of promptly advising the shareholders of any major transaction which would have material financial implication to them is recognised by the Board of Directors.

The rights and duties of electing Directors and the Auditors of the Company are recognised as important contributions made by the shareholders

to ensure good governance by the Company.

Accountability and Resource Management

The Board has overall responsibility to ensure that the Company maintains acceptable norms of accountability and a system of internal control which is designed to provide reasonable assurance that all transactions entered into by the Company are relevant and properly authorised, and recorded. The Company maintains a management structure with clearly defined lines of responsibility and authority. There are established authorisation procedures for all expenditure whether capital or revenue within a framework of rules and guidelines which provide for detailed appraisal and critical review. Written policies and guidelines are also available for all activities and transactions undertaken by the Company.

The internal control system is augmented by the internal audit function which is totally independent of management. Group companies are subject to regular internal audit and systems review.

The support functions such as Secretarial, Human Resource Development & Management, Information Technology Management, Treasury Management, Tax Planning and Compliance, Payroll Services and Legal are managed centrally. The Company Secretary is qualified to act in

his capacity in terms of the provisions of the Companies Act No. 17 of 1982.

A strategic planning, annual budgeting and forecasting process is practised within the Group. Established consolidation and reporting systems exist for both statutory and monthly management information. Actual performance is reviewed against budgets on a monthly and quarterly basis and appropriate remedial action initiated if required.

Code of Business Conduct & Ethics

The Company maintains a comprehensive and well defined code of business conduct and ethics for its employees inclusive of Directors. The Code of Ethics is clear, concise and unambiguous and is made available to all employees at the point of recruitment.

Responsibility for Financial Statements

The financial statements are prepared in accordance with the Sri Lanka Accounting Standards and are in line with the Sri Lanka Companies Act No. 17 of 1982. The quarterly accounts and the Annual Report are published in advance of the regulatory requirements applicable in Sri Lanka. This enables timely and useful information to be supplied to current and potential shareholders and investors.

A separate statement regarding the above is set out on page 30 of the Annual Report.

Financial Reports

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Financial Calendar 2004/2005

4th April 2004

Redemption of 2,000,000 two year unsecured debentures of
Rs. 100 each carrying a semi annual fixed interest of 15.25% p.a.

29th June 2004

Fifty Second Annual General Meeting -
Final Dividend for 2003/2004 (*ex dividend date 17th June 2004*)
(*Interim Dividend for 2003/2004 was paid on 26th March 2004*)

30th June 2004

Interest payment to debenture holders

First week of August 2004

Interim Statement for the three months ended 30th June 2004

First week of November 2004

Interim Statement for the six months ended 30th September 2004

31st December 2004

Interest payment to debenture holders

First week of February 2005

Interim Statement for the nine months ended 31st December 2004

Directors' Report

The Directors of Aitken Spence & Company Limited, have pleasure in presenting their report together with the audited accounts for the year ended 31st March 2004 which were approved by the Directors on 28th May 2004.

Principal Activities

The Group is engaged in diverse business activities, which are described on pages 82 to 83 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 Review.

Group Revenue

The Revenue of the Group was Rs. 9,157,159,605/- (2002/2003 - Rs. 7,030,843,489/-). An analysis of revenue based on business and geographical segments are disclosed in Note 1 to the financial statements on page 43.

Profit

The Net profit before tax of the Group increased by 113.6% to Rs. 1,886,676,402/- and the profit after tax increased by 132% to Rs. 1,699,496,143/-. The profit available for distribution to shareholders for the year was Rs. 1,275,523,403/- which is an increase of 142.9%.

Group Profits

	2003/2004 Rs.	2002/2003 Rs.
The net profit of the Group for the year after providing for all expenses, known liabilities and depreciation on property, plant & equipment was	1,888,676,402	884,069,579
From which income tax and deferred tax has to be deducted	(189,180,259)	(151,653,752)
Leaving the Group with a profit after taxation of	1,699,496,143	732,415,827
From which the amount attributable to minority interest has to be adjusted	(423,972,740)	(207,231,203)
Leaving a profit for the year applicable to the Company of	1,275,523,403	525,184,624
To which the balance of the previous year has to be added	1,559,551,258	1,216,957,446
The amount available to the Company for appropriation therefore was	2,835,074,661	1,742,142,070

Appropriations

The amount available has been appropriated by your Directors as follows:

Transfer to general reserves	361,544,756	58,463,656
Appropriated by subsidiaries	—	3,347,736
Transfer to proposed dividend	195,000	—
Interim dividend paid	67,487,257	53,740,020
Final dividend recommended	94,482,161	67,039,400
Leaving an unappropriated balance to be carried forward of	2,311,365,487	1,559,551,258
	2,835,074,661	1,742,142,070

The segmental profits are disclosed in Note 1 to the financial statements on page 43.

Donations

During the year charitable donations amounting to Rs. 831,946/- were made by the Group, of which Rs. 500,000/- was paid to approved charities in terms of the Inland Revenue Act No. 38 of 2000.

Taxation

A detailed description of the income tax rates applicable to the individual companies and a reconciliation of the accounting profits with the taxable profits is given in Note 7.3 to the financial statements.

It is the policy of the Group to provide for deferred taxation on all known timing differences on the liability method, unless there is reasonable evidence that they would not reverse in the foreseeable future. The deferred tax liability of the Group is given in Note 7.2 to the financial statements.

Dividends

An interim ordinary dividend of 25% was paid on 26th March 2004. The Directors recommend a final ordinary dividend of 35% making a total dividend payment of 60% for the year ended 31st March 2004, in comparison to a total dividend of 45% in the previous year.

Share Capital

The issued ordinary share capital of the Company has increased to Rs. 269,949,030/- at year end from Rs. 268,157,600/- at the beginning of the year. 179,143 shares were issued during the year to employees of the Company, who exercised their share options.

Reserves

The total Group's reserves as at 31st March 2004 was Rs. 6,304,866,794/- (2003 - Rs. 4,446,408,820/-). This consisted of Capital Reserves of Rs. 3,266,690,442/- (2003 - Rs. 2,548,074,620/-) and Revenue Reserves of Rs. 3,038,176,352/- (2003 - Rs. 1,898,334,200/-). The movement in these reserves is shown in the Statement of Changes in Equity - Group on page 34.

Debentures

The Company had raised Rs. 400,000,000/- in April 2002 by way of unsecured redeemable debentures of Rs. 100/- each, which are listed on the debt securities board of the Colombo Stock Exchange. The details of the debentures are as follows:

- 2,000,000 two year debentures with interest payable semi annually at a fixed interest rate of 15.25% p.a.
- 1,000,000 four year debentures with interest payable semi annually at a fixed interest rate of 15.75% p.a. and
- 1,000,000 four year debentures with interest payable annually at a fixed interest rate of 16.00% p.a.

The 2,000,000 two year debentures at the fixed interest rate of 15.25% p.a. were redeemed on the 4th of April 2004.

Property, Plant & Equipment

During the current financial year the Group revalued part of its land in keeping with the Group policy of revaluing its land once in every five years. The details of land revalued are disclosed in Note 10.3 to the financial statements.

The total expenditure on the acquisition of property, plant & equipment during the year in respect of new assets and replacements amounted to Rs. 543,023,063/-. The bulk of these investments were in the Infrastructure and Tourism sectors. The movement in property, plant & equipment of the Group are shown in the "Notes to the financial statements" on page 48.

Shareholder Information

Information relating to earnings, net assets, dividends and market price per share are given in the Financial Highlights on page 10 and the Share & Debenture Information on page 74 of the Annual Report.

Investments and Future Developments

During the year the Group invested Rs. 1,473 million in existing and new business segments. The main investments were investment of Rs. 303 million amounting to a stake of approximately 5% made in Milford Holdings (Pvt) Ltd., which is the holding company of Sri Lanka Insurance Corporation Ltd. Rs. 838 million was invested in a 50% stake of Ace Power Embilipitiya (Pvt) Ltd. the Company which has been awarded a contract to build, own and operate a 100MW power plant in Embilipitiya. Rs. 168 million was invested in Aitken Spence GTECH (Pvt) Ltd., which is a information technology company set up to carry out high performance transaction processing solutions. Future investment plans of the Company are disclosed in detail in the Chairman's Message and Managing Director's Review.

Corporate Governance

The Company's corporate governance practices are set out on page 21.

Internal Control

The Directors accept ultimate responsibility for the Group's system of internal control. The systems are geared to provide, with reasonable assurance that the assets of the Group are safeguarded and that transactions are relevant, authorised and properly recorded. Further details relating to internal controls are contained in the Statement of Directors' Responsibilities on page 30 and the Audit Committee Report set out on page 31 of the Annual Report.

Events occurring after the Balance Sheet date

There have not been any material events that occurred subsequent to the date of the Balance Sheet other than the redemption of 2,000,000 debentures by the Company on the 4th of April 2004.

Contingent Liabilities

Contingent liabilities exist in respect of guarantees given to third parties in respect of facilities obtained by subsidiaries and associate companies. Details are given in Note 28 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 compliance statement is included in the Statement of Directors' Responsibilities on page 30 of this report.

Directors' Report

Shareholdings

There were 1,534 shareholders as at 31st March 2004. The distribution of the shares is detailed on page 74. Details of the twenty largest shareholders as at 31st March 2004 are given on page 75.

Directors

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

All Directors of the Company held office during the entire financial year other than Mr. M. Bhatkuly who resigned with effect from 8th March 2004.

The following Directors retire and being eligible are recommended by the Board for re-election at the forthcoming Annual General Meeting:

1. Mr. D.H.S. Jayawardena in terms of Article 85 of the Articles of Association of the Company.
2. Mr. G.C. Wickremasinghe attained the age of 70 years on 15th August 2003 and in accordance with Section 181 of the Companies Act, he vacates office at the forthcoming Annual General Meeting. A resolution has been received from a shareholder that the age limit of 70 years referred to in Section 181 of the Companies Act No. 17 of 1982 shall not be applicable and that Mr. G.C. Wickremasinghe be re-appointed as a Director at the Annual General Meeting. The Directors recommend the adoption of the Ordinary Resolution.

Directors' Shareholding and their Interests

The Directors of the Company together with their spouses held 1,129,481 shares in the Company as at 31st March 2004 which amounted to 4.18% of the total issued share capital, as detailed below:

Shareholding of Directors together with their Spouses

	31.03.04	31.03.03
D.H.S. Jayawardena	Nil	Nil
J.M.S. Brito	3,733	3,733
G.C. Wickremasinghe	487,216	487,216
R. Sivaratnam	503,290	518,290
E.P.A. Cooray	135,242	135,242
C.H. Gomez	Nil	Nil
M. Bhatkuly	Nil	Nil

The indirect shareholding of Directors:

	31.03.2004	31.03.2003
Mr. G.C. Wickremasinghe		
- Manohari Enterprises Ltd.	19,922	19,922
Mr. D.H.S. Jayawardena		
- Stassen Exports Ltd.	216,300	216,300
- Milford Exports (Ceylon) Ltd.	288,100	288,100

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 63.

Share Option Scheme

The Company as at 31st March 2004 has offered stock options for 1,169,800 shares of which options for 633,403 shares have been exercised, options for 445,897 shares have lapsed and options for 90,500 shares are exercisable. Of the options available 62,000 shares may be exercised at a price of Rs 121/- per share before 18.01.2005 and 28,500 shares may be exercised at a price of Rs 85.50 per share before 31.01.2006. During the year, Executives of the Group exercised options for 179,143 shares at prices ranging from Rs. 85.50 to Rs. 121.00 per share.

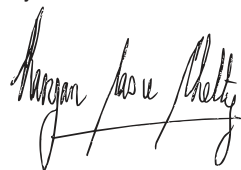
Public Holding

The percentage of the shares held by the public as at 31st March 2004 is 34.58%.

Auditors

The retiring Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co., are seeking re-appointment and in accordance with the Companies Act No. 17 of 1982, 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.

Secretary

305, Vauxhall Street, Colombo 2

28th May 2004

Audit Committee Report

The Committee comprises of three Directors of Aitken Spence & Co. Ltd. The Company Secretary acts as Secretary to the Committee. The Managing Director, the Group Financial Controller 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 discharge their responsibility of ensuring that the Company's internal controls and conduct of business are in accordance with the best practices, and also to monitor and guide the Internal Audit function. The Committee noted that adequate procedures were in place to ensure that all relevant laws and codes of ethics have been complied with.

The Committee met five times during the financial year ended 31st March 2004. In addition, the Chairman of the Audit Committee had regular dialogue with the Chief Internal Auditor, Group Financial Controller and the Company Secretary in connection with audit related issues. During these meetings the Internal Audit reports together with the responses received and the appointment of the External Auditors were reviewed and discussed. The functional heads of the Strategic Business Units were then instructed to take appropriate corrective action where necessary, to strengthen internal controls and procedures.

The Committee had discussions with the External Auditors regarding the audit for the year ended 31st March 2004. The Committee also reviewed the Management Letter issued by the External Auditors for the year ended 31st March 2003, and directed that the Company takes cognizance of their comments and implement the recommendations made therein.



G.C. Wickremasinghe

Chairman

Audit Committee

29th April 2004

Statement of Directors' Responsibilities

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 which are prepared in accordance with the relevant provisions of the Companies Act No. 17 of 1982 and Sri Lanka Accounting Standards.

The Directors confirm that the financial statements of the Company and its subsidiaries for the year ended 31st March 2004 presented in this report have been prepared in accordance with the Sri Lanka Accounting Standards and the Companies Act No.17 of 1982. In preparing the financial statements, the Directors have selected the appropriate accounting policies and have applied them consistently. Any material departures have been disclosed and explained in the financial statements.

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

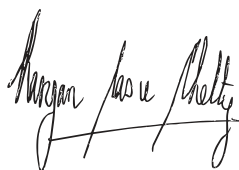
The Directors have accepted the responsibility to ensure that the companies within the Group maintain adequate accurate records, which disclose the financial position of each such company and hence the Group.

The Directors have taken reasonable steps to safeguard the assets of the Company and of 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 considered appropriate and necessary for the performance of their responsibilities.

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

By Order of the Board,



R.E.V. Casie Chetty

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

Secretary

Colombo

28th May 2004

Report of the Auditors

To The Members of Aitken Spence & Company Limited

We have audited the balance sheet of Aitken Spence & Company Limited as at 31st March, 2004, 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 32 to 64 of the Annual Report.

Respective Responsibilities of Directors and Auditors

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

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented 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, 2004, and to the best of our information and according to the explanations given to us, the said balance sheet and the related statements of income, cash flows and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books 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, 2004 and of its profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and the related statements of income, changes in equity and cash flows and the accounting policies and notes thereto, have been properly prepared and presented in accordance with the Company's Act No. 17 of 1982 and Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31st March, 2004 and the 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, 2004 except as stated in Note 32 to these financial statements.



KPMG Ford, Rhodes, Thornton & Co.

Chartered Accountants

Colombo

28th May 2004

Income Statements

<i>For the year ended 31st March</i>							
		2004	Group 2003	%	2004	Company 2003	%
	Notes	Rs. '000	Rs. '000	Change	Rs. '000	Rs. '000	Change
Revenue	1	9,157,160	7,030,843	30.2	147,058	121,290	21.2
Revenue tax		(107,916)	(123,214)	(12.4)	—	(1,947)	(100.0)
Net revenue		9,049,244	6,907,629	31.0	147,058	119,343	23.2
Other operating income	2	246,098	31,570	679.5	1,138,854	184,643	516.8
Changes in inventories of finished goods and work-in-progress		(9,023)	16,250	(155.5)	—	—	—
Raw materials and consumables used		(1,822,288)	(1,492,520)	22.1	—	—	—
Staff costs		(997,416)	(837,539)	19.1	(85,667)	(54,671)	56.7
Depreciation and amortisation		(444,833)	(414,064)	7.4	(16,047)	(17,896)	(10.3)
Other operating expenses - direct	3	(2,754,078)	(2,039,102)	35.1	—	—	—
Other operating expenses - indirect		(1,227,701)	(1,096,822)	11.9	(78,952)	(54,300)	45.4
Profit from operations	1 & 4	2,040,003	1,075,402	89.7	1,105,246	177,119	524.0
Interest income		92,309	56,741	62.7	143,115	129,582	10.4
Finance cost	5	(277,221)	(279,344)	(0.8)	(113,933)	(100,968)	12.8
Profit from operations after interest		1,855,091	852,799	117.5	1,134,428	205,733	451.4
Share of associate companies profit before taxation	6	33,585	31,271	7.4	—	—	—
Profit on ordinary activities before taxation		1,888,676	884,070	113.6	1,134,428	205,733	451.4
Taxation	7	(189,180)	(151,654)	24.7	(1,268)	(14,743)	(91.4)
Profit after taxation		1,699,496	732,416	132.0	1,133,160	190,990	493.3
Minority interest		(423,973)	(207,231)	104.6	—	—	—
Net profit attributable to shareholders		1,275,523	525,185	142.9	1,133,160	190,990	493.3
Earnings per share (Rs.)	8	47.36	19.69	140.5	42.07	7.16	487.6
Diluted earnings per share (Rs.)	8	47.26	19.63	140.8	41.99	7.14	488.1

The accounting policies and notes on pages 38 to 64 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Balance Sheets

As at 31st March	Notes	Group		Company	
		2004	2003	2004	2003
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets					
Non-current assets					
Property, plant & equipment	10	8,576,500	7,754,569	748,449	475,153
Intangible assets	11	92,017	98,117	—	—
Investments in subsidiaries - unquoted	12	—	—	2,556,947	1,585,566
Investments in subsidiaries - quoted	12	—	—	679,300	679,300
Investments in associates	13	541,726	707,969	341,204	450,945
Long-term investments	14	608,413	148,610	567,617	32,814
		9,818,656	8,709,265	4,893,517	3,223,778
Current assets					
Inventories	15	316,068	286,682	1,076	303
Amount due from subsidiaries		—	—	897,267	1,009,048
Amount due from associates		27,234	27,693	27,106	18,833
Trade and other receivables	16	2,159,779	1,870,576	61,803	70,815
Current investments	17	4,003	3,899	139	139
Deposits and prepayments		315,387	182,678	1,892	2,877
Short-term deposits		740,069	669,712	116,665	517,200
Cash & cash equivalents		896,466	330,032	340,859	15,642
		4,459,006	3,371,272	1,446,807	1,634,857
Total assets	18	14,277,662	12,080,537	6,340,324	4,858,635
Equity and liabilities					
Equity					
Issued and fully paid share capital	19	269,949	268,158	269,949	268,158
Reserves		3,899,020	2,819,818	3,015,655	2,357,608
Retained earnings		2,311,365	1,559,551	753,816	75,589
Proposed dividends		94,482	67,040	94,482	67,040
Total equity		6,574,816	4,714,567	4,133,902	2,768,395
Deferred income	20	31,705	33,892	—	—
Minority interest		1,765,622	1,433,522	—	—
		8,372,143	6,181,981	4,133,902	2,768,395
Non-current liabilities					
Interest-bearing borrowings	21	2,235,722	3,196,070	200,000	400,000
Deferred tax	22	106,963	104,601	15,022	17,004
Retirement benefit obligations	23	130,442	105,370	16,236	11,833
		2,473,127	3,406,041	231,258	428,837
Current liabilities					
Trade and other payables	24	1,848,835	1,696,394	198,434	176,841
Bank loans and overdrafts		599,968	444,475	70,129	12,520
Interest bearing borrowings	21	867,943	293,729	200,000	—
Amount due to subsidiaries		—	—	1,506,011	1,468,903
Amount due to associates		10,360	5,775	—	—
Provision for taxation		105,286	52,142	590	3,139
		3,432,392	2,492,515	1,975,164	1,661,403
Total equity and liabilities		14,277,662	12,080,537	6,340,324	4,858,635

The accounting policies and notes on pages 38 to 64 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 28th May 2004.



D.H.S. Jayawardena
Chairman
Colombo



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

Statement of Changes in Equity - Consolidated

For the year ended 31st March 2004

	Share Capital	Share Premium	Revaluation Reserves	Other Capital Reserves	General Reserves	Exchange Fluctuation Reserve	Retained Earnings	Proposed Dividend	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 31st March 2002	265,722	1,828,385	565,437	127,521	166,467	41,612	1,216,957	–	4,212,101
Surplus on revaluation by									
associate companies	–	–	10,844	–	–	–	–	–	10,844
Currency translation differences	–	–	–	–	–	5,086	–	–	5,086
Appropriations by subsidiaries	–	–	–	–	–	–	(3,347)	–	(3,347)
Net gains and losses not recognised in the income statement	–	–	10,844	–	–	5,086	(3,347)	–	12,583
Net profit for the period	–	–	–	–	–	–	525,185	–	525,185
Transfer to general reserve	–	–	–	–	58,464	–	(58,464)	–	–
Interim dividend (Note 9)	–	–	–	–	–	–	(53,740)	–	(53,740)
Final dividend proposed (Note 9)	–	–	–	–	–	–	(67,040)	67,040	–
Unclaimed dividend transferred to reserves	–	–	–	–	114	–	–	–	114
Shares issued under stock option scheme	2,436	21,473	–	–	–	–	–	–	23,909
Debenture issue expenses	–	(5,585)	–	–	–	–	–	–	(5,585)
Balance as at 31st March 2003	268,158	1,844,273	576,281	127,521	225,045	46,698	1,559,551	67,040	4,714,567
Surplus on revaluation	–	–	702,001	–	–	–	–	–	702,001
Currency translation differences	–	–	–	–	–	(959)	–	–	(959)
Net gains and losses not recognised in the income statement	–	–	702,001	–	–	(959)	–	–	701,042
Net profit for the period	–	–	–	–	–	–	1,275,523	–	1,275,523
Transfer to general reserve	–	–	–	–	361,545	–	(361,545)	–	–
Transfer from retained earnings	–	–	–	–	–	–	(195)	195	–
Final dividend paid 2002/2003 (Note 9)	–	–	–	–	–	–	–	(67,235)	(67,235)
Interim dividend paid 2003/2004 (Note 9)	–	–	–	–	–	–	(67,487)	–	(67,487)
Final dividend proposed for 2003/2004 (Note 9)	–	–	–	–	–	–	(94,482)	94,482	–
Shares issued under stock option scheme	1,791	16,615	–	–	–	–	–	–	18,406
Balance as at 31st March 2004	269,949	1,860,888	1,278,282	127,521	586,590	45,739	2,311,365	94,482	6,574,816

The accounting policies and notes on pages 38 to 64 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Statement of Changes in Equity - Company

For the year ended 31st March 2004

	Share Capital Rs. '000	Share Premium Rs. '000	Revaluation Reserves Rs. '000	General Reserves Rs. '000	Retained Earnings Rs. '000	Proposed Dividend Rs. '000	Total Rs. '000
Balance as at 31st March 2002	265,722	1,828,385	387,241	125,980	5,379	—	2,612,707
Net profit for the period	—	—	—	—	190,990	—	190,990
Interim dividend (Note 9)	—	—	—	—	(53,740)	—	(53,740)
Final dividend proposed (Note 9)	—	—	—	—	(67,040)	67,040	—
Unclaimed dividend transferred to reserves	—	—	—	114	—	—	114
Shares issued under stock option scheme	2,436	21,473	—	—	—	—	23,909
Debenture issue expenses	—	(5,585)	—	—	—	—	(5,585)
Balance as at 31st March 2003	268,158	1,844,273	387,241	126,094	75,589	67,040	2,768,395
Surplus on revaluation	—	—	348,663	—	—	—	348,663
Net gains and losses not recognised in the income statement	—	—	348,663	—	—	—	348,663
Net profit for the period	—	—	—	—	1,133,160	—	1,133,160
Transfer to general reserve	—	—	—	292,769	(292,769)	—	—
Transfer from retained earnings	—	—	—	—	(195)	195	—
Final dividend paid 2002/2003 (Note 9)	—	—	—	—	—	(67,235)	(67,235)
Interim dividend paid 2003/2004 (Note 9)	—	—	—	—	(67,487)	—	(67,487)
Final dividend proposed for 2003/2004 (Note 9)	—	—	—	—	(94,482)	94,482	—
Shares issued under stock option scheme	1,791	16,615	—	—	—	—	18,406
Balance as at 31st March 2004	269,949	1,860,888	735,904	418,863	753,816	94,482	4,133,902

The accounting policies and notes on pages 38 to 64 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Consolidated Cash Flow Statement

For the year ended 31st March	Group		Company	
	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000
Cash flow from operating activities				
Net profit before taxation	1,888,676	884,070	1,134,428	205,733
Adjustments for				
Depreciation & amortisation	444,833	414,064	16,047	17,896
Interest expense	259,187	264,599	113,581	100,858
Profit on sale of property, plant & equipment	(15,934)	(6,328)	(19)	(902)
Profit on sale of investments	(166,063)	(1,811)	(743,169)	(3,734)
Interest income	(92,309)	(56,741)	(143,115)	(129,582)
Amortisation of surplus on acquisition	(2,246)	(2,246)	–	–
Share of associate companies' profit before tax	(33,585)	(31,271)	–	–
Provision for bad and doubtful debts	19,709	21,475	4,033	1,425
Write off of premium paid to purchase preference shares of subsidiary	–	5,163	–	–
Transfers/write offs of property, plant & equipment	12,952	–	4,223	–
Unclaimed dividends transferred to reserves	–	114	–	114
Movement in provision for fall in value of investment	(104)	(1,666)	–	–
Foreign exchange profit	(41,351)	(17,196)	–	53
Gratuity provision	37,837	27,966	4,941	3,810
	422,926	616,122	(743,478)	(10,062)
Operating profit before working capital changes	2,311,602	1,500,192	390,950	195,671
(Increase)/decrease in trade and other receivables	(308,453)	(580,149)	108,487	(69,138)
(Increase)/decrease in inventories	(29,386)	(76,427)	(773)	19
Increase/(decrease) in trade and other payables	149,974	(69,657)	51,649	783,322
(Increase)/decrease in deposits & prepayments	(132,709)	(92,435)	985	565
	(320,574)	(818,668)	160,348	714,768
Cash generated from operations	1,991,028	681,524	551,298	910,439
Interest paid	(259,187)	(264,599)	(113,581)	(100,858)
Income tax paid	(128,499)	(82,352)	(5,799)	(5,061)
Gratuity payment	(12,765)	(16,716)	(538)	(1,735)
	(400,451)	(363,667)	(119,918)	(107,654)
Net cash flow from operating activities				
(carried forward to next page)	1,590,577	317,857	431,380	802,785

Consolidated Cash Flow Statement

	Group		Company	
For the year ended 31st March	2004	2003	2004	2003
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net cash flow from operating activities				
(brought forward from previous page)	1,590,577	317,857	431,380	802,785
Cash flow from investing activities				
Investments made during the year	(459,947)	(19,838)	(1,466,540)	(112,775)
Purchase of property, plant & equipment	(543,023)	(1,265,354)	(20,102)	(8,963)
Proceeds from sale of property, plant & equipment	26,922	17,148	216	1,673
Proceeds from sale of investment	352,390	4,434	888,268	4,435
Dividends and dividend taxes paid by subsidiary companies to outside shareholders	(119,664)	(16,884)	—	—
Dividends received from associate companies	8,326	24,800	—	—
Net cash used in investing activities	(734,996)	(1,255,694)	(598,158)	(115,630)
Cash flow from financing activities				
Interest received from deposits	92,309	56,741	143,115	129,582
Proceeds from long term borrowings	—	1,138,972	—	—
Issue of shares	18,406	23,909	18,406	23,909
Issue of shares by subsidiaries	125	—	—	—
Debenture issue expenses	—	(5,584)	—	(5,584)
Repayment of interest-bearing borrowings	(401,880)	(266,507)	—	(27,500)
Dividends paid	(127,670)	(152,575)	(127,670)	(152,575)
Net cash from financing activities	(418,710)	794,956	33,851	(32,168)
Net increase in cash & cash equivalents	436,871	(142,881)	(132,927)	654,987
Cash & cash equivalents at the beginning of the period	599,696	698,150	520,322	(134,665)
Cash & cash equivalents at the end of the period	1,036,567	555,269	387,395	520,322
Cash & cash equivalents at the end of the period				
Cash at bank and in hand	896,466	330,032	340,859	15,642
Short term deposits	740,069	669,712	116,665	517,200
Bank loans and overdrafts	(599,968)	(444,475)	(70,129)	(12,520)
Cash & cash equivalent as previously reported	1,036,567	555,269	387,395	520,322
Effect of exchange rate changes	—	44,427	—	—
Cash & cash equivalent as restated	1,036,567	599,696	387,395	520,322

The accounting policies and notes on pages 38 to 64 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Accounting Policies

Aitken Spence & Company Ltd., is a company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange.

1. General Accounting Policies

1.1 Accounting Convention

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 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 Policies 1.3 and 2 below.

The financial statements are presented in Sri Lankan rupees, rounded to the nearest thousand. The financial statements were authorised for issue by the Directors on 28th May 2004.

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 enterprises 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 interest 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/negative goodwill arising on the acquisition of subsidiaries, being the difference between the cost of acquisition and the fair value of the Group's share of net assets acquired, is amortised to the income statement over a period of 20 years. In the opinion of the Directors, the future economic benefits from these investments would accrue to the Group over a period in excess of twenty years. Goodwill is classified under intangible assets while negative goodwill is treated as deferred income.

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 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., and Talawakelle Plantations 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.

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.

Intra-group balances and intra-group transactions and resulting unrealised profits are eliminated in full in the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated unless the cost cannot be recovered.

1.3 Transactions in Foreign Exchange

1.3.1 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 items which are carried in terms of historical

cost or fair value denominated in foreign currency are translated using the exchange rate at the date of transaction. The resulting gains or losses on translation are dealt with in the income statement, except when accounting for cash flow hedges.

1.3.2 In respect of transactions which meets 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.

1.3.3 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 are reported using exchange rate prevailed at the date of acquisition in accordance with the Sri Lanka Accounting Standard No. 21 - Effects of Changes in Foreign Exchange Rates.

1.4 Leasing of Property, Plant & Equipment

Property, plant & equipment acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception of the lease, less the accumulated depreciation.

2. Assets and Bases of their Valuation

2.1 Property, Plant & Equipment

Property, plant & equipment are stated at cost or valuation less aggregate depreciation. The cost of an item of property, plant & equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Land is revalued at least once in every five years.

2.1.1 Depreciation

Depreciation of property, plant & equipment of the Group is provided for on a consistent basis, over the period appropriate to the estimated useful lives of the assets.

Generally assets are written off on a straight line method over the following periods:

Leasehold Premises	Over the periods of the leases
Buildings	20-50 years
Power Generation Plant	20 years
Plant & Machinery	10-20 years
Equipment	05 years
Motor Vehicles	04-10 years
Furniture & Fittings	10 years
Computer Equipment	3-5 years
Crockery, Cutlery & Glassware	3-5 years
Soft Furniture	5-10 years

Buildings in the Group's resorts in the Maldives are depreciated on an annuity method over the period of the leases.

Depreciation has not been provided on land.

Power generation plants are depreciated from the date of first commercial operation of the plant. Depreciation for all other property, plant & equipment is not provided during the year of acquisition while a full year's depreciation is provided in the year of disposal.

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 valued at the par value of the shares in the financial statements.

2.2.2 Investments in subsidiary companies and jointly controlled entities are valued at cost and treated as long-term investments 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 valued 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.

2.2.5 Investment Properties

Investments in land and buildings that are not occupied substantially for use by, or in the operations of the Group are treated as long-term investments and valued at cost in the balance sheet. However, if there is an impairment in value, other than of a temporary nature, the carrying amount is reduced to recognise the decline.

2.3 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 a 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.

2.4 Debtors

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

2.5 Cash & Cash Equivalents

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

3. Liabilities and Provisions

Liabilities and provisions are recognised in the balance sheet when there is a present obligation as a result of a 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.

3.1 Taxation

3.1.1 Income Tax

The Group's liability to taxation has been computed in accordance with the Inland Revenue Act No. 38 of 2000, and its amendments thereto.

3.1.2 Deferred Taxation

Deferred taxation is provided on the liability method in respect of timing differences that arise as a result of differences between the tax written down value and accounting written down value of property, plant & equipment and other material timing differences arising during the period.

No provision is made for deferred taxation arising from timing differences where there is reasonable evidence that they would not reverse in the foreseeable future. The tax effect of timing differences that result in a deferred tax debit are not carried forward unless there is reasonable expectation of realisation.

4. Income Statement

4.1 Revenue

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

4.2 Profit

The profit earned by the Group before taxation as shown in the consolidated income statement is after making provision for bad & doubtful debts, all known liabilities and depreciation of property, plant & equipment except as referred to under para 2.1.1 above.

4.3 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.

4.4 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.

4.5 Revenue Recognition

4.5.1 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.

4.5.2 Revenue on rendering of services is recognised on a job completion basis.

4.5.3 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.

4.5.4 Interest income is accrued on a time basis.

4.5.5 Dividends from investments (excluding those from subsidiaries and associates) are recognised when the right to receive such is established.

4.6 Disposal of Property, Plant & Equipment

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

4.7 Movement of Reserves

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

5. 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.

5.1 Business Segment

The activities of the Group have been broadly classified into three main segments one of which is further classified into three sub-segments according to the nature of the product or service provided.

5.2 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.

5.3 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.

5.4 Segment information analysed by industry and geographical segments is disclosed in Notes to the accounts 1 & 18 on pages 43 and 55.

6. Cash Flow

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

7. 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 28 to the financial statements.

8. Retirement Benefits

8.1 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.

8.1.1 The principal actuarial assumptions used in determining the cost are:

- (i) rate of interest is equal to the market yield on government bonds 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.

8.1.2 The actuarial valuation was made on 31st March 2004.

8.1.3 The liability is not externally funded.

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

8.2 Defined Contribution Plan

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

9. Events Occurring after the Balance Sheet Date

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

10. Comparative Figures

Certain comparative information has been reclassified in order to provide a more appropriate basis of comparison.

Notes to the Financial Statements

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	
	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000
Tourism sector	4,773,396	3,407,454	16,781	19,651	528,898	163,643	4,227,717	3,224,160
Cargo Logistics sector	1,745,571	1,470,994	76,041	77,350	75,581	61,602	1,593,949	1,332,042
Strategic investments								
- Manufacturing sector	836,042	747,949	8,509	6,412	7,943	11,593	819,590	729,944
- Infrastructure development sector	2,402,123	1,655,848	—	—	—	—	2,402,123	1,655,848
- Services & others	324,178	209,088	191,405	107,735	18,992	12,504	113,781	88,849
Total revenue	10,081,310	7,491,333	292,736	211,148	631,414	249,342	9,157,160	7,030,843

b. Profit

	Profit from Operations		Profit from Ordinary Activities		Non-Cash Expenses		Taxation	
	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000
Tourism sector	893,362	571,610	859,486	489,399	23,870	19,702	92,983	45,267
Cargo Logistics sector	243,869	140,433	287,031	191,992	16,028	17,383	79,507	44,265
Strategic investments								
- Manufacturing sector	62,414	45,279	46,436	26,240	9,051	11,650	3,564	44,193
- Infrastructure development sector	654,398	286,589	505,183	156,280	367	288	—	—
- Services & others	537,252	177,526	508,247	134,923	12,001	9,628	7,951	11,851
	2,391,295	1,221,437	2,206,383	998,834	—	—	—	—
Amortisation of (goodwill)/negative goodwill	(3,886)	(3,886)	(3,886)	(3,886)	—	—	—	—
Associate companies	—	—	33,585	31,271	—	—	5,175	6,078
Inter-company dividends	(347,406)	(142,149)	(347,406)	(142,149)	—	—	—	—
	2,040,003	1,075,402	1,888,676	884,070	61,317	58,651	189,180	151,654

1.2 Geographical Segment

	Revenue		Profit on Ordinary Activities	
	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000
Sri Lanka	8,066,260	5,730,822	1,481,930	537,029
South Asia (Maldives & Bangladesh)	2,015,050	1,760,511	406,746	347,041
	10,081,310	7,491,333	1,888,676	884,070

Notes to the Financial Statements

2. Other Operating Income

	Group		Company	
	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000
Profit/(loss) on sale of property, plant & equipment	15,934	6,328	19	902
Profit on sale of associate companies *	166,063	1,811	242,649	3,734
Profit on transfer of subsidiaries within the Group	–	–	500,520	180,019
Dividend (net) from investments	15,492	895	395,584	–
Amortisation of surplus on acquisition	2,246	2,246	–	–
Provision for fall in value of investments	104	1,666	–	–
Foreign exchange gain/(loss) **	41,351	17,195	–	(53)
Sundry income	4,908	1,429	82	41
	246,098	31,570	1,138,854	184,643

* Group disposed its investments in Union Assurance Ltd. and ACW Insurance Ltd., associate companies, resulting in a profit of Rs. 166,063,357/- to the group and Rs. 242,648,906/- to the Company.

** Gain/(Loss) on conversion of foreign currency debtors and creditors for the year 2002/2003 is included under other operating income to provide a more appropriate basis for comparison.

3. Other Operating Expenses - Direct

Direct operating expenses as disclosed in the income statement refers to the cost of services other than staff costs which are directly related to revenue. Since most of the companies in the Group operate in service industries the above amount represents a substantial portion of the total operating costs.

4. Profit from Operations before Interest

Profit from operations stated in the income statement is computed after charging the following:

	Group		Company	
	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000
Cost of inventories and services	5,853,307	4,535,542	76,289	47,437
Directors' emoluments	84,415	75,352	10,560	17,586
Auditors' remuneration	4,252	3,987	340	340
Depreciation	438,701	407,932	16,047	17,896
Amortisation	6,132	6,132	–	–
Provision/write off of bad debts	23,610	30,676	4,033	1,462
Defined contribution plan cost - EPF & ETF	85,224	75,358	6,394	6,745
Defined benefit plan cost - Gratuity	37,837	27,966	4,941	3,810

5. Finance Cost

	Group		Company	
	2003/2004 Rs. '000	2002/2003 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000
Interest on long-term borrowings	236,891	241,046	62,534	61,978
Interest on short-term borrowings	22,296	23,553	51,047	38,880
Bank charges	15,754	12,098	352	110
Finance charges on leases	2,280	2,647	–	–
	277,221	279,344	113,933	100,968

There were no borrowing costs capitalised on qualifying assets during the financial year 2003/2004.

Borrowing costs capitalised on qualifying assets during the financial year 2002/2003 was Rs. 48,180,046/- (Company - nil).

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

	Group	
	2003/2004	2002/2003
	Rs. '000	Rs. '000
M.P.S. Hotels Ltd.	1,615	(1,340)
Browns Beach Hotels Ltd.	1,029	(4,680)
Aventis Pharma Ltd.	4,678	485
Aitken Spence Plantation Managements (Pvt) Ltd. (consolidated with Elpitiya Plantations Ltd.)	6,470	11,361
Hayleys Plantation Services Ltd. (consolidated with Talawakelle Plantations Ltd.)	19,793	15,150
Union Assurance Ltd.	–	10,306
ACW Insurance (Pvt) Ltd.	–	(11)
	33,585	31,271

7. Taxation

7.1 The income tax provision of Aitken Spence & Co. Ltd. being a broad based quoted public company has been calculated on its adjusted profit at 30% being the tax rate applicable to quoted companies in terms of the Inland Revenue Act No. 38 of 2000, and amendments thereto.

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

7.1.1 The qualified export profits of Ace Container Repair (Pvt) Ltd., being a specified undertaking under Section 52 are liable to income tax at a concessionary rate of 15% up to and including year of assessment 2014/2015, in terms of Section 47 of the Inland Revenue Act No. 38 of 2000.

7.1.2 The export profits of Ace Exports (Pvt) Ltd., are liable to tax at a concessionary rate of 15% up to and including year of assessment 2014/2015, in terms of Section 49 of the Inland Revenue Act No. 38 of 2000.

7.1.3 The export profits and income of Aitken Spence Exports Ltd., are liable to tax at a concessionary rate of 15% in terms of Section 47 of the Inland Revenue Act No. 38 of 2000.

7.1.4 The export profits and income of Aitken Spence Garments Ltd., are liable to tax at a concessionary rate of 15% in terms of Section 47 of the Inland Revenue Act No. 38 of 2000.

7.1.5 The profits of Neptune Ayurvedic Village (Pvt) Ltd., are exempt from income tax for a period of 5 years in terms of Section 21 of the Inland Revenue Act No. 10 of 2002.

7.1.6 The profits of Ace Ayurvedic (Pvt) Ltd., are exempt from income tax in terms of Section 15 of the Inland Revenue Act No. 8 of 2001.

7.1.7 The profits of Vauxhall Property Developments Ltd., are exempt from income tax for a period of 7 years from 1997/1998 the year in which the Company commenced to make profits, 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.

7.1.8 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 profits, 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.

Notes to the Financial Statements

- 7.1.9** The profits of Hethersett Hotels Ltd., are exempt from income tax for a period of 5 years from the year 2001/2002 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.
- 7.1.10** The profits of the Aitken Spence Hotels (International) Ltd., are exempt from income tax for a period of 5 years from the year 2000/2001 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.
- 7.1.11** The profits 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.
- 7.1.12** The profits 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.
- 7.1.13** The profits of Wilkin Spence Packaging Lanka (Pvt) Ltd., is taxed at 15% 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.
- 7.1.14** 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., 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 40 of the Inland Revenue Act No. 38 of 2000.
- 7.1.15** 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. and Ace Bangladesh Ltd., being companies incorporated outside Sri Lanka are out of scope from Sri Lanka income taxation, where income is not derived from Sri Lanka.
- 7.1.16** The profits of B.I.R. Hotel Management (Pvt) Ltd., Jetan Travel Services Company (Pvt.) Ltd., Cowrie Investment (Pvt) Ltd., companies incorporated in the Republic of Maldives are not liable for corporate tax in the Maldives. Crest Star (BVI) Ltd., a company incorporated in the British Virgin Islands is exempt from income tax in the British Virgin Islands. Crest Star Ltd., a company incorporated in Hong Kong is not liable to income tax.
- 7.1.17** The profits of Ace Bangladesh Ltd., are liable to income tax at 37.5% in Bangladesh.
- 7.1.18** The relevant profits and income of Aitken Spence Plantation Managements (Pvt) Ltd., Hayleys Plantation Services Ltd., Elpitiya Plantations Ltd. and Talawakelle Plantations Ltd., being agricultural undertakings are liable to tax at a concessionary rate of 15% in terms of Section 40 of the Inland Revenue Act No. 38 of 2000.
- 7.1.19** All subsidiaries and associate companies whose taxable income is less than Rs. 5 mn for the year, are liable to income tax at 20%.
- 7.1.20** Where the taxable income of a quoted company (with more than 300 registered shareholders during the year of assessment) exceeds Rs. 5 mn same is liable to tax at 30%, and all other non-quoted companies and associate companies of the Group are liable to tax at 32.5%. This rate includes a 2.5% contribution to the Human Resource Endowment Fund.

Notes to the Financial Statements

7.2 Provision for Taxation

	Group		Company	
	2003/2004	2002/2003	2003/2004	2002/2003
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Taxation on current year profits	182,493	107,116	3,250	8,200
Under/(over) provision in previous years	(850)	(8,156)	—	—
Associate companies	5,175	6,078	—	—
Deferred taxation	2,362	46,616	(1,982)	6,543
	189,180	151,654	1,268	14,743

7.3 Reconciliation of the Accounting Profit and the Income Tax Expense

	Group		Company	
	2003/2004	2002/2003	2003/2004	2002/2003
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Profit from operations after interest	1,855,091	852,799	1,134,428	205,733
Amortisation of goodwill/(negative) goodwill	3,886	3,886	—	—
Profit from operations after adjustments	1,858,977	856,685	1,134,428	205,733
Profit exempt from tax	(1,105,073)	(569,204)	(1,156,203)	(189,082)
Profits liable for income tax	753,904	287,481	(21,775)	16,651
Disallowable expenses for taxation	307,051	303,578	53,833	31,554
Tax deductible expenses for taxation	(156,933)	(188,514)	(21,223)	(12,493)
Current year losses not utilised	1,389	47,486	—	—
Non-current losses utilised in the year	(76,711)	(32,720)	—	(13,523)
Taxable profit	828,700	417,311	10,835	22,189
Tax at 15%	46,833	30,586	—	—
Tax at 32.5% (2002/2003 - 35%)	93,763	72,250	—	—
Taxed at other rates	40,917	4,280	3,250	8,200
Tax on foreign companies	980	—	—	—
Taxation on current year profits	182,493	107,116	3,250	8,200

8. Earnings per Ordinary Share

- 8.1 The Company's earnings per ordinary share is based on the net profit attributable to shareholders and the weighted average number of ordinary shares outstanding during the year.

	Group		Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Profit attributable to shareholders (Rs.)	1,275,523,403	525,184,624	1,133,159,687	190,990,356
Weighted average number of shares outstanding during the year	26,934,449	26,676,063	26,934,449	26,676,063
Earnings per share (Rs.)	47.36	19.69	42.07	7.16

8.2 Diluted Earnings per Share

	Group		Company	
	2003/2004	2002/2003	2003/2004	2002/2003
Profit attributable to shareholders (Rs.)	1,275,523,403	525,184,624	1,133,159,687	190,990,356
Adjusted weighted average number of shares	26,987,231	26,749,717	26,987,231	26,749,717
Diluted earnings per share (Rs.)	47.26	19.63	41.99	7.14

Notes to the Financial Statements

8.2.1 Adjusted Weighted Average Number of Shares

	Group		Company	
	2003/2004	2002/2004	2003/2004	2002/2004
Average No. of shares before dilution	26,934,449	26,676,063	26,934,449	26,676,063
Number of shares outstanding under share option scheme	90,500	293,550	90,500	293,550
Number of shares that would have been issued at fair value	(37,718)	(219,896)	(37,718)	(219,896)
Adjusted weighted average number of shares	26,987,231	26,749,717	26,987,231	26,749,717

9. Dividends

	2003/2004 Rs. '000	2002/2003 Rs. '000
25% interim ordinary dividend paid (2002/2003 - 20%)	67,487	53,740
35% final ordinary dividend proposed (2002/2003 - 25%)	94,482	67,235
	161,969	120,975

The Directors have recommended a 35% final dividend payment for the year ended 31st March 2004 (2002/2003 - 25%) to be approved at the Annual General meeting on the 29th June 2004.

The dividend for the year is paid out of dividends received by the Company during the year. Approximately 32.2% of the declared and recommended dividend for the year is out of tax exempt dividends received by the Company.

10. Property, Plant & Equipment

10.1 Group

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Plant, Machinery & Equipment Rs. '000	Motor Vehicles Rs. '000	Furniture & Fittings Rs. '000	Leased Assets Rs. '000	Capital Work-in- Progress Rs. '000	Total Rs. '000
Cost or Valuation								
Balance as at 01.04.2003	764,927	3,879,313	4,009,499	334,761	515,922	81,923	12,863	9,599,208
Exchange difference	—	9,128	1,722	192	995	—	—	12,037
Revaluation	732,117	—	—	—	—	—	—	732,117
Additions	—	26,706	66,934	44,880	28,221	—	376,282	543,023
Transfers/write offs	(11,961)	(3,685)	21,833	4,161	(13,562)	(11,894)	—	(15,108)
Disposals	—	—	(18,831)	(39,043)	(17,513)	(2,927)	—	(78,314)
Balance as at 31.03.2004	1,485,083	3,911,462	4,081,157	344,951	514,063	67,102	389,145	10,792,963
Accumulated Depreciation								
Balance as at 01.04.2003	—	476,380	814,524	226,401	260,750	65,746	838	1,844,639
Exchange difference	—	1,120	769	160	556	—	—	2,605
Charge for the year	—	101,264	251,539	29,454	51,562	4,044	838	438,701
Transfers/write offs	—	(1,857)	16,143	658	(10,932)	(6,168)	—	(2,156)
Disposals	—	—	(13,894)	(34,963)	(15,542)	(2,927)	—	(67,326)
Balance as at 31.03.2004	—	576,907	1,069,081	221,710	286,394	60,695	1,676	2,216,463
Written Down Value as at 31.03.2004	1,485,083	3,334,555	3,012,076	123,241	227,669	6,407	387,469	8,576,500
Written Down Value as at 31.03.2003	764,927	3,402,933	3,194,975	108,360	255,172	16,177	12,025	7,754,569

Assets pledged as securities against liabilities are disclosed under Note 21.5.

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 some of the land owned by the Group companies by an independent, professional valuer as at 31st March 2004. Details of the revalued land is given in the Note 10.3 to the financial statements. The group's share of the revaluation excess of Rs. 732,117,410/- (Company - Rs. 273,661,468/-) over the net book value as at 31st March 2004 has been placed to the credit of the revaluation reserve.

Notes to the Financial Statements

10.2 Company

	Freehold Land	Freehold Buildings	Plant, Machinery & Equipment	Motor Vehicles	Furniture & Fittings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost or Valuation						
Balance as at 01.04.2003	299,158	191,353	78,592	2,800	22,062	593,965
Revaluation	273,661	—	—	—	—	273,661
Additions	—	—	13,414	5,977	711	20,102
Transfers/write offs	(4,223)	—	—	—	—	(4,223)
Disposals	—	—	(1,328)	(2,800)	(43)	(4,171)
Balance as at 31.03.2004	568,596	191,353	90,678	5,977	22,730	879,334
Accumulated Depreciation						
Balance as at 01.04.2003	—	47,243	54,302	2,800	14,467	118,812
Charge for the year	—	4,672	9,822	—	1,553	16,047
Disposals	—	—	(1,137)	(2,800)	(37)	(3,974)
Balance as at 31.03.2004	—	51,915	62,987	—	15,983	130,885
Written Down Value						
as at 31.03.2004	568,596	139,438	27,691	5,977	6,747	748,449
Written Down Value						
as at 31.03.2003	299,158	144,110	24,290	—	7,595	475,153

Tools and equipment to the value of Rs. 2,495,990/- are reclassified and more appropriately included under plant and machinery (previously furniture & fittings).

10.3 Details of Land Revaluation

Company	Location	Last Revaluation Date	WDV as at 31.03.2004	Revaluation Surplus	Carrying Amount at Cost
			Rs. '000	Rs. '000	31.03.2004
Aitken Spence & Co., Ltd.	315, Vauxhall Street, Colombo 02	31.03.2004	160,000	158,843	1,157
Aitken Spence & Co., Ltd.	318, 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, Beruwela	29.09.2003	244,458	243,504	954
Aitken Spence Hotel Holdings Ltd.	Triton Hotel, Ahungalla	31.03.2002	131,870	114,429	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.	315, Vauxhall Street, Colombo 02	31.03.2004	94,000	79,269	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, Beruwela	31.03.2004	121,640	110,560	11,080
			1,477,501	1,177,668	299,833

The above land has been revalued by independent, qualified valuers on the basis of current market value.

Notes to the Financial Statements

11. Intangible Assets

Goodwill on Consolidation

	Group	
	31.03.2004	31.03.2003
	Rs. '000	Rs. '000
Balance brought forward	120,244	118,246
Goodwill on acquisitions and change in percentage holding in subsidiaries	32	1,998
Balance carried forward	120,276	120,244
Accumulated amortisation		
Balance brought forward	(22,127)	(15,995)
Amortisation during the year	(6,132)	(6,132)
Balance carried forward	(28,259)	(22,127)
Total intangible assets	92,017	98,117

Goodwill arising on the acquisition of subsidiaries is amortised to the income statement on a straight line basis over a period of twenty years in accordance with the Sri Lanka Accounting Standard 25 - Business Combinations, since in the opinion of the Directors the future economic benefits arising from the investments are expected to flow to the Group over a period of more than twenty years.

12. Investments

12.1 Investments in Subsidiaries - Unquoted

	Number of Shares	Company Holding %	Group Holding %	31.03.2004 Rs.'000	31.03.2003 Rs.'000
a) Subsidiary Companies					
Aitken Spence Shipping Ltd.	750,000	100.0	100.0	100	100
Aitken Spence Travels Ltd.	3,408,000	100.0	100.0	121,744	121,744
Aitken Spence Exports Ltd.	52,500	100.0	100.0	514	514
Aset Ltd.	10,000	100.0	100.0	820	820
Clark Spence & Co. Ltd.	25,000	100.0	100.0	357	357
Aitken Spence Insurance (Pvt) Ltd.	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.	4,760,000	100.0	100.0	47,600	47,600
Ace Exports (Pvt) Ltd.	1,400,000	100.0	100.0	14,000	14,000
Ace Containers (Pvt) Ltd.	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.	1,550,002	100.0	100.0	15,500	15,500
Vauxhall Investments Ltd.	1,320,000	100.0	100.0	13,200	13,200
Aitken Spence Hotel Management (Pvt) Ltd.	20,000	100.0	100.0	200	200
Aitken Spence Group Ltd.	10,000	100.0	100.0	100	100
Ace Distriparks (Pvt) Ltd.	8,900,000	100.0	100.0	89,000	89,000
Vauxhall Property Developments Ltd.	11,270,000	100.0	100.0	153,401	153,401
Kandalama Hotels Ltd.	6,000,000	37.0	82.8	182,050	182,050
Ace Freight Management (Pvt) Ltd.	5,222,500	100.0	100.0	36,307	36,307
Elevators (Pvt) Ltd.	133,400	66.7	66.7	7,269	7,269

Notes to the Financial Statements

	Number of Shares	Company Holding %	Group Holding %	31.03.2004 Rs.'000	31.03.2003 Rs.'000
Triton Ltd.	10,000	100.0	100.0	50	50
Ace Power Generation Horana (Pvt) Ltd.	20,046,998	51.0	51.0	200,470	200,470
Ace Power Generation Matara Ltd.	21,523,413	51.0	51.0	215,234	215,234
Aitken Spence Hotels (International) Ltd.	100,000	100.0	100.0	1,000	1,000
Aitken Spence Moscow (Pvt) Ltd.	37,500	75.0	75.0	375	–
Aitken Spence Corporate Finance (Pvt) Ltd.	2	100.0	100.0	–	–
Ace Cargo (Pvt) Ltd.*	–	–	93.2	–	32,363
Ace Travels & Conventions (Pvt) Ltd.*	–	–	100.0	–	2,495
Aitken Spence Overseas					
Travel Services (Pvt) Ltd.*	–	–	100.0	–	500
Ace Haulage (Pvt) Ltd.*	–	–	100.0	–	–
Aitken Spence Hotels Ltd.*	–	–	72.7	–	–
Pearl Beach Hotels Ltd.*	–	–	72.7	–	–
Aset Airways Ltd.*	–	–	100.0	–	–
B.I.R. Hotel Management (Pvt) Ltd. *	–	–	70.7	–	–
Ahungalla Resorts Ltd.*	–	–	74.4	–	–
Jetan Travel Services Company (Pvt) Ltd.*	–	–	70.7	–	–
Hethersett Hotels Ltd.*	–	–	37.4	–	–
Crest Star Ltd.*	–	–	74.4	–	–
Crest Star (BVI) Ltd.*	–	–	74.4	–	–
Cowrie Investments (Pvt) Ltd.*	–	–	44.6	–	–
Ace Ayurvedic (Pvt) Ltd.*	–	–	74.4	–	–
Neptune Ayurvedic (Pvt) Ltd.*	–	–	74.4	–	–
Delta Shipping (Pvt) Ltd.*	–	–	100.0	–	–
Joint Ventures					
Aitken Spence (Garments) Ltd.	998,750	50.0	50.0	26,257	26,257
Ace Link Herbal Health Care (Pvt.) Ltd.	51,000	51.0	51.0	510	510
Ace Power Embilipitiya (Pvt) Ltd.	83,806,360	50.0	50.0	838,064	–
Aitken Spence GTECH (Pvt) Ltd.	16,830,000	50.0	50.0	168,300	–
Ace Bangladesh Ltd.*	–	–	45.7	–	–
Wilkin Spence Packaging Lanka (Pvt) Ltd.*	–	–	50.0	–	–
Clark Spence Garments Ltd.*	–	–	50.0	–	–
Shipping & Cargo Logistics (Pvt) Ltd.*	–	–	50.0	–	–
Vauxhall Shipping (Pvt) Ltd.*	–	–	49.0	–	–
Ultimate Freight Services (Pvt) Ltd.*	–	–	51.0	–	–
				2,196,947	1,225,566

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
Aset Airways Ltd.	500,000	100.0	100.0	5,000	5,000
Hethersett Hotels Ltd.*	–	–	74.4	–	–
				2,556,947	1,585,566

Notes to the Financial Statements

12.2 Investment in Subsidiaries - Quoted

	Number of Shares	Company Holding %	Group Holding %	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Aitken Spence Hotel Holdings Ltd. (Ordinary Shares of Rs.10/- each)	26,255,906	68.3	74.4	679,300	679,300
Net Book Value as at 31st March				679,300	679,300
Market value as at 31st March				1,785,402	1,085,647

* 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., Aitken Spence Shipping Ltd., Ace Cargo (Pvt) Ltd., Triton Ltd., Ace Containers (Pvt) Ltd., and Aitken Spence Printing (Pvt) Ltd.

** Jetan Travel Services Company (Pvt) Ltd., B.I.R Hotel Managements (Pvt) Ltd. and Cowrie Investments (Pvt) Ltd. are incorporated in the Republic of Maldives. Crest Star (BVI) Ltd., is incorporated in the British Virgin Islands. Crest Star Ltd., is incorporated in Hong Kong and Ace Bangladesh Ltd., is incorporated in Bangladesh 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 is Rs. 10/-.

13. Investments in Associate Companies

13.1.1 Investment in Associate Companies - Unquoted

	No. of Shares	Group Holding %	31.03.2004 Rs. '000	31.03.2003 Rs. '000	No. of Shares	Company Holding %	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Aventis Pharma Ltd. (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. (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. (Ordinary Shares of Rs.10/- each)	6,700,000	33.3	170,515	170,515	6,700,000	33.3	170,515	170,515
Elpitiya Plantations Ltd. (Ordinary Shares of Rs.10/- each) (Subsidiary of Aitken Spence Plantation Management (Pvt) Ltd.)	—	23.67	—	—	—	—	—	—
Talawakelle Plantations Ltd. (Ordinary Shares of Rs.10/- each) (Subsidiary of Hayleys Plantation Services Ltd.)	—	23.31	—	—	—	—	—	—
ACW Insurance (Pvt) Ltd. (Ordinary Shares of Rs.10/- each)	—	—	—	3,000	—	—	—	3,000
Net Book Value as at 31st March			374,116	377,116			341,204	344,204
Share of movement in equity value			109,760	71,758				
Revaluation of assets by associate companies			—	7,966				
Equity value of investments			483,876	456,840				

Notes to the Financial Statements

13.1.2 Investment in Associate Companies - Quoted

	Group				Company			
	No. of Shares	Holding %	31.03.2004 Rs. '000	31.03.2003 Rs. '000	No. of Shares	Holding %	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Browns Beach Hotels Ltd. (Ordinary Shares of Rs.10/- each)	2,841,718	21.9	67,810	67,810			—	—
Union Assurance Ltd. (Ordinary Shares of Rs.10/- each)			—	106,741			—	106,741
Net Book Value as at 31st March			67,810	174,551			—	106,741
Share of movement in equity value			(9,960)	74,640				
Revaluation of assets by associate companies			—	1,938				
Equity value of investments			57,850	251,129				
Market value of quoted investments as at 31st March			40,494	206,404				203,955
Equity value - Unquoted			483,876	456,840	Net Book Value - Unquoted		341,204	344,204
Equity value - Quoted			57,850	251,129	Net Book Value - Quoted		—	106,741
Equity value as at 31st March			541,726	707,969	Net Book Value - as at 31st March		341,204	450,945

14. Long Term Investments

	Group		Company	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Unquoted investments	545,438	85,635	538,681	3,878
Investment properties	62,975	62,975	28,936	28,936
	608,413	148,610	567,617	32,814

14.1 Unquoted Investments

	Group			Company		
	No. of Shares	31.03.2004 Rs. '000	31.03.2003 Rs. '000	No. of Shares	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Sri Lanka Port Management & Consultancy Service Ltd. (Ordinary Shares of Rs. 10/- each)	250	2	2	—	—	—
Hotel Training Institute (Pte) Ltd. (Ordinary Shares of Rs. 10/- each)	1,000	10	10	—	—	—
Cargo Village Ltd. (Ordinary Shares of Rs. 10/- each)	38,571	357	357	—	—	—
Perennial Acceptances Ltd. (Ordinary Shares of HK \$ 100/- each)	100	348	348	100	348	348
Ingrin Institute of Printing & Graphics Sri Lanka Ltd. (Ordinary Shares of Rs. 10/- each)	10,000	100	100	—	—	—
Sumiko Lanka Hotels (Pvt) Ltd. (Preference Shares of Rs. 100/- each)	7,500,000	75,000	75,000	7,500,000	75,000	—
Sumiko Lanka Hotels (Pvt) Ltd. (Secured Redeemable Debentures of Rs. 100/- each)	1,320,000	132,000	—	1,320,000	132,000	—
Palm Village Hotels Ltd. (Ordinary Shares of Rs. 10/- each)	1,815,674	10,068	10,068	606,099	3,530	3,530
Milford Holding (Pvt) Ltd.** (Ordinary Shares of Rs. 10/- each)	30,250,000	302,803	—	30,250,000	302,803	—
Rainforest Ec lodge (Pvt) Ltd. (advance against investment)	—	25,000	—	—	25,000	—
		545,688	85,885		538,681	3,878
Provision for fall in value of investments	—	(250)	(250)	—	—	—
Net Book Value as at 31st March	—	545,438	85,635	—	538,681	3,878

** Holding Company of Sri Lanka Insurance Corporation Ltd.

Notes to the Financial Statements

14.2 Investment Property

14.2.1 Movement during the year

	Group		Company	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Balance as at 01st April	62,975	149,648	28,936	28,936
Transferred to fixed assets	—	(86,673)	—	—
Balance as at 31st March	62,975	62,975	28,936	28,936

14.2.2 Market Value

Investment properties in the Group are accounted on a historical cost basis. The open market value of the above property is as follows:

	Group		Company	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Freehold land	110,936	110,936	28,936	28,936
	110,936	110,936	28,936	28,936

15. Inventories

	Group		Company	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Raw materials	178,988	146,131	—	—
Work-in-progress & finished goods	32,388	50,266	—	—
Consumables	102,093	87,686	1,076	303
Land	2,599	2,599	—	—
	316,068	286,682	1,076	303

Value of inventories pledged as security for facilities obtained from banks amounted to Rs. 116,068,049/- (2002/2003 - Rs. 138,083,536) (Company - nil).

16. Trade and Other Receivables

	Group		Company	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Trade debtors	1,902,273	1,535,908	—	2,689
Other debtors	311,069	370,461	51,631	54,282
Provision for bad debts	(70,925)	(51,216)	(5,496)	(1,463)
	2,142,417	1,855,153	46,135	55,508
Loans to employees	17,362	15,423	15,668	15,307
	2,159,779	1,870,576	61,803	70,815

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

	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Loans as at 1st April	13,254	14,184
Loans granted during the year	5,066	4,583
	18,320	18,767
Recoveries during the year	(4,403)	(5,513)
Loans as at 31st March	13,917	13,254

Notes to the Financial Statements

17. Current Investments

	Group			Company		
	No. of Shares	31.03.2004 Rs. '000	31.03.2003 Rs. '000	No. of Shares	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Ceylon Holiday Resorts Ltd.						
(Ordinary Shares of Rs. 10/- each)	250	2	2	250	2	2
DFCC Bank						
(Ordinary Shares of Rs. 10/- each)	4,129	110	110	4,129	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)	11,700	117	117	—	—	—
Hatton National Bank Ltd.						
(Non-voting Ordinary Shares of Rs. 10/- each)	63,800	4,060	4,060	—	—	—
		4,326	4,326		149	149
Provision for fall in value of investments		(323)	(427)		(10)	(10)
Net Book Value as at 31st March		4,003	3,899		139	139
Market Value as at 31st March		4,003	3,899		1,255	608

18. Segment Information

a. Business Segment

	Total Assets		Total Liabilities	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Tourism sector	5,169,941	4,981,233	1,731,310	1,710,522
Cargo Logistics sector	1,133,704	781,664	846,978	567,425
Strategic investments				
- Manufacturing sector	591,362	527,679	216,602	252,482
- Infrastructure development	4,464,387	3,699,507	2,361,114	2,721,302
- Services & others	2,826,251	1,992,337	749,515	646,825
	14,185,645	11,982,420	—	—
Goodwill on consolidation	92,017	98,117	—	—
	14,277,662	12,080,537	5,905,519	5,898,556
	Additions to Property, Plant & Equipment		Depreciation & Amortisation	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Tourism sector	124,050	86,403	209,749	225,894
Cargo Logistics sector	14,105	72,138	36,729	35,949
Strategic investments				
- Manufacturing sector	2,719	29,683	23,356	25,640
- Infrastructure development	380,365	1,066,694	146,090	95,598
- Services & others	21,784	10,436	28,909	30,983
	543,023	1,265,354	444,833	414,064

Notes to the Financial Statements

b. Geographical Segment

	Total Assets		Total Liabilities	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Sri Lanka	11,372,509	9,135,341	5,106,703	4,913,880
South Asia (Maldives & Bangladesh)	2,813,136	2,847,079	798,816	984,676
	14,185,645	11,982,420	–	–
Goodwill on consolidation	92,017	98,117	–	–
	14,277,662	12,080,537	5,905,519	5,898,556

	Additions to Property, Plant & Equipment		Depreciation & Amortisation	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Sri Lanka	511,750	1,225,188	328,457	301,939
South Asia (Maldives & Bangladesh)	31,273	40,166	116,376	112,125
	543,023	1,265,354	444,833	414,064

19. Share Capital & Reserves

19.1 Share Capital

	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Authorised		
75,000,000 ordinary shares of Rs.10/- each	750,000	750,000
Issued & Fully Paid		
As at 1st April		
26,815,760 ordinary shares at Rs. 10/- each (2002/2003 - 26,572,210)	268,158	265,722
Issued during the year		
179,143 ordinary shares of Rs. 10/- each (2002/2003 - 243,550)	1,791	2,436
As at 31st March		
26,994,903 ordinary shares of Rs. 10/- each (2002/2003 - 26,815,760)	269,949	268,158

The shares were issued pursuant to the stock option scheme disclosed in Note 30 to the financial statements.

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 case of a poll.

19.2 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.

Notes to the Financial Statements

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 in the hedge instrument of the cash flow hedges.

Other Capital Reserves

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

20. Deferred Income

Negative Goodwill on Consolidation

	Group	
	31.03.2004	31.03.2003
	Rs. '000	Rs. '000
Balance brought forward	44,909	44,692
Surplus on acquisitions and change in percentage holding in subsidiaries	58	217
Balance carried forward	44,967	44,909
Accumulated Amortisation		
Balance brought forward	(11,017)	(8,771)
Amortisation during the year	(2,245)	(2,246)
Balance carried forward	(13,262)	(11,017)
Net balance	31,705	33,892

Negative goodwill arising on the acquisition of subsidiaries is amortised to the income statement on a straight line basis over a period not exceeding twenty years in accordance with the Sri Lanka Accounting Standard 25 - Business Combinations, since in the opinion of the Directors the future economic benefits arising from those investments are expected to flow to the Group over a period of more than twenty years.

21. Interest-Bearing Borrowings

21.1 Analysed by Lending Institution

	Group		Company	
	31.03.2004	31.03.2003	31.03.2004	31.03.2003
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Hatton National Bank Ltd.	1,069,762	1,240,295	—	—
Commercial Bank of Ceylon Ltd.	429,864	457,373	—	—
People's Bank	262,922	276,332	—	—
Hongkong & Shanghai Banking Corporation Ltd.	217,118	229,852	—	—
Bank of Ceylon	215,217	226,354	—	—
DFCC Bank	73,050	188,834	—	—
Pan Asia Bank Ltd.	87,641	92,111	—	—
Standard Chartered Bank	15,225	31,071	—	—
National Development Bank of Sri Lanka	7,697	17,654	—	—
Central Finance Co. Ltd.	159	227	—	—
Sampath Bank Ltd.	—	5,328	—	—
Mercantile Leasing Ltd.	—	48	—	—
Quoted Debentures	579,000	579,000	400,000	400,000
Advances from tour operators	146,010	145,320	—	—
	3,103,665	3,489,799	400,000	400,000
Current portion of interest-bearing borrowings	(867,943)	(293,729)	(200,000)	—
	2,235,722	3,196,070	200,000	400,000

Notes to the Financial Statements

21.2 Analysed by Repayment period

	Group		Company	
	31.03.2004 Rs. '000	31.03.2003 Rs. '000	31.03.2004 Rs. '000	31.03.2003 Rs. '000
Payable within one year	867,943	293,729	200,000	–
Payable between one and two years	643,116	870,862	–	200,000
Payable between two and five years	1,233,419	1,719,785	200,000	200,000
Payable after five years	359,187	605,423	–	–
	3,103,665	3,489,799	400,000	400,000

21.3 Analysed by Currency Equivalent in Rupees

	Group				Company	
	31.03.2004 Rs. Equivalent	%	31.03.2003 Rs. Equivalent	%	31.03.2004 Rs. Equivalent	31.03.2003 Rs. Equivalent
United States Dollars	2,443,760	79	2,703,863	77	–	–
Sri Lankan Rupees	659,905	21	785,936	23	400,000	400,000
	3,103,665	100	3,489,799	100	400,000	400,000

21.4 Movement of Interest-Bearing borrowings

	Group		Company	
	31.03.2004 Rs.	31.03.2003 Rs.	31.03.2004 Rs.	31.03.2003 Rs.
Total outstanding as at 1st April	3,489,799	2,604,831	400,000	427,500
Exchange difference	15,746	12,503	–	–
Loans received during the year	–	1,138,972	–	–
	3,505,545	3,756,306	400,000	427,500
Loan repayments during the year	(401,880)	(266,507)	–	(27,500)
	3,103,665	3,489,799	400,000	400,000
Current portion of interest-bearing borrowings	(867,943)	(293,729)	(200,000)	–
Interest-bearing borrowings	2,235,722	3,196,070	200,000	400,000

21.5 Interest-bearing borrowings

Loans

Company	Lender/Rate of Interest (p.a.)	31.03.2004 Rs. '000	31.03.2003 Rs. '000	Repayment	Security
Aitken Spence & Co. Ltd.	Listed debenture (Rated SL AA)				
	Semi annual 15.25%	200,000	200,000	April 2004	–
	Semi annual 15.75%	100,000	100,000	April 2006	–
	Annual 16.00%	100,000	100,000	April 2006	–
Aitken Spence Printing (Pvt) Ltd.	National Development Bank of Sri Lanka 8.5%	367	642	60 monthly instalments from August 2000	–

Notes to the Financial Statements

Company	Lender/Rate of Interest (p.a.)	31.03.2004 Rs. '000	31.03.2003 Rs. '000	Repayment	Security
Aitken Spence (Garments) Ltd.	Standard Chartered Bank LIBOR + 2.5%	15,225	31,071	US \$ 2,500/- p.m. from January 2004	Mortgage over land, building & machinery & corporate guarantee of Aitken Spence & Co. Ltd.
	Hatton National Bank Ltd. 4.5%	6,061	11,662	48 monthly instalments from September 2001	Mortgage over land, building & machinery & corporate guarantee of Aitken Spence & Co. Ltd.
	Hongkong & Shanghai Banking Corporation SIBOR + 2%	1,902	3,498	48 monthly instalments from September 2001	Mortgage over land, building & corporate guarantee of Aitken Spence & Co. Ltd.
Aitken Spence Hotels Ltd.	National Development Bank of Sri Lanka 9%	650	1,950	60 monthly instalments from October 1999	Corporate guarantee from Aitken Spence Hotel Holdings Ltd.
Jetan Travel Services Company (Pvt) Ltd.	Hatton National Bank Ltd. 4%	—	10,635	24 quarterly instalments from April 1997	Mortgage over leaseholder's rights for Maldivian property
Hethersett Hotels Ltd.	National Development Bank of Sri Lanka 9.5%	3,888	9,720	72 monthly instalments from July 1997	Corporate guarantee from Aitken Spence Hotel Holdings Ltd.
	National Development Bank of Sri Lanka 10%	307	1,046	20 monthly instalments from April 2002	Corporate guarantee from Aitken Spence Hotel Holdings Ltd.
B.I.R. Hotel Managements (Pvt) Ltd.	Sampath Bank Ltd. LIBOR + 1.5%	—	5,328	60 monthly instalments from February 1999	Letter of comfort from Aitken Spence Hotel Holdings Ltd.
Cowie Investments (Pvt) Ltd.	Hatton National Bank Ltd. 4%	402,988	523,152	72 monthly instalments from July 2001	Mortgage over leaseholder's rights of Maldivian Property
	Advance from tour operators 5%	146,010	145,320	In full after June 2005	—
Aitken Spence Hotel Holdings Ltd.	National Development Bank of Sri Lanka 5%	2,484	3,838	60 monthly instalments from February 2001	Promissory note from Aitken Spence Hotel Holdings Ltd.
	DFCC Bank 13%	8,450	10,833	60 monthly instalments from April 2002	Primary mortgage over equipment and promissory note from Aitken Spence Hotel Holdings Ltd.

Notes to the Financial Statements

Company	Lender/Rate of Interest (p.a.)	31.03.2004 Rs. '000	31.03.2003 Rs. '000	Repayment	Security
Ace Power Generation Matara Ltd.	Syndicate 7.70%	218,170	242,750	Quarterly instalments over 5 years from September 2003	Mortgage Bond over immovable assets
	Syndicate 7.70%	740,852	824,426	Quarterly instalments over 5 years from September 2003	Mortgage Bond over movable assets and book debts
	Listed Debenture				
	AWDR + 5%	26,500	26,500	March 2005	Same security as above
	AWDR + 5.5%	45,000	45,000	March 2007	ranking on a pari passu
	AWDR + 5.75%	53,500	53,500	March 2008	basis
	AWDR + 6.25%	54,000	54,000	March 2009	
Ace Power Generation Horana (Pvt) Ltd.	Syndicate	244,525	242,775	Quarterly instalments over 5 years from June 2004	Mortgage Bond over immovable assets
	LIBOR + 3%				
	Syndicate	668,027	663,246	Quarterly instalments over 5 years from June 2004	Mortgage Bond over movable assets and book debts
	LIBOR + 3%				
	Unquoted Debenture				
	DFCC Bank	64,600	178,000	Over 5 years (2003 - Bridging Finance)	Same security as above ranking on a pari passu basis
	AWDR + 7%				
		3,103,506	3,488,892		
Current portion of interest-bearing loans		(867,875)	(293,156)		
Non-current interest-bearing loans		2,235,631	3,195,736		

Leases

Company	Lessor	31.03.2004 Rs. '000	31.03.2003 Rs. '000	Repayment	Leased Asset
Ace Cargo (Pvt) Ltd.	Central Finance Company Ltd.	159	227	48 equal monthly instalments from August 2002	Motor vehicles
Ace Distriparks (Pvt) Ltd.	National Development Bank of Sri Lanka	—	457	48 equal monthly instalments from November 1999	Motor vehicles
Aitken Spence Travels Ltd.	Hatton National Bank Ltd.	—	174	48 equal monthly instalments from July 1999	Motor vehicles
Ace Haulage (Pvt) Ltd.	Mercantile Leasing Ltd.	—	49	48 equal monthly instalments from April 1999	Prime movers
		159	907		
Current portion of interest-bearing leases		(68)	(573)		
Non-current interest-bearing leases		91	334		
Total non-current interest-bearing borrowings		2,235,722	3,196,070		

Notes to the Financial Statements

22. Deferred Taxation

	Group		Company	
	31.03.2004	31.03.2003	31.03.2004	31.03.2003
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1st April	104,601	57,985	17,004	10,461
Transfer from/(to) income statement	2,362	46,616	(1,982)	6,543
As at 31st March	106,963	104,601	15,022	17,004

23. Retirement Benefit Obligations

	Group		Company	
	31.03.2004	31.03.2003	31.03.2004	31.03.2003
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1st April	105,370	94,120	11,833	9,758
Provision for the year	37,837	27,966	4,941	3,810
Payments during the year	(12,765)	(16,716)	(538)	(1,735)
As at 31st March	130,442	105,370	16,236	11,833

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 2004. The actuarial present value of the promised retirement benefits as at 31st March 2004 amounted to Rs. 130,442,005/- (Company - Rs. 16,235,599/-)

24. Trade and Other Payables

	Group		Company	
	31.03.2004	31.03.2003	31.03.2004	31.03.2003
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade and other payables	1,839,920	1,694,531	189,519	174,978
Unclaimed dividends	8,915	1,863	8,915	1,863
	1,848,835	1,696,394	198,434	176,841

25. Joint Ventures

Information relating to joint venture companies included in the Group financial statements:

	31.03.2004	31.03.2003
	Rs. '000	Rs. '000
Revenue	389,212	284,161
Expenses	351,326	276,380
Current assets	815,008	93,957
Non-current assets	401,037	23,326
Current liabilities	219,915	224,643
Non-current liabilities	19,782	34,214

Notes to the Financial Statements

26. Foreign Currency Translation

The principal exchange rates used for translation purposes were:

	31.03.2004	31.03.2003
	Rs.	Rs.
US Dollar	97.28	96.88
Pound Sterling	178.36	152.70
Taka	1.66	1.66
Euro	119.04	104.87

27. Contracts for Capital Expenditure

The following commitments for capital expenditure approved by the Directors as at 31st March 2004 have not been provided for in the accounts:

	Group	
	31.03.2004	31.03.2003
	Rs. '000	Rs. '000
Approximate amount approved but not contracted for	3,002,007	3,401,143
Approximate amount contracted for but not accounted for	413,764	7,734
	3,415,771	3,408,877

28. Contingent Liabilities

The contingent liability as at 31.03.2004 on guarantees given by Aitken Spence & Co. Ltd., to third parties amounted to Rs. 550,244,900/-. Of this sum, Rs. 184,282,400/- and Rs. 365,962,500/- relates to facilities obtained by subsidiaries and joint ventures respectively. The liability as at 31.03.2004 on guarantees given by subsidiaries to third parties amounted to Rs. 201,504,628/-. 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.

29. Directors' Fees

The Directors of the Company have received fees amounting to Rs. 122,400/- from subsidiaries for the year ended 31st March 2004.

30. Employees' Share Option Scheme

A share option scheme was introduced in August 1994 to issue options up to 1% of the issued capital of the Company in accordance with the guidelines issued by the Securities and Exchange Commission of Sri Lanka. Of the 115,000 options offered, options for 50,000 shares were exercised while options for 65,000 shares have lapsed.

At an Extraordinary General Meeting held on 2nd February 1998, a share option scheme was approved to issue options up to 5% of the issued share capital of the Company in accordance with the revised guidelines of the Securities and Exchange Commission of Sri Lanka. As at year end, options for 1,054,800 shares have been offered, of which options for 583,403 shares have been exercised while options for 380,897 shares have lapsed.

Notes to the Financial Statements

31. Subsidiaries not audited by Messrs. KPMG Ford, Rhodes, Thornton & Co.

The subsidiaries not audited by Messrs. KPMG Ford, Rhodes, Thornton & Co., are Vauxhall Investments Ltd., Aitken Spence (Garments) Ltd., Clark Spence Garments Ltd., Ace Cargo (Pvt) Ltd., Aset Ltd., Ace Travels & Conventions (Pvt) Ltd., Ace Freight Management (Pvt) Ltd., Crest Star (Pvt) Ltd., Crest Star (BVI) Ltd., Ace Bangladesh Ltd., Aset Airways Ltd., Ace Power Generation Horana (Pvt) Ltd., Ace Power Generation Matara Ltd., Ace Power Embilipitiya (Pvt) Ltd. and Aitken Spence GTECH (Pvt) Ltd.

32. Directors' Interests in Contracts

Mr. D.H.S. Jayawardena Chairman of the Company is either the Chairman, Managing Director or Director in some of the companies listed in Note No. 33. These companies are indicated by a * against the Company name. Mr. Jayawardena was also a Director of some of the subsidiaries listed in Note 12 to the financial statements during the financial year.

Mr. J.M.S Brito, Deputy Chairman/Managing Director of the Company was either the Chairman or a Director of the subsidiaries, joint ventures and associate companies disclosed in Notes 12 and 13 to the financial statements, with which companies normal trading transactions have taken place. Mr. Brito is also a Director of Sri Lanka Insurance Corporation Ltd.

The Directors have 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 33 on Related Party Transactions.

33. Related Party Transactions

Name of Related Party	Relationship	Nature of Transaction	Amount	Balance outstanding
			Rs. '000	as at year end Rs. '000
MPS Hotels Ltd.	Associate Company	Payment of management fees to Aitken Spence Hotel Managements (Pvt) Ltd.	2,234	1,852
		Purchase of Hotel Rooms	23,542	(3,984)
		Payment of fees for services provided by Aitken Spence & Co., Ltd.	153	446
Browns Beach Hotels Ltd.*	Associate Company	Payment of management fees to Aitken Spence Hotel Managements (Pvt) Ltd.	7,619	10,161
		Purchase of Hotel Rooms	23,318	(6,097)
		Payment of fees for services provided by Aitken Spence & Co., Ltd.	286	630
Aitken Spence Plantation Managements Ltd.	Associate Company	Payment of interest and fees for services provided by Aitken Spence & Co. Ltd.	591	650
Elpitiya Plantations Ltd.	Associate Company	Payment of interest and fees for services provided by Aitken Spence & Co. Ltd.	1,911	16,951
Hayleys Plantation Services Ltd.	Associate Company	Provision of short-term finance to Hayleys Plantation Services Ltd.	—	8,375
Distilleries Company of Sri Lanka Ltd.*	Shareholder	Supply of goods to Group Hotels	20,050	(2,447)
		Purchase of packaging material	5,024	2,100

Amounts payable are indicated in brackets.

Notes to the Financial Statements

Name of Related Party	Relationship	Nature of Transaction	Amount	Balance outstanding as at year end
			Rs. '000	Rs. '000
Stassens Exports Ltd.*	Common Director	Supply of goods to Group Hotels	88,747	(13,882)
		Air freight and Courier services obtained from the Group	900	106
		Sale of bottled water	5,315	1,477
		Purchase of packaging material	71	2
Stassens International Ltd.*	Common Director	Purchase of packaging material	15,108	824
Stassens Natural Foods Ltd.*	Common Director	Purchase of packaging material	60	68
Lanka Milk Foods (CWE) Ltd.*	Common Director	Purchase of packaging material	16,585	4,621
		Supply of goods to Group hotels	5,092	(838)
Hatton National Bank*	Common Director	Short/Long-term facilities	2,100,280	(1,719,770)
		Courier services obtained from the Group	5,336	438
		Printing services obtained from the Group	11,037	3,737
		Printing services obtained from the Group	26,714	5,834

Amounts payable are indicated in brackets.

34. Events after the Balance Sheet date

The Company redeemed 2,000,000, debentures with a coupon rate of 15.25% on the due date of 4th April 2004. There were no other material events that occurred after the balance sheet date that require adjustments to or disclosure in the financial statements.

35. Number of Employees

The number of employees of the Group as at end of the year was 4,112 (2003 - 3,590). The number of employees of the Company as at end of the year was 100 (2003 - 102).

36. Comparative Information

Certain comparative information has been reclassified in order to provide a more appropriate basis of comparison. Refer Notes 2 and 10.

37. Directors' Responsibilities

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

Ten Year Summary

Year ended 31st March	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

Operating Results

Revenue	9,157,160	7,030,843	4,536,324	4,524,020	3,724,595	3,353,175	3,297,559	2,859,435	2,770,815	2,747,215
Profit before taxation	1,888,676	884,070	552,398	654,931	496,958	392,362	236,577	136,936	102,208	240,165
Taxation	189,180	151,654	112,855	106,632	90,723	62,779	46,954	28,675	20,903	32,968
Profit after taxation	1,699,496	732,416	439,543	548,299	406,235	329,583	189,623	108,288	81,305	207,197
Profit attributable to										
Aitken Spence & Co. Ltd.	1,275,523	525,185	346,082	452,720	352,579	279,642	157,192	95,747	61,838	169,575

Equity & Liabilities

Share capital	269,949	268,158	265,722	265,139	264,962	264,306	145,080	144,950	144,950	129,423
Reserves	3,899,020	2,819,818	2,640,116	2,632,471	2,606,740	2,616,403	2,103,816	1,813,980	1,786,029	1,376,305
Retained earnings	2,311,365	1,559,551	1,303,856	1,064,503	754,720	496,473	240,734	175,619	121,843	320,374
Proposed dividend	94,482	67,040	—	—	—	—	—	—	—	—
Minority interest	1,765,622	1,433,522	1,252,413	1,146,962	477,875	440,673	416,249	400,780	406,762	401,009
Deferred income	31,705	33,892	35,921	38,152	40,554	18,842	19,477	—	—	—
Non-current liabilities	2,473,127	3,406,041	2,481,583	1,050,302	437,524	797,467	1,257,190	899,405	992,710	530,024
Current liabilities	3,432,392	2,492,515	3,638,465	3,156,661	2,395,046	1,985,640	1,595,497	1,551,734	1,236,259	1,165,984
	14,277,662	12,080,537	11,618,076	9,354,190	6,977,421	6,619,804	5,778,043	4,986,468	4,688,553	3,923,119

Assets

Property, plant & equipment	8,576,500	7,754,569	6,791,715	4,801,965	3,336,790	3,363,336	3,267,846	2,931,853	2,777,627	2,104,968
Intangible assets	92,017	98,117	102,251	117,417	269,535	190,164	170,860	155,692	140,145	58,920
Investments	1,150,139	856,579	933,971	981,392	1,133,604	750,423	722,886	306,956	296,863	186,031
Current assets	4,459,006	3,371,272	3,790,139	3,453,416	2,237,492	2,315,881	1,616,451	1,591,967	1,473,918	1,573,200
	14,277,662	12,080,537	11,618,076	9,354,190	6,977,421	6,619,804	5,778,043	4,986,468	4,688,553	3,923,119

Share Information

Earnings per share (Rs.)	47.36	19.69	13.05	17.08	13.33	11.93	8.13	6.24	5.58	10.59
Market value per share (Rs.)	263.50	140.00	90.00	78.25	120.00	90.00	190.00	110.50	190.00	185.00
Highest market value per share (Rs.)	319.00	156.00	125.00	121.00	140.00	200.00	225.25	180.00	200.00	520.00
Market capitalisation on 31st March (Rs. Mn)	7,113	3,754	2,391	2,075	3,180	2,379	2,757	1,602	2,754	2,394
Price earnings ratio	5.56	7.11	6.90	4.58	9.00	7.54	23.37	17.71	34.05	17.47
Net assets per share (Rs.)	244.73	177.08	159.78	150.87	138.40	128.49	128.78	109.86	105.94	105.65

Employees' Information

No. of employees	4,112	3,590	3,783	4,040	3,967	4,558	4,686	4,376	4,598	5,056
Value added per employee (Rs. '000)	897	697	482	441	364	276	239	217	182	181

Ratios & Statistics

Ordinary dividend (Rs. '000)	161,969	120,974	106,243	106,077	92,757	79,292	50,818	21,743	14,495	35,591
Effective rate of dividend (%)	60.00	45.00	40.00	40.00	35.0	30.0	30.0	15.0	10.0	27.50
Dividend cover (times covered)	7.88	4.34	3.26	4.27	3.68	3.53	3.09	4.40	4.27	4.76
Dividend - payout ratio	0.13	0.23	0.31	0.23	0.26	0.25	0.37	0.24	0.18	0.26
Current ratio (times covered)	1.30	1.35	1.04	1.09	0.93	1.17	1.01	1.03	1.19	1.35
Debt / Equity	0.27	0.53	0.43	0.18	0.08	0.18	0.39	0.32	0.37	0.23
ROCE (%)	22.60	11.77	8.47	11.93	9.72	9.15	6.36	4.12	3.00	11.83
Interest cover ratio	12.12	5.10	4.55	5.75	5.96	3.59	2.11	1.63	1.61	2.87

Consolidated Income Statement in USD

For the year ended 31st March

	2004 US \$ '000	2003 US \$ '000
Revenue	94,132	72,573
Revenue tax	(1,109)	(1,272)
Net revenue	93,023	71,301
Other operating income	2,530	326
Changes in inventories of finished goods and work-in-progress	(93)	168
Raw materials and consumables used	(18,732)	(15,406)
Staff costs	(10,253)	(8,645)
Depreciation and amortisation	(4,573)	(4,274)
Other operating expenses - direct	(28,311)	(21,048)
Other operating expenses - indirect	(12,620)	(11,322)
Profit from operations	20,971	11,100
Interest income	949	586
Finance cost	(2,850)	(2,883)
Profit from operations after interest	19,070	8,803
Share of associate companies' profit before taxation	345	323
Profit on ordinary activities before taxation	19,415	9,126
Taxation	(1,945)	(1,566)
Profit after taxation	17,470	7,560
Minority interest	(4,358)	(2,139)
Net profit attributable to Aitken Spence & Co. Ltd.	13,112	5,421
Unappropriated profit brought forward	16,032	12,561
Transfer from/to reserves	689	—
Profit available for appropriation	29,833	17,982
Appropriations		
Transfer to general reserve	3,717	603
Appropriated by subsidiaries	—	34
Final dividend for the year ended 31.03.2003	691	
Gross dividend	1,665	1,247
Retained in the business	23,760	16,098
Earnings per share (US \$ cents)	49	20
Exchange rate	US \$ = Rs. 97.28	Rs. 96.88

Consolidated Balance Sheet in USD

As at 31st March

	2004 US \$ '000	2003 US \$ '000
Assets		
Non-current assets		
Property, plant & equipment	88,163	80,043
Intangible assets	946	1,013
Investments in associates	5,569	7,308
Long term investments	6,254	1,534
	100,932	89,898
Current assets		
Inventories	3,249	2,959
Amount due from associates	280	286
Trade and other receivables	22,202	19,308
Current investments	41	40
Deposits and prepayments	3,242	1,886
Short term deposits	7,608	6,913
Cash & cash equivalents	9,215	3,406
	45,837	34,798
Total assets	146,769	124,696
Equity and liabilities		
Equity		
Issued and fully paid share capital	2,775	2,768
Reserves	40,080	29,106
Retained earnings	23,760	16,098
Proposed dividends	971	692
Total equity	67,586	48,664
Deferred Income	326	350
Minority interest	18,150	14,797
	86,062	63,811
Non-current liabilities		
Interest bearing borrowings	22,982	32,990
Deferred tax	1,100	1,080
Retirement benefit obligations	1,341	1,087
	25,423	35,157
Current liabilities		
Trade and other payables	19,005	17,510
Bank loans and overdrafts	6,168	4,588
Current portion of interest bearing borrowings	8,922	3,032
Amount due to associates	107	59
Provision for taxation	1,082	538
	35,284	25,728
Total equity and liabilities	146,769	124,696
Exchange rate	US \$ = Rs. 97.28	Rs. 96.88

Social Responsibility and Environment

For Aitken Spence, social responsibility and concern for the environment has long been a top priority. Sri Lanka is a country with abundant natural beauty and resources, but commercial development puts these all at risk. Therefore, it is incumbent upon institutions like our Group to maintain stewardship of the land from which we profit, and to nurture people whose rich diverse culture makes the island an attractive tourist destination.



The Group adheres to all applicable standards, both on the national and international level, as far as protecting the environment and promoting the health and safety of the people with which the Company comes in contact. We are indeed proud that the standards and benchmarks on social and environmental issues established by the Group far exceed national regulations.

Nowhere is this more apparent than in the Group's Hotel Sector. By the very nature of these enterprises, constructing and operating our facilities in the midst of the country's natural splendour, we have a profound responsibility to protect the ecosystems and the society around us. We are ever-vigilant to ensure that use of natural resources, used in our processes has a minimal negative impact on the environment. We also believe that we should send an equally positive

message to the people who live near us as much as those who travel the world over to visit our beautiful homeland.

Social Responsibility

Throughout the year long, the Group takes a proactive approach to its social responsibilities. As this section illustrates, we have continued with some annual activities in the social arena, and undertaken several unique ones reacting to the vicissitudes of nature. We undertake activities for students, the disabled, and for our own employees on the lower end of the economic spectrum. We also contribute to social agencies, such as the National Blood Bank, for which we conduct an annual donation campaign. Regardless of the activity, the Aitken Spence Group goes about it with caring, empathy, and a profound sense of responsibility.

Aid for Flood Victims

In May, Sri Lanka experienced some of the worst floods seen on the island in five and a half decades, which wreaked havoc on the landscape and brought displacement and even death to the victims. To help ease the burden on those made homeless, the Group dispatched a fleet of lorries loaded with clothes, household items, foodstuffs, medicine, and other supplies to the affected areas.

Responding to a request from the Principal of Tudawa Maha Vidyalaya in Matara, Group subsidiary Ace Power Generation Matara Ltd., and O&M contractor Wartsila Lanka Ltd., jointly donated school uniforms for needy children, and built a playground and pavilion at Matara.

Training for Students

During the year under review, the Company recruited apprentices from the National Apprentice and Industrial Training Authority (NAITA) for on the job training, offering training and knowledge of basic administrative skills, and technical needs of various facets of professional companies.

Aitken Spence also sponsors mentor and career guidance programmes with the Colombo, Moratuwa, and Ruhuna universities providing an in-depth and thorough training on management skills to students. Likewise, the Group offers training for graduates of the Sarasavi Saviya a programme designed to provide employment for unemployed graduates. In a coordinated effort with AISEC five foreign graduates were sent to Group hotels to gain valuable work experience.

5S

The Group also took the 5S concept to the Karapitya Hospital to train a cross-section of its senior staff on the Japanese model for organisation and efficiency. Governmental organisations in many communities where the Group operates were also provided this training during the year under review.

UK Autism Travel Award

The first-ever Autism Awareness Campaign UK South Asia Travel Award went to several Sri Lankan tourism industry representatives including Aitken Spence. The campaign's Chairman lauded the tourism industry here for reaching out to travellers with disabilities including autism. The Tourism Sector makes significant efforts to make its facilities more user friendly to the disabled traveller.

Estate Roundup

In the Plantation Sector, success depends on the work of a large number of low-wage labourers who cultivate, maintain, and harvest the vast tea fields. While providing housing and children's schooling in addition to the daily wage, we are also sensitive to the issues unique to this segment of the workforce, and address their needs in a manner agreeable to the community at large. A few of the initiatives undertaken in the year under review included.

- **Low interest loans for workers:** With the assistance of microfinance institution Lak Jaya Thrift and Credit Foundation Ltd., Elpitiya Plantations organised a low-interest loan scheme for its workers and staff to renovate and repair their houses. The loans were targeted to non-affluent workers who are economically active but without access to credit due to lack of collateral. Workers at Talgaswella Estate received loans to settle debts obtained from outside money lenders at unreasonable interest rates. At Dunsinane Estate, workers were granted loans to renovate homes. Plans are in the offering to extend the scheme to yet more plantation workers.
- **Book donations:** In January, Deviturai Estate organised its annual book donation, providing school books and uniforms to 835 school children. New Peacock Estate organised its second annual book donation in February, providing books to 640 school children. The entire estate workforce participated in the event, which included a sports meet.

- **Children's Book Club:** Fernland's Estate formed a children's book club for dependents of its workers under 18 years of age. With books available in all the national languages, the club promotes national unity and cultural activities in the estate. Bank accounts have been opened for all members and revenues are generated by holding weekly "satipola" fairs. The year's activities included a trip to Nuwara Eliya with visits to Victoria Park, Lake Gregory, and Dunsinane Waterfall.

The Environment

Whether it is in our hotels or in any of our logistics, printing, or power generation sites, we take extreme care to ensure concern for the environment. Careful attention is paid to methods of waste disposal, conservation of water and power, and recycling procedures. Whether it is noise pollution, fuel and gas emissions from equipment and heavy vehicles, fuel handling and storage, or energy conservation and waste management, Aitken Spence makes every effort to mitigate their adverse impact on the surroundings.

Vehicle emissions, especially of the large tour buses that transport visitors across the island, are regularly monitored to ensure their exhaust emissions conform to national standards and do not cause any harm to the environment. Signs on the back of fuel-hauling bowsers offer a telephone number and invite comments on the conduct of the drivers.

At offices within the Group family, wastepaper is recycled and used for internal purposes. Most of the letterheads and other stationery are printed on recycled paper.

Social Responsibility and Environment

Kandalama: Another Award-Winning Year

Integrated into a rock, Kandalama Hotel is literally a part of its environment. Accordingly, it is a leader among the Group companies in environmental consciousness and awareness, and is widely considered as one of the leading eco-resorts in the world. Despite being built on the rocky terrain, intrusions into the landscape were kept to a bare minimum. Situated in the middle of the cultural triangle, the unique construction of the hotel renders it a modern marvel rivalling the ancient ruins that surround it.

Always in the vanguard of environmental activities, the hotel received the Green Planet Award for 2003. The award was presented by Kuoni Travel Ltd., of Zurich, which commended the work of Kandalama for its work on progressive environmental management.

Since 1999, Kandalama has been a "Green Globe 21 Certified Hotel". It is also certified for Leadership in Energy and Environmental Design (LEED), the first building outside the United States to receive this prestigious certification. It also holds an ISO 14001 Environmental Certification.

Eco Park, a world-famous nursery of indigenous flora and aviary, continues to thrive adjacent to the hotel. The park

communicates the virtues of optimal use of natural resources, waste reduction and preservation of the environment, highlighting its '3R' principle of Reduction, Re-use, and Recycling of precious natural resources to send the conservation message to international tourists and local school children alike. Honey is produced by bees kept in the park, and a patch of forest harbours birds, insects and small fauna. A canopy of rare and exotic trees provides the setting for ecological lectures and discussions staged at the park.

The park also houses the hotel's sewerage treatment facilities, where aeration of liquid effluent accelerates the oxidation process and reduces the storage area. After sedimentation, the water is used to irrigate the roof gardens and sedimented slug is added to a biomass composting pit. A garbage sorting centre, considered the heart of the hotel, identifies refuse that can be re-used or recycled.

PATA Award

Aitken Spence Travels won its second Gold Award for 2003 in the category of Best Consumer Travel Brochure from the Pacific Asia Travel Association (PATA). The brochure, titled 'For your fascination' was designed for visitors interested in the growing market of eco-tourism.

In giving the award, PATA noted that the Travel Sector has recognised the importance of developing eco-tourism in Sri Lanka in a responsible manner to cater to tourists seeking knowledge by visiting natural areas while appreciating the cultural experience of life in rural Sri Lanka.

The Aitken Spence Travels set up a separate division under the Director - Planning and Development with zoologists, botanists, and specially-trained interpreters to develop this niche market. The Travel Sector also won a Gold Award from PATA in 2001, for Human Resource Development.

ISO 9002

Aitken Spence Travels is the only destination management company in Sri Lanka to have obtained ISO 9002 Certification. It was recertified against the ISO 9001/2000 standard in March, and previously received the Green Globe 21 Certification as well.

A New Era in Harnessing Human Resources

Introduction

A crucial element of the Group's continued success is the people who make up our Human Resources. Like any modern company, we are inextricably linked to the vision, ingenuity, and commitment of our employees. Therefore, we are constantly monitoring and re-assessing our human resources policy to ensure that a healthy, positive environment prevails in our offices, and that employees can maintain a high quality of family life in their off hours.

The Group's primary responsibility for its employees is to provide a package of benefits to safeguard their health and well-being. Insurance coverage for employees and their dependents includes medical care, hospitalisation, optical and dental services. An in-house doctor makes daily visits to most subsidiaries to provide preventative medicine and treat everyday aches and pains; an ambulance service is on call in case of emergencies. The Group upholds stringent standards on workplace safety.

We firmly believe that employee productivity and *esprit de corps* in the office is a function of their quality of life during off hours. The Group accordingly offers fully paid holiday packages for employees to enjoy Aitken Spence resorts, in addition to maintaining several bungalows exclusively for staff. The Group brings employees together in annual company outings, staff retreats, sporting events, and religious festivals to cultivate a communal, familial

atmosphere. Employees with 25 years of service receive public acknowledgement and a special award.

Strategic Focus

In the year 2003/2004 the Group enhanced its policy on human resources to reflect a shift in strategic focus in management. This led us towards a more market-driven approach and a greater and more direct interest in our employees.

Rather than act merely as a service centre which is funded by the Group, the Human Resources Development Division is uniquely designed as an independent, accountable business partner with all subsidiaries, which significantly improves their relationship and spirit of collaboration.

Career Advancement

The Group is committed to helping its employees in their careers and in their family life. Aitken Spence encourages staff to seek career-related higher education, and absorbs a substantial percentage of the fees for relevant continuing education. A counselling and mentoring programme taps senior staff to be advisors to help colleagues address professional and personal issues they face.

Employees are encouraged to expand their experience through overseas exposure, with cost being met for international training courses, and seminars, meetings with industry colleagues, and tourist fairs to help

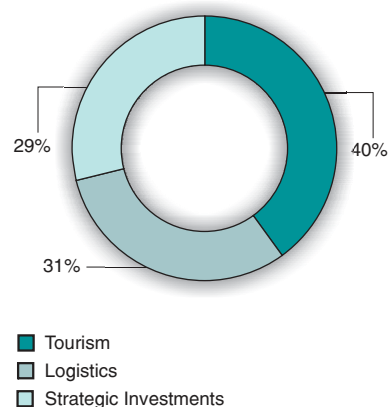
maintain an awareness of how the Group's activities compare with the rest of the world and bring an international perspective into operations in Sri Lanka.

Recruiting

The Group takes full advantage of the Internet in its recruiting activities. A Careers folder on the Group's website allows us to cast a wide net for potential employees, thus attracting a higher calibre of candidates. Vacant positions are filled faster than ever before, usually within a 45-day period.

Assessment Centres are a new concept of evaluating candidates that have rendered the traditional face-to-face interview virtually obsolete. The Centres place a candidate in a series of practical situations based on specific competencies that are required for certain positions. A special panel conducts an analysis of the candidate on such skills as management, analytical, or negotiating skills, as well as desirable traits such as assertiveness and leadership. This method yields an 80 per cent success rate identifying successful candidates,

Sector Analysis of Executive Staff



A New Era in Harnessing Human Resources

as compared to 20 per cent from conventional interviews. The Centres have helped achieve its strategic aim of line managers of the subsidiaries participating in the selection process.

Staff Training

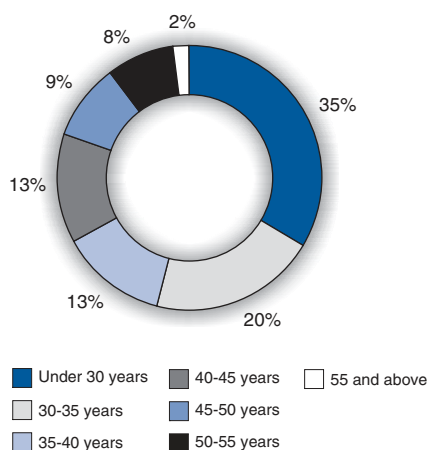
In view of providing exceptional service to its subsidiaries, the Group revamped its entire staff training and development database in the year under review. The versatile new training tracking system is capable of taking on many more functions and better serving its customers. With the help of the new system, HR takes on more of the role of facilitator in creating and administering programmes directly relevant to the needs of the subsidiaries.

Training has become much more individualised and tailored to specific needs identified by the line managers. Analysts design specific programmes for small groups to bridge the gap between lack of competence and the desired skill levels. After the programmes are designed, a training and development schedule provides a comprehensive cross-section of the programme portfolio. In the realm of Information Technology, for example, dozens of training programmes provide individualised instruction in groups as small as five people.

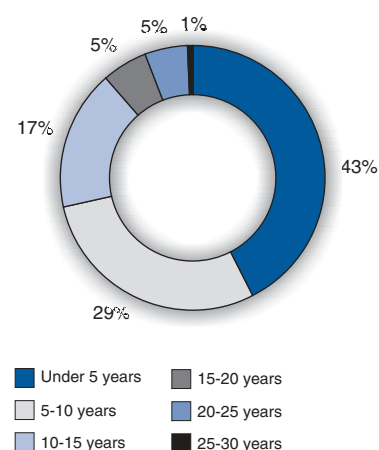
Giving real meaning to the term 'manager,' special 64-hour training confers a 'License to Manage' on employees who complete the programme, tailored for Aitken Spence based on a course, introduced by Nikkeren International Corporation



Age Analysis of Executives



Service Analysis of Executives



A New Era in Harnessing Human Resources

Center (NICC) of Japan. Within the last 24 years, this course has been revamped over 10 times to accommodate the latest trends in business. Focused on managing 'scientifically with respect to humanity,' the certification has been awarded to more than 500 Group employees, managers and non-managers alike, especially those earmarked for promotion.

Outward Bound

For the second year in succession, the Group conducted a series of Outward Bound Training programmes. In seven three-day sessions, more than 200 employees participated in the training, including most executives of the Hotel Sector and a cross-section of employees from the plantation sector. The camping, hiking, and mountain climbing programme appropriated the theme of 'Manage Scientifically with Humanity,' and focused on feedback and teamwork. For participants, overcoming challenges in the rugged outdoors environment helped them identify hidden or dormant potential, improved self confidence, and underscored the importance of teamwork.

Contribution to Productivity

The Group encourages productivity in employees through utilisation of the Japanese concept of 5S. To promote this concept the second annual 5S competition took place during the year under review. The 5S applies principles represented by keywords Sort, Set, Shine, Standardise, and Sustain to the entire organisation.

Corporate Communications

We believe corporate communications are a vital part of its function in the staff development arena. Internal publications have been revised to improve their quality and readership. Upgrades of the book library and Intranet Knowledge Centre are also underway, and a CD library is in process of being developed to improve their quality and efficiency for all Group employees.

Share & Debenture Information

Stock Exchange Listing

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

Shareholders

There were 1,534 (31st March 2003 - 1,491) registered shareholders as at 31st March 2004, whose shareholding is distributed as follows:

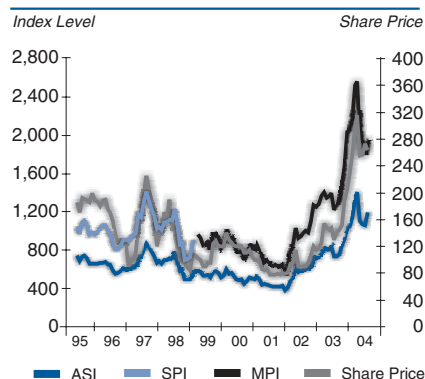
Category	31st March 2004			31st March 2003		
	No. of Shareholders	No. of Shareholding	%	No. of Shareholders	No. of Shareholding	%
1 - 1,000	1,113	275,072	1.02	1,116	275,565	1.03
1,001 - 5,000	267	584,183	2.16	255	541,084	2.02
5,001 - 10,000	56	402,978	1.49	40	298,227	1.11
10,001 - 50,000	52	1,155,803	4.28	39	923,288	3.44
50,001 - 100,000	15	987,030	3.66	14	1,043,159	3.89
100,001 - 500,000	25	6,224,134	23.06	20	4,897,768	18.26
500,001 - 1,000,000	2	1,359,800	5.04	4	3,171,271	11.83
Over 1,000,001	4	16,005,903	59.29	3	15,665,398	58.42
All Holdings	1,534	26,994,903	100.00	1,491	26,815,760	100.00

	31st March 2004		31st March 2003	
	Shareholding	%	Shareholding	%
Institutions	23,324,023	86.40	23,232,013	86.64
Individuals	3,670,880	13.60	3,583,747	13.36
All Holdings	26,994,903	100.00	26,815,760	100.00

	31st March 2004		31st March 2003	
	Shareholding	%	Shareholding	%
Nationals	14,017,315	51.93	14,882,060	55.50
Non-Nationals	12,977,588	48.07	11,933,700	44.50
All Holdings	26,994,903	100.00	26,815,760	100.00

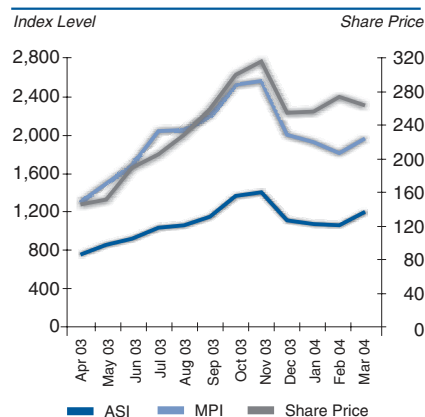
Share Prices vs Indices

Ten Year Trend



Share Prices vs Indices - 2003/2004

12 - Month Trend



Share & Debenture Information

Share Options

The Company as at 31st March 2004, has offered 1,169,800 shares under stock option schemes of which 633,403 shares have been exercised, 445,897 shares have lapsed and 90,500 shares are to be exercised.

These options are available to be exercised at prices of Rs. 121.00 and Rs. 85.50 and will expire on 18th January 2005 and 31st January 2006 respectively.

The total number of shares allotted during the year under the stock option scheme and the prices at which these shares were allotted are as follows:

Price (Rs.)	No. of Shares	Value (Rs.)
102.00	85,593	8,730,486
121.00	47,250	5,717,250
85.50	46,300	3,958,650

Total number of shares allotted under the stock option scheme during the financial year 2003/2004 are 179,143.

Substantial Shareholdings

The twenty largest shareholdings as at 31st March 2004, are given below:

Name	No. of Shares	%
Distilleries Company of Sri Lanka Ltd.	4,658,355	17.26
Rubicond Enterprises Ltd.	4,204,343	15.57
HSBC International Nominees Ltd. - SNFE - Arisaig India Fund Ltd.	4,012,700	14.86
Sri Lanka Insurance Corporation Ltd. - General Fund	3,130,505	11.60
HSBC International Nominees Ltd. - SSBTL-Aberdeen Far East Emerging Economies Unit Trust	820,400	3.04
Mr. G.C. Wickremasinghe	487,216	1.80
Bank of Ceylon A/C Ceybank Unit Trust	463,532	1.72
Explorer Capital (International) Services Ltd. A/C No. 1	452,900	1.68
Mr. R. Sivaratnam	445,290	1.65
Investors Bank & Trust Co. - Eaton Vance Asian Small Co. Fund	435,100	1.61
Placidrange Holdings Ltd.	368,100	1.36
HSBC International Nominees Ltd. - JPMCB-Scottish ORL SML TR GTI 6018	350,000	1.30
Voyager Capital (International) Ltd.	315,700	1.17
HSBC International Nominees Ltd. - SSBTL Aberdeen New Dawn Investment Trust	300,237	1.11
HSBC International Nominees Ltd. - SSBTL Aberdeen Investment Fund ICVC Aberdeen Emerging Markets Fund	294,500	1.09
Milford Exports (Ceylon) Ltd.	288,100	1.07
Seylan Bank Ltd. / Shanker Varadananda Somasunderam	268,000	0.99
Stassen Exports Ltd.	216,300	0.80
National Savings Bank	216,000	0.80
HSBC International Nominees Ltd. - SNFE-CMG First State Global Umbrella Fund PLC-CMG First State Indian Subcontinent Fund	209,700	0.78
Total	21,936,978	81.26

Share Valuation

The market value of the ordinary shares as at 31st March 2004 was Rs. 263.50 per share (31st March 2003 - Rs. 140.00). The market value of ordinary shares as at 25th May 2004 was Rs. 275.00 per share.

Share & Debenture Information

Earnings

Earnings per share for 2003/2004 was Rs. 47.36 (2002/2003 - Rs. 19.69). The price earnings ratio (P/E) was 5.56 (2002/2003 - 7.11).

Dividends

A 25% (2002/2003 - 20%) interim dividend was paid on 26th March 2004 (2002/2003 - 11th March 2003). A final ordinary dividend of 35% (2002/2003 - 25%) is proposed and payable on 29th June 2004 (2002/2003 - 30th June 2003).

The dividend per share amounted to Rs. 6.00 (2002/2003 - Rs. 4.50), while the dividend cover was 7.88 times (2002/2003 - 4.34 times).

Debentures

The Company raised Rs. 400,000,000 by way of unsecured redeemable debentures of Rs. 100.00 each on 4th April 2002.

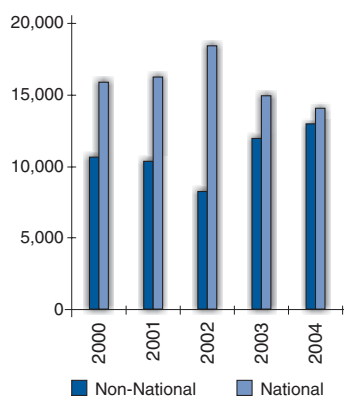
The 4,000,000 debentures were issued in the following manner:

- (i) 2,000,000 two year debentures carrying a semi annual fixed interest rate of 15.25% p.a.
- (ii) 1,000,000 four year debentures carrying a semi annual fixed interest rate of 15.75% p.a. and
- (iii) 1,000,000 four year debentures carrying a semi annual fixed interest rate of 16.00% p.a.

Nationals & Non-Nationals

As at 31st March

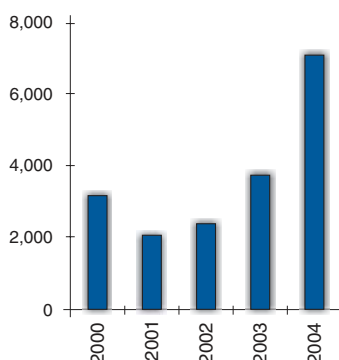
Shares '000



Market Capitalisation

As at 31st March

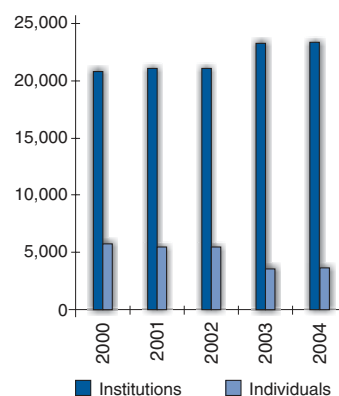
Rs. Mn



Institutions & Individuals

As at 31st March

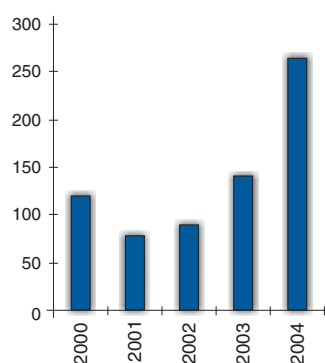
Shares '000



Market Value per Share

As at 31st March

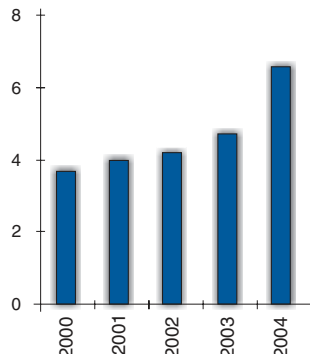
Rs.



Shareholders' Funds

As at 31st March

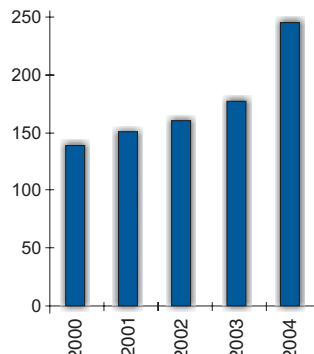
Rs. Bn



Net Assets per Share

As at 31st March

Rs.



Share & Debenture Information

The debentures were listed on the debt securities board of the Colombo Stock Exchange on 21st May 2002. The interest payments for year 2003/2004 was made on 30th June 2003 and on 31st December 2003.

Debentures Traded during the year

	2003/2004	2002/2003
Highest Price Traded (on 12.03.2004) Rs.	110.50	No Trading
Lowest Price Traded (on 08.03.2004) Rs.	104.00	No Trading
Last Traded Price (on 12.03.2004) Rs.	110.50	No Trading
Debt/Equity Ratio	0.27	0.52
Quick Assets Ratio (times)	1.17	1.24
Interest Cover (times)	12.12	5.10
Interest Yield as at date of last Debenture Trade	14.48	No trades done
Yield to Maturity of last Debenture Trade %	9.57	No trades done
Interest Rate of comparable Government Securities		
- For the 2 year Debenture	7.00%	10.12%
- For the 4 year Debenture	7.95%	9.99%

Shares Traded during the year

	2003/2004	2002/2003
Number of Transactions	2,815	1,369
Number of Shares	10,870,500	12,326,800
Total Value (Rs. million)	2,636	1,528
Percentage of Total Value Transacted (%)	3.22	5.30
Highest Price Traded (Rs.) (on 31.10.2003)	319.00	156.00
Lowest Price Traded (Rs.) (on 03.04.2003)	135.00	94.00
Market Capitalisation on 31st March 2003 (Rs. million)	7,113.2	3,754.2

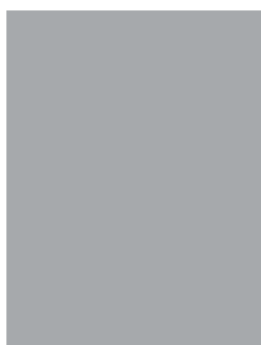
Market Sector : Diversified Holdings

Reuters Code : SPEN.CM

History of Bonus Issues since the Company was listed in the Colombo Stock Exchange in March 1983

Date	Ratio	No. of Shares
26th September 1991	2 : 5	2,040,000
6th May 1994	1 : 5	1,785,146
1st June 1998	1 : 3	4,844,500

Board of Directors



1. 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 the export and import trade. He is also the Managing Director of the Distilleries Company of Sri Lanka Ltd., and Lanka Milk Foods (CWE) Ltd. He is the Chairman of the Sri Lanka Insurance Corporation and a Director of Hatton National Bank, the largest listed bank in Sri Lanka. Mr. Jayawardena currently serves on the Board of the Colombo Stock Exchange. He is a former Chairman of Air Lanka, as the national carrier was then known.

Mr. Jayawardena is also the Senior Advisor to HE the President on International Trade and Foreign Investments. Mr. Jayawardena was appointed to the Board of Aitken Spence & Co. Ltd., on 1st April 2000 and is Chairman of the Company with effect from 25th April 2003.

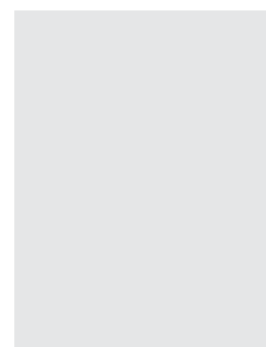
2. Mr. J.M.S. Brito

Mr. Rajan Brito is a Chartered Accountant by profession, who holds a Bachelor's Degree in Law and a Master's Degree in Business Administration. With this multi-disciplinary knowledge he also brings with him a wealth of international experience. He has served in many prestigious organisations both in Sri Lanka and overseas including PriceWaterhouse, British EverReady PLC, Minmetco Group, World Bank, PERC and Air Lanka. Mr. Brito was appointed to the Board of Aitken Spence & Co. Ltd. on 1st April 2000 and was appointed Managing Director of the Company on 1st January 2002. He was appointed Deputy Chairman and Managing Director of Aitken Spence & Co. Ltd., on 25th April 2003.

3. Mr. G.C. Wickremasinghe

Mr. G.C. Wickremasinghe started his career 50 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 takeover the Estate Agency Department. In the early 70's he took charge of the Insurance division and the Singapore Airlines Agency. When the Insurance industry was liberalised 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 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.

Board of Directors



4. Mr. R. Sivaratnam

Mr. Ratna Sivaratnam has served the Aitken Spence Group for a period of 44 years. 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, which was responsible for bringing in large numbers of tourists into the country. It was due to his initiative that the Company commenced its hotel projects in the Maldives. He spearheaded the development of the Power Sector with the 2*20MW Power Plants now successfully generating energy at Matara and Horana. Mr. Sivaratnam is widely recognised as a leader in the tourism industry both locally and overseas, 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 including being appointed Chairman by the former Prime Minister, the Honourable Ranil Wickremasinghe, to the Steering Committee on airports and ports development. Mr. Sivaratnam was appointed to the Board of Aitken Spence & Co. Ltd., in 1977. He was appointed Chief Executive Officer and Managing Director in 1995 and was Chairman from November 1997 to December 2001. He is presently the Chairman of the Export Development Board and the Sri Lanka Conventions Bureau.

5. Mr. E.P.A. Cooray

Mr. Prema Cooray is a Director of Aitken Spence and Company Ltd. He holds a Master's Degree in Business Administration from the University of Sri Jayawardenapura and is an Associate of the Society of Certified Management Accountants of Sri Lanka. His experience in the tourism industry spans over 26 years, of which 21 years has been with the Aitken Spence Group. Mr. Cooray serves in several institutions at national level in the fields of tourism, hoteliering and commerce. He is the first and the current Chairman of Sri Lanka's Tourism Cluster - a competitiveness initiative supported by USAID. He was recently appointed as Chairman of the Rainforest Lodge which is an eco tourism project jointly funded by several leading tourism companies and USAID. Mr. Cooray was appointed to the Board of Aitken Spence & Co. Ltd., on 1st April 1998 and he served as Chairman from 1st January 2002 to 28th February 2003. He is presently the Chief Executive Officer/ Secretary General of the Ceylon Chamber of Commerce.

6. 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 specialised fields of telecommunications and information technology. Mr. Gomez was appointed to the Board of Aitken Spence & Co. Ltd., on 14th May 2002.

Board of Management



1. **Mr. Rajan Brito** is the Chairman of the Board of Management (Profile appears on page 78).



5. **Mr. Rohan Perera** is the Managing Director of Shipping. He has wide Industry experience and is currently the Chairman of the Ceylon Association of Ships Agents.



7. **Ms. Nilanthi Sivapragasam** who heads Group Finance is a Fellow of the Chartered Institute of Management Accountants of U.K. and an Associate of the Institute of Chartered Accountants of Sri Lanka. She currently serves on several committees of the Institute of Chartered Accountants of Sri Lanka, Chartered Institute of Management Accountants, Sri Lanka Division, and the Ceylon Chamber of Commerce.



2. **Mr. Ranjan Casie Chetty** is the Company Secretary. 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 serves as a Member of the Statutory Accounting Standards Committee and the Statutory Auditing Standards Committee of the Institute of Chartered Accountants of Sri Lanka. He is also a Member of the Accounting Standards Sub Committee and the Taxation Sub Committee of the Ceylon Chamber of Commerce. He is 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 is also the Chairman of the Sri Lankan Apparel Exporters Association.



3. **Mr. Rohantha Peiris** heads the Freight Forwarding and Courier Division. He has wide industry experience. He is the Deputy Chairman of the Sri Lanka Freight Forwarders Association and is a Director of SLAFFA Cargo Services Ltd.



4. **Mr. Niranjana Nallaratnam** heads the Marine Container Operations. He has many years of experience in the industry and is a member of several industry bodies.



6. **Mr. Indrajit Abeywardene** heads Printing. He has wide experience of printing and also serves as a Director on the Board of the Ingrin Institute of Printing & Graphics.



8. **Mr. Gehan M. Perera** is currently Managing Director of the Destination Management arm of the Group. He is the President of the Sri Lanka Association of Inbound Tour Operators (SLAITO) the apex body representing the inbound Travel companies. He also serves in the Tourism Cluster facilitated by USAID. He is a Fellow of the Australian Institute of Management.



9. **Mr. Rohan Fernando** who heads Plantations is a Chartered Marketer from the Chartered Institute of Marketing (UK) and holds a Master's Degree from the University of Colombo. He has extensive experience in the industry and currently serves as Chairman of the Planters' Association of Ceylon and a Director of the Tea Association of Sri Lanka.

10. **Mr. Deven de Mel** is the Managing Director of the Power Generation sector of the Group. He has a Degree in Mechanical Engineering and a Master's Degree in Business Administration.

Subsidiary Directorate



U.C. Jayasinghe



S. Ganeshan



R. Subramaniam



D.D.A. Soza

Tourism Sector



S.K.R.B. Jayaweera



G.P.J. Goonewardene



S. Senanayake



K.A.A.C. Perera



C.M.S. Jayawickrema



H.P.N. Rodrigo



S.T.B. Ellepola



N.A.N. Jayasundera



P.L. Perera



N.D.F. Perera



A. Jayasekera



M.A.J. Perera



H.B. Kelly



F.P. Paiva

Logistics Sector



D.S. Mendis



I.S. Cuttilan



Mrs. D.K. Senaratne



Mrs. T.D.M.N. Anthony



A.M.M. Amir



Mrs. N.W. de A. Gunaratne



Mrs. N.J. Perera



C.R.F. de Costa



S.C. Ratwatte

Strategic Investments Sector



R.G. Pandithakoralage



K.D.A. Lawrence



R.G. Salgado



J.S.A. Fernando

Group Companies

Aitken Spence & Co. 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
TOURISM	Destination Management	Aitken Spence Travels Ltd.	Inbound tour operators. Represents world-renowned tour operators including Touristic Union International (TUI), the largest in the world.
	Outbound Travel	Aset Airways (Pvt) Ltd.	General Sales Agents for Singapore Airlines and Silkair.
		Aitken Spence Overseas Travels Services (Pvt) Ltd.	Outbound tour operators. An IATA agent and General Sales Agent for Tradewinds, Eurail, London Transport and British Railways.
		Aitken Spence Moscow (Pvt) Ltd.	Ground handling of Aeroflot Charter flights.
	Convention Services	Ace Travels & Conventions (Pvt) Ltd.	Managers of conferences, conventions and exhibitions.
	Hotels	Aitken Spence Hotel Holdings Ltd.	Owns and operates Triton Hotel. The holding company of the Group's hotel interests.
		Aitken Spence Hotels Ltd.	Owns and operates Neptune Hotel.
		Pearl Beach Hotels Ltd.	Owns the property and assets of Pearl Beach Hotel which is leased out to Neptune Hotel.
		Kandalama Hotels Ltd.	Owns and operates Kandalama Hotel.
		Hethersett Hotels Ltd.	Owns and operates The Tea Factory Hotel.
		Neptune Ayurvedic Village (Pvt) Ltd.	Owns and operates Neptune Ayurvedic Hotel.
		Ace Ayurvedic (Pvt) Ltd.	Operates the Ayurvedic centre in Meedhupparu Island Resorts - Maldives.
		Ace Link Herbal Health Care (Pvt) Ltd.	Operates the ayurvedic centre in the Maldives.
		Ahungalle Resorts Ltd.	Owns a land for a proposed future hotel.
		Crest Star (BVI) Ltd.	The holding company of B.I.R. Hotel Management (Pvt) Ltd. and Jetan Travel Services Company (Pvt) Ltd.
		B.I.R. Hotel Management (Pvt) Ltd.	Owns and operates Bathala Island Resort - Maldives.
		Jetan Travel Services Company (Pvt) Ltd.	Owns and operates Club Rannalhi - Maldives.
		Cowrie Investments (Pvt) Ltd.	Owns and operates Meedhupparu Island Resort - Maldives.
		Aitken Spence Hotel Managements (Pvt) Ltd.	Manages resorts in Sri Lanka.
		Aitken Spence Hotel International (Pvt) Ltd.	Manages resorts in the Maldives.
LOGISTICS	Freight Forwarding & Courier Mail Services	Ace Cargo (Pvt) Ltd.	International sea and air freight forwarding services, parcel delivery, domestic express delivery and household packing and moving services. Represents TNT Express Worldwide.
		Ace Bangladesh Ltd.	Carries out air and sea freight forwarding services in Bangladesh.
		Ace Freight Management (Pvt) Ltd.	Provides clearing, forwarding and consolidation of cargo.
		Aset Ltd.	Provides courier services. Represents Skynet International Worldwide.
	Marine Container	Ace Containers (Pvt) Ltd.	Operates an inland container depot and a freight station.
		Ace Freight Management (Pvt) Ltd.	Operates an inland container depot and a freight station.
		Ace Container Terminals (Pvt) Ltd.	Provides container storage and warehousing operations.
		Ace Haulage (Pvt) Ltd.	Transporters of laden and empty containers.
		Ace Container Repair (Pvt) Ltd.	Containers and chassis repairing and refurbishment.
	Distribution Parks	Ace Distriparks (Pvt) Ltd.	Providers of total physical cargo flows.
	Shipping Agency	Aitken Spence Shipping Ltd.	Represents Ethiopian Shipping Lines, Maruba and several NVOCC principals charterers and bunkering agents.
		Clark Spence & Co. Ltd.	Shipping and bunker agents in the ports of Colombo, Galle and Trincomalee. Represents Hamburgsued of Germany.
		Shipping & Cargo Logistics (Pvt) Ltd.	Represent Hyundai Merchant Marine Co. Ltd. of South Korea.
		Vauxhall Shipping (Pvt) Ltd	Represents HRC feeders.
		Ultimate Freight Services (Pvt) Ltd.	Represents ECU Shipping Lines.
		Delta Shipping (Pvt) Ltd.	Represents Red Eagle Maritime Line.

SUB SECTOR	COMPANY	ACTIVITY
Printing and Packaging	Aitken Spence Printing (Pvt) Ltd.	Printing, packaging and book binding.
	Ace Exports (Pvt) Ltd.	Printing for direct and indirect exports.
	Wilkins Spence Packaging Lanka (Pvt) Ltd.	Printing and packaging for the export market.
Garment Manufacture	Aitken Spence (Garments) Ltd.	Manufacturer and exporter of garments.
	Clark Spence Garments Ltd.	Manufacturer of garments for the international market.
Property Development	Vauxhall Property Developments Ltd.	Owns and operates the multi-storied office complex; "Vauxhall Towers" which serves as the Group's corporate office at Vauxhall Street in Colombo.
	Vauxhall Investments Ltd.	Owns and operates the printing office complex.
Insurance Survey and Claim Settling Agency	Aitken Spence Insurance (Pvt) Ltd.	Survey and claim settling agents for several reputed insurance companies worldwide including the Institute of London Underwriters and Royal Insurance International Holdings Ltd.
Elevator Agency	Elevators (Pvt) Ltd.	Represents OTIS Elevators in Sri Lanka and the Maldives.
Infrastructure	Ace Power Generation Matara Ltd.	Operates a 20MW power plant in Matara to supply power to the national grid.
	Ace Power Generation Horana (Pvt) Ltd.	Operates a 20MW power plant in Horana to supply power to the national grid.
	Ace Power Embilipitiya (Pvt) Ltd.	Proposed operation of a 100MW power plant in Embilipitiya to supply power to the national grid.
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 subsidiaries of the Aitken Spence Group.
	Aitken Spence Exports Ltd.	Exports supplies, dry rations and perishables to the Group's resorts in the Maldives. Also bottles and markets "Hethersett bottle water".
	Aitken Spence GTECH (Pvt) Ltd.	Proposed to provide high performance transaction processing solutions to the lottery, commercial and financial services industries.
Plantations	Aitken Spence Plantation Managements (Pvt) Ltd.	Managing agents for Elpitiya Plantations Ltd., and owns a 51% stake in the plantation company.
	Elpitiya Plantations Ltd.	Owns 15 tea and rubber estates in the Pundaluoya, Pussellawa and Galle regions with a total land extent of 9,119 hectares.
	Hayleys Plantation Services Ltd.	Managing agents for Talawakelle Plantations Ltd., and owns majority share of the plantation company.
Hotels	Browns Beach Hotels Ltd.	Owns and operates Browns Beach Hotel, Negombo.
	M.P.S. Hotels Ltd.	Owns and operates Hotel Hill Top, Kandy.
Trading	Aventis Pharma Ltd.	Markets pharmaceutical products for the health sector.

Key Events in Aitken Spence History

1868

Thomas Clark and P.G. Spence sail to Ceylon and began a partnership, Clark, Spence & Co., in the southern port of Galle.

1870

The first branch office opens in Colombo. Brothers Edward and S.R. Aitken join the partnership and company is re-named as Aitken Spence.

1876

The Company obtains the agency for Lloyds of London.

1900

The Company's head office moves to the Freudenberg Building in Colombo, which it acquires and renames the Lloyd's Building.

1920

Interest in Shipping and Insurance intensifies, and the Company becomes an agency for Plantation Companies.

1950

Incorporated as a private limited liability company, without changing the ownership.

Aitken Spence moves into industrial printing, light engineering and obtains the IATA Travel Agency.

1952

E.L. Van Langenberg becomes the first Sri Lankan Chairman of Aitken Spence.

1968

Aitken Spence celebrates its centenary by becoming a wholly Sri Lankan-owned enterprise.

1970's

With the nationalisation of many industries, Aitken Spence diversifies into new areas of business such as freight forwarding, garment manufacture and, most notably, tourism.

The Company acquires 70 acres on the Colombo-Katunayake Airport Road and builds an inland container terminal.

1974

Aitken Spence enters the hotel industry with the opening of the Neptune Hotel, the first such resort hotel on the Island.

1981

The Triton Hotel, Sri Lanka's first five-star resort, commences operations.

1983

The Company's shares are quoted for the first time on the Colombo Stock Exchange in March, with an issued share capital of Rs. 51 million.

1993

Aitken Spence becomes the first Sri Lankan company to venture into the Maldives tourism sector with the acquisition of Bathala Island Resort.

1994

The five-star Kandalama Hotel, among the most uniquely designed and talked about resort in Sri Lanka, starts operations.

1996

The Tea Factory, an abandoned tea processing facility is converted into a unique theme hotel, comes into existence.

The Second Maldivian Island resort, the five-star Club Rannalhi, starts its operations.

1998

Aitken Spence & Co. Ltd. successfully concludes an International placement of 7.02 million ordinary shares.

1999

Kandalama Hotel receives the prestigious Green Globe 21 Certificate at the World Travel Market held in London. It is the first hotel in Asia to be awarded Green Globe Certification.

Aitken Spence Travels Ltd. is awarded ISO 9002 certification, the only destination management company in Sri Lanka ever to receive this recognition.

2000

The Tea Factory wins the Building Conservation Award presented by the Royal Institute of Chartered Surveyors of London.

The Meedhupparu Island Resort, a 215-room five-star hotel in the Maldives, opens its doors to guests.

Ace Cargo (Pvt) Ltd. is awarded ISO 9002 certification, the first cargo logistics company in Sri Lanka to be certified for international freight forwarding, logistic management, and courier services and warehousing.

2001

Kandalama Hotel wins the Ultimate Service Award 2001 for the Indian Ocean Region presented by Cable News Network.

Aitken Spence obtains a 'AA' rating by Fitch Ratings Lanka Ltd., for Rs. 400 Million debentures issued by the Company.

2002

Aitken Spence ventures into power generation. Two 20MW power plants start generating power for the nation.

2003

Power Purchasing and Implementation agreements are signed and construction commenced for a 100MW power plant in Embilipitiya.

Aitken Spence is rated amongst the 'Best Under a Billion' in US dollar revenues amongst companies outside United States by *Forbes Global*.



Country Report

Sri Lanka is an island nation of 65,610 square miles, separated from the southern tip of the Indian subcontinent by only 32 km at its closest point. The island's strategic location between Europe and the Far East gives it an advantage as a global logistics hub. It is also an attractive tourist destination, with coastal beaches, a mountainous up-country, and historical relics of the island's ancient civilisations. It is also one of the world's leading producers of tea and precious gemstones.

Since the sixteenth century, Sri Lanka has been influenced by Western nations. The Portuguese were the first to colonise the island, followed by the Dutch, and finally the British until the country was granted Independence in 1948. Since then, the nation has been governed by a multiparty democracy that has sought to promote external investment and inculcate a favourable climate for business.

With South Asia's most open economy and a relatively well developed capital market infrastructure, it is an ideal springboard for the launch of business in the region. In fact, the government encourages the private sector to work with the public sector as partners, and seeks input from the business community toward the formulation of policies related to commercial activity. Infrastructure remains a key area of focus for economic growth, with major public-private projects already in the pipeline. Regulations on trade with other nations are highly favourable to business.

The banking and financial sector is well-developed, giving Sri Lanka the potential to be a regional banking hub. Domestic and foreign commercial banks provide

sophisticated financial facilities in branches all across the country. Commercial banks, merchant banks, finance companies, and industrial finance institutions are all major sources of credit to the industrial sector.

Sri Lanka is a multi-ethnic and multi-religious society of approximately 19.2 million people. English is widely spoken in the urban centres and is the language of business and commerce.

A 20-year long ethnic conflict in the country's North and East finally reached a tentative peace in 2002. Negotiations for a final permanent settlement are under way.

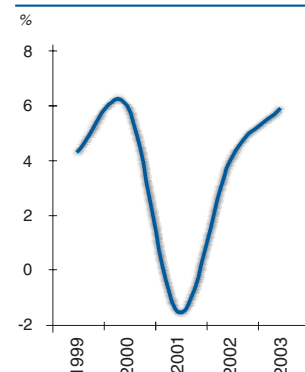
In the two years since the fighting stopped, the economy has improved. After a lacklustre 2002, it performed extremely well last year with GDP growth of 5.9%. The Central Bank reduced interest rates, and inflation fell to 6.3%. Likewise, the All Share Price Index (ASPI) rose by 30.3%, exceeding 1,000 points for the year and peaking at record 1,423.5. The CSE recorded a turnover of Rs. 73.8 billion, more than twice its previous record.

Last year, the government began to privatise, selling its entire holding in the Insurance Corporation of Sri Lanka and 15% of its stake in Sri Lanka Telecom, generating revenue of Rs. 10 billion.

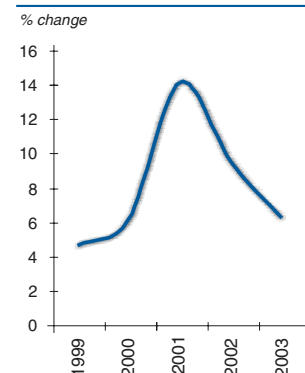
Two years after the cease-fire, the tourism industry has skyrocketed.

Sri Lanka has the potential to be a great Asian economy. With its 90.1% literacy rate, a landscape full of natural resources and beauty, and a rich and varied history, the country is poised to recapture the grandeur of its past.

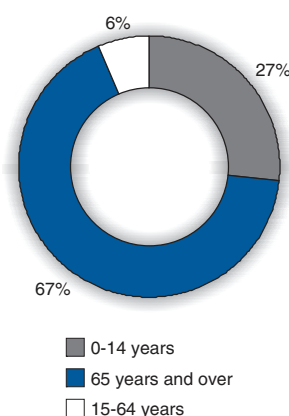
GDP Growth Rates



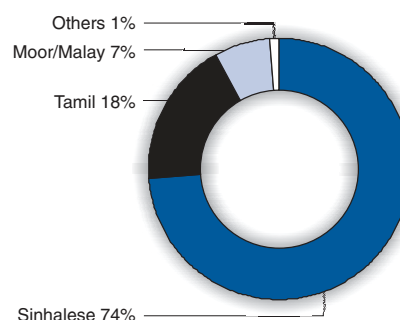
Inflation



Age Distribution



Ethnic Group Distribution



Glossary of Financial Terms

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.

Cash

Cash in hand and demand deposits.

Cash Equivalents

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

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.

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 borrowings 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.

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.

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 Asset

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.

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.

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.

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 Capital Employed

Profit after tax and minority interest divided by average equity at the beginning and end of the year.

Revaluation Surplus

Surplus amount due to revaluing assets accordance with its fair value.

Revenue Reserves

Reserves set aside for future distributions and investments.

Segment

Business units grouped in terms of nature and similarity of operations.

Total Equity

Total of share capital, reserves retained earnings and proposed dividend.

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.

Unquoted Shares

Shares which are not listed in a 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 Second Annual General Meeting of Aitken Spence & Company Limited will be held at the “Sapphire Ballroom”, Ceylon Continental Hotel, Colombo at 10.00 a.m. on Tuesday, 29th June 2004, for the following purposes:

- To receive and consider the Statement of Accounts for the year ended 31st March 2004 with the Reports of the Directors and Auditors thereon.
- To declare a dividend as recommended by the Directors.
- To re-elect Mr. D.H.S. Jayawardena who retires by rotation in terms of Article 85 of the Articles of Association, as a Director.
- To re-elect Mr. G.C. Wickremasinghe who has attained the age of 70 years as a Director, since a special notice of the following ordinary resolution pursuant to Sections 138 and 182 of the Companies Act No. 17 of 1982 has been given by a member to the Company:

“That the age limit stipulated in Section 181 of the Companies Act No. 17 of 1982 shall not apply to Mr. G.C. Wickremasinghe who has attained the age of 70 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

R.E.V. Casie Chetty

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

Company Secretary

Colombo

4th June 2004

Notes:

- 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.*
- 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.*
- Any member or Proxy attending the meeting is kindly requested to bring this report.*
- It is proposed to post the dividend warrants on 29th June 2004, 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 17th June 2004.*

Notes

[illegible][illegible]

Form of Proxy

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)

Gaurin Chandraka Wickremasinghe of Colombo (whom failing)

Ratneswara Sivaratnam of Colombo (whom failing)

Emilianus Prema Alphonse Cooray of Colombo (whom failing)

Charles Humbert Gomez of Gibraltar

as my/our Proxy to represent me/us and to vote for me /us on my/our behalf at the Annual General Meeting of the Company to be held on the 29th day of June 2004, and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of Two Thousand Four.

.....

Signature

Note: Instructions as to completion are noted on the reverse hereof.

Instructions as to Completion

1. 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.
2. 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.
3. 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.
4. 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 27th June 2004 being 48 hours before the time appointed for the holding of the meeting.

Name

Aitken Spence & Company Limited

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 2, Sri Lanka.

Directors

D.H.S. Jayawardena - *Chairman*

J.M.S. Brito, LL.B., F.C.A., MBA -

Deputy Chairman and Managing Director

G.C. Wickremasinghe

R. Sivaratnam

E.P.A. Cooray, MBA (Sri J.)

C.H. Gomez

M. Bathkuly, MCom, MSc Econ (LSE)

(Resigned w.e.f. 08.03.2004)

Audit Committee

G.C. Wickremasinghe - *Chairman*

D.H.S. Jayawardena

C.H. Gomez

Remuneration Committee

D.H.S. Jayawardena - *Chairman*

G.C. Wickremasinghe

R. Sivaratnam

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





AITKEN SPENCE & CO., LTD.

P. O. Box 5, Vauxhall Towers,
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E-mail: info@aitkenspence.lk
www.aitkenspence.com

