

**a robust
strategy
for growth**

The year under review was a challenging one for us and for the nation at large. Our ability to create wealth amidst the challenges is testimony of the strength of our businesses and the commitment of our people. We are strengthening the foundation of Aitken Spence for yet another significant increase in wealth creation. This is the context of our report in the pages following.

Contents

Our Vision

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

Our Governing Principles

We will focus on creating value because that is the foundation of economic growth.

We will exceed the expectations of our customers in all our transactions.

We will link rewards and recognition with ability, performance and contribution.

We will place the highest value on integrity and loyalty.

We will make environmental management a high priority in all our operations.

We will contribute towards the social and economic uplift of our nation.

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Chairman's Message



It would have been another outstanding year if not for the December 26 tsunami. Our performance in the first nine months was exceptionally strong but the last three months was disastrous and we ended the year recording a negative growth. The after tax profit was Rs. 1.6 billion. We have however managed to record a positive economic value added (EVA) of Rs. 951 million, signifying that we have created this quantum of wealth amidst the challenges. Earnings per share was Rs. 41.32 and the return on equity was 15.8%.

Our record of wealth creation and returns to shareowners was once again recognised in the November 2004 issue of the Forbes Magazine where we were listed as the only Sri Lankan company and also as one of the 100 most successful companies outside the United States with annual sales below a billion dollars.

In acknowledgement of our results in the face of adversity 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%.

We want to expand nationally and internationally. In our tourism business we thought that we were somewhat well diversified by destination in having hotel properties in Sri Lanka and the Maldives. However, the tsunami struck both countries. Hence we have to think globally and we plan to go global with some of our multinational partners. We welcome the investment of 25% into our travel company by TUI the largest tour operator in the world.

Infrastructure in Sri Lanka has to be improved for us to attract the premium and up-market customer. Until now we have been dependent on the bottom-end of the tourist market. Roads and railways must be developed. If we continue to let the 'beach boys' menace interfere with tourist we will be unable to attract prestigious 6-star beach hotels. We have to provide internal air transport in a convenient and

flexible manner. The national carrier SriLankan Airlines reducing its route network is also a worrying trend as today the premium traveller wants to travel from point-to-point without waiting in transit.

We have been positioned as a low cost holiday destination. We have to improve our image and get better rates. Although much has been said about promoting Sri Lanka tourism in the generating markets, little has been achieved. Thus we are not only missing out on realising the true potential of the industry but are also losing whatever ground we had gained. As a result, the industry is now starting to lose some of its talented professionals to other countries and other industries.

The immediate future for tourism has its own challenges. Recovering from the post-tsunami slump in arrivals, is key among them. Even arrivals to the Maldives have not fully recovered especially after the warning of a possible second tsunami. Rates have definitely been affected in the Maldives. The rising oil prices are another concern; and on our part we cannot recover any cost increase as we have already committed rates.

The set back on our tourism business has come in a year where we had plans to make substantial investments to the tune of Rs. 2 billion in four new projects. We are refurbishing Kandalama and Triton hotels in Sri Lanka, adding up-market water bungalows to our Meedhupparu Island in the Maldives and building a new printing complex at Biyagama including the addition of a new 6-colour machine. All these projects will continue as planned. The next financial year will therefore be one of consolidation and one that will build-up our foundation for a steep change in earnings in the ensuing years. Shareholders would be pleased to note that it is our policy to maintain shareholder returns even in the midst of major investment.

I am pleased to welcome to the Board Dr. Rohan Fernando who heads our plantations.

In conclusion, I thank our employees for their commitment and courage in serving our customers and our communities. We take pride in the strength of our relationship with partners, shareholders and customers who volunteered to join hands with us in our efforts to help victims of the tsunami. I thank them for their loyalty and altruism.



D.H.S. Jayawardena
Chairman

Colombo
7th June 2005

Managing Director's Review



Our ambitious vision is to continue being the best Company in the Services Sector and our primary goal is to deliver superior shareowner returns. Our staff holds the key to our success and by building a One Aitken Spence Culture, we will be able to harness their full potential to deliver an excellent business performance.

The tsunami changed what would have been a record breaking year, to a year of negative growth. In the nine months to 31st December, we were in a very strong position but the progress was brought to a halt by a disastrous last quarter. The constitution of our portfolio and our geographical spread held us in relatively good stead. However, we have come to realise the importance of diversity especially in a geo sense and will pursue this with a sense of urgency.

We had some 3,500 personnel including guests, employees and travellers on the coast when the tsunami struck. Never had we foreseen anything like it but our staff were quick to warn everyone in advance and their cooperation was of the highest order; thankfully there were no deaths or serious injuries among any one of those 3,500. We salute our staff for their gallantry.

We sympathise with the families, friends and employers of those who died in the catastrophe. Our staff joined us in contributing with humanitarian aid during those months in different parts of the country. We are now building houses for victims in Ahungalla and Nilaveli, on land given to us by the Government and also on land purchased by us.

Results are dealt with more fully in the Operational and Financial Review that follows. The review that appears here 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.

Our strategy in summary is as follows:

1. We are in the services industry and will keenly seek expansion opportunities within it.
2. We go all out to attract, develop and retain the best talent. A productivity and performance based culture and a lean organization are promoted.
3. Our focus is on delivering medium to long term shareholder value and will not be swayed by short term tactics that would merely make us a show-piece in the stock market.
4. We will use internally generated funds or borrowings for new investments and turn to shareholders only as a last resort.
5. Expansion will never be for its own sake but will have to represent a well above average return on capital.
6. Every corner of our business will have to contribute positively in an economic, environmental and social context.



01. The smile; the flowers; the welcome that promises great service and a pleasant stay at any Aitken Spence Hotel in Sri Lanka and the Maldives.
02. On-time delivery across continents takes a special breed of people backed by superior logistics and the Aitken Spence brand.
03. Great service takes experience, balance and poise. At Aitken Spence this is applied uniformly across every operation.
04. Our Printing Division benchmarked print quality in Sri Lanka over very many years.

We are in the services industry and will keenly seek expansion opportunities within it.

Tourism

Tourism had a fantastic growth up to December 2004 and we were 25% ahead of our budgets at the time. However, the tsunami changed this situation considerably. All our beach hotels were affected. Thus the last quarter of the year was disastrous and we now have to look at gradually re-grouping and re-building. We reckon it will take about a year for it to recover back to the same levels as it was before. However, we are careful not to reduce our hotel rates as we have found from the past that it is very difficult to increase rates again for a long time. In lieu of reducing rates we are offering special discounts and other value added services. Our roundtrip hotels at Kandalama and Tea Factory were also faring very well with Kandalama recording a 35% growth and Tea Factory a 95% growth up to the end of December. However, even these two hotels have suffered after the tsunami due to a lack of tourists into the country.

Triton Hotel which was damaged by the tsunami has been closed and the refurbishment programme which was due to commence on the 1st of May 2005 was brought forward and work commenced in March. About Rs. 600 million will be spent on this and it would become a top 5-star hotel on the beach when it reopens in December 2005. Kandalama Hotel is also being refurbished from 1st of May and around Rs. 400 million is being spent on this. It will reopen in November as a prestigious 5-star hotel.

We own a 10-acre land next to the Triton. Here we are hoping to build exclusive up-market 6-star chalets in partnership with the globally renowned Six Senses group. However, this project is very dependent on obtaining Government permission to build some of the chalets within the 100 metre buffer zone. We find this buffer zone very restrictive as holiday makers want to be on the beach and make comparison with no such restrictions in other similar beach destinations in the world.



- 01. Aitken Spence has enjoyed a relationship with Singapore Airlines that spans for over 30 years now. Both organisations set store by attracting and developing the best talent to deliver great service.
- 02. A quarter century of pioneering experience in freight forwarding underpins the Company's Logistics sector - which means we've got a "moving story" down to a fine art.
- 03. We set out to get the best because we need them to "fire our kitchens" - not burn them down. To an Aitken Spence chef, culinary magic is an everyday phenomenon.

We go all out to attract, develop and retain the best talent. A productivity and performance based culture and a lean organisation are promoted.

Our hotels in the Maldives were also doing exceptionally well up to December. Especially Meedhupparu Island Resort which had completely turned around during the last year after we opened our 24-room Ayurvedic operations there. However, even the Maldives profits were affected due to the tsunami. Certainly things are much brighter there than in Sri Lanka. In the coming winter we expect to reach full occupancies. Our intent to operate hotels further afield from the Maldives still holds. We have looked at India and even a project in Libya but remain somewhat cautious and would ideally prefer seeking management contracts to operate hotels before we invest a large amount of funds.

Our airline operations handling the GSA of Singapore Airlines had a satisfactory year though no real growth due to the lack of passenger traffic. Cargo has done extremely well with three freighters coming in weekly. However, additional flights that Singapore Airlines were planning to operate did not materialise due to the country's situation.

Looking at ways of leveraging our expertise and experience in hospitality we are currently evaluating a medical project with an overseas partner.

Our focus is on delivering medium to long term shareholder value and will not be swayed by short term tactics that would merely make us a show-piece in the stock market.

Cargo Logistics

Despite the lack of growth in the country's economy, our integrated logistics services business has had a good year. This has resulted in additional investment in new equipment and infrastructure to further improve our productivity and efficiency. Our focus and investment in transportation has been recognized by the industry, where we received an award at national level. We expect this growth trend to continue next year as well through further strategic investments and increased business from other in-house subsidiaries.

Our freight forwarding business which pioneered this area of activity in Sri Lanka, celebrates 25 years this year. Despite losing a few agencies, it has been a very good year. We have reinforced our relationships and secured new alliances. Operations have been streamlined for greater productivity and we have strengthened the area of supply chain management. Bangladesh has been a successful operation and we are in the process of promoting the same concept in India and Maldives too. The respective markets show high potential, hence we are expanding our focus in the region.



01



01. Forbes placed our Company - in great company! Amongst the top 100 most successful companies outside the USA with annual sales below a billion dollars - and the only Sri Lankan entity there!

We will use internally generated funds or borrowings for new investments and turn to shareholders only as a last resort.

Expansion will never be for its own sake but will have to represent a well above average return on capital.

Continuing to be a total logistics solutions provider we have expanded to the area of representing air cargo GSAs and we already represent Air Jamaica, Laudair, Krasair and Britannia in Sri Lanka and Continental in Bangladesh. We will be focussing more on this area with a view to expand further.

Our shipping business, which is now referred to as our Maritime Transport Division, has been strategically restructured and achieved a financial growth of approximately 50%. We have teamed up with McLaren Holdings and have broad based our activity to cover a multitude of services from liner ship agency, supply chain management and 3rd party logistics to off shore marine and ship supply services.



01. Our 100 MW Power Plant at Embilipitiya began to supply power in April 2005 - a venture that sits well with the Company philosophy of pursuing lucrative avenues for investment.
02. A story of expansion - the trucks, the containers, the manpower, the offices - all grew over the years in support of our role as a premier total logistics solution provider and shipper.
03. A conceptual depiction of the proposed luxury Water Village at Meedhupparu, in the Maldives - expanding our hospitality business in the lucrative Maldivian archipelago.
04. Going for wider control in the shipping supply chain - one of several container vessels owned by the Company that makes us Sri Lanka's leading container vessel owner.



01. Giants of Tomorrow - the Forest Nursery at our Kandalama Hotel - our way of conducting sustainable business amidst a sustainable environment.
02. Muck Magic - processing garbage through a conversion plant to yield compost, courtesy the Kandalama Hotel, Dambulla - contributing positively to the environment and society.
03. & 04. Going their own way - Cigarette Butts and Bottletops - to be disposed of; to be recycled;. Our hotel waste sorting exercise at Eco Park, Kandalama Hotel.

Every corner of our business will have to contribute positively in an economic, environmental and social context.

With our joint venture partners, we have also invested in a number of container vessels all of which are on time-charter strengthening our position as the leading container ship owner in Sri Lanka.

The recovery of the world economy resulted in around 9% increase in world trade in 2004. This has created a strong growth in international container transport, which accounted for a movement of 71.4 million TEUs - an increase of 9%. Our objective is to gradually increase our present fleet of vessels and also to expand in South Asia with bases in Bangladesh and India.

We are interested in expanding the scale of our activity to include Port operations. Hence, we will be interested to participate in the development of the Colombo South Harbour, when expressions of interest are called for.

Strategic Investments

Our business in Power Generation continues to fare very well. The two power projects in Matara and Horana have fared better than expected and we are now planning to take over day-to-day operations and management of the plant in Matara from Wartsila - the operations and maintenance contractor during the current year. The 100MW plant in Embilipitiya developed jointly with Caterpillar of USA began generating power from the beginning of April 2005 and this would enhance the profitability of the Group. As power generation is now one of our core activities, risk of default from the off-taker is ever present due to their adverse financial state.

A consolidation of profit growth levels was achieved by the Insurance Sector in an uncertain environment. Enhancing our scope of ancillary services and the partnership with UN World Food Programme in the post-tsunami period were the key factors.

Plantations have had a comparatively good year mainly due to the rise in tea prices. However the bottom line does not improve due to the surging wages which is always demanded by the Unions and which is not matched with a rise in productivity. Profits were further constrained by the Government revising VAT legislation on tea as from 1st January 2005. So it has been a disappointing investment and we have taken great steps to diversify, despite the absence of long term funding for such diversification. We have gone into palm oil, and set up a joint venture to construct a palm oil mill, which is expected to be completed in the following year. A joint venture furniture factory to manufacture furniture utilising rubber wood for the export market has been set up. Mini hydro plants to generate electricity are also envisaged. We have sold one mini hydro plant to generate cash and another one is being developed by us.

Printing has fared well. Presently we are in the process of building a new printing press in Biyagama which will be an ultra modern warehouse complex with a brand new 6-colour machine which is being purchased for the first time from a Japanese supplier called Komori. This should be in operation this year.

Aitken Spence Garments, which under the previous management of our joint venture partner incurred substantial losses, has now turned around since we took over the management in 2002/03. Our reorganisation programme and our commitment to high levels of efficiency have resulted in the Company earning a healthy profit in the year under review after payment of all interest on losses incurred under the previous management.

During the last few years the elevators business has completely turned around with an increasing number of installations and is now making a worthwhile contribution to Group earnings.

Last year we entered into a joint venture agreement with GTECH Corporation of USA to provide the entire infrastructure for an on-line lottery project. Unfortunately there were various delays in the commencement of operations due to attempts by vested interests to stifle the development of on-line lotteries in the country by means of a disinformation campaign. This resulted in the Company's performance being below expectations. However, consequent to the initial launch in December 2004, and with a concerted effort to increase the number of terminals installed, the Company should make a modest contribution to Group profits at year end.

Prospects

2005/06 will again be a consolidative year, building the platform for the future due to the costly refurbishments at Triton and Kandalama and also the building of additional water bungalows in the Maldives and the new printing press at Biyagama. To keep up with the rapid expansion of our activities during the current year, we will also commence construction of a new office building at the Vauxhall Street complex which will be completed in end 2006.

Acknowledgements

We are well placed to harness opportunities and face challenges of the future. We will continue to hold true to our strategic direction. I am grateful to our valiant employees at every level. This year in particular has brought out their mettle. On behalf of the Board, I would like to say a special word of thanks to them.


J.M.S. Brito
Managing Director

Colombo
7th June 2005

Financial Highlights

<i>For the year</i>	2004/2005	2003/2004	%
	Rs. '000	Rs. '000	Change
Revenue	10,063,989	9,157,160	10
Profit from operations	1,876,818	2,040,003	(8)
Net finance cost	(210,390)	(184,912)	14
Profit on ordinary activities before tax	1,733,654	1,888,676	(8)
Profit after taxation	1,558,524	1,699,496	(8)
Net profit for the year	1,116,776	1,275,523	(12)

Dividend

Interim 25% (2003/04 - 25%) paid on			
12th April 2005	67,642	67,487	—
Final 35% (2003/04 - 35%)			
proposed & payable on 8th July 2005	94,699	94,513	—

At year end

Total equity	7,566,918	6,574,816	15
Total assets	17,106,725	14,277,662	20
Non-current interest bearing borrowings	4,206,804	2,235,722	100
Economic value added	951,305	918,676	4

Per Ordinary Share

Earnings per share (Rs.)	41.32	47.36	(13)
Dividends per share (Rs.)	6.00	6.00	—
Net assets per share (Rs.)	279.67	243.56	15
Market value per share (Rs.)			
as at 31st March	380.00	263.50	44

Ratios

Price earnings ratio	9.20	5.56	65
Interest cover (times)	9.66	12.12	(20)
Debt : Equity ratio	0.45	0.27	67
ROCE (%)	15.79	22.60	(30)

Operational & Financial Review

Economic overview

A struggle for stability

Unstable economic conditions prevailed in the country during most of 2004 following the general election in April and the steep rise in oil prices. However, this situation was further exacerbated consequent to the tsunami waves that ravaged the coastal belt of Sri Lanka on 26th December 2004. The unprecedented loss of life and livelihood of thousands affected, burdened the Government with a gigantic humanitarian management crisis. The successful management of the situation created by the tsunami is yet to be seen in many spheres, though some positive steps have been taken in the process of rehabilitation and reconstruction. This devastation that equally affected the North and the South could be considered an opportunity to bridge the differences between the Government and the LTTE if both parties reach a consensus for the greater good of the nation.

Economic growth declined to 4.4% in the fourth quarter of 2004, thereby resulting in Sri Lanka recording a GDP growth of 5.4% for the year. This was a 1% decline from pre-tsunami estimates. The country witnessed a rise in inflation fuelled by the increase in oil prices and increase in money supply along with the influx of tsunami aid received by the country. Inflation stood at 7.6% for 2004 compared to that of 6.3% for 2003. However, at the end of March 2005, inflation had increased to 11.1%. Interest rates remained relatively stable with the Treasury bill 90-day yield rate ending the 2004/05 financial year at 7.56 compared to that of 7.70 at the beginning of the financial year.

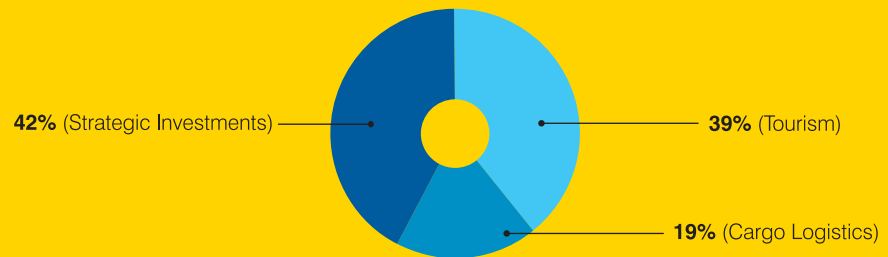
However, the negative impacts of the tsunami did not dampen investor activity at the Colombo Stock Exchange, which recorded a 36.4% increase in the All Share Price Index during the financial year under review. The Milanka Price Index closed the financial year at 2,392 compared to that of 2,021 at the start of the financial year a growth of 18.4%. Market capitalisation increased by 43% to Rs. 448.9 billion at the end of March 2005. The three large initial public offerings (IPO) that came into the market during the year contributed towards this growth.

The industry worst affected by the tsunami was tourism. Sri Lanka recorded 434,250 tourist arrivals for the nine months ended December 2004. This was a 14% increase over the same period of last year. The country that was well on its way to record a phenomenal year in tourist arrivals witnessed a drop of 24% for the month of January 2005. Even though gradual increases have been witnessed in arrivals for February and March 2005, these figures need to be discounted giving allowance for the aid workers and overnight traders coming into the island.

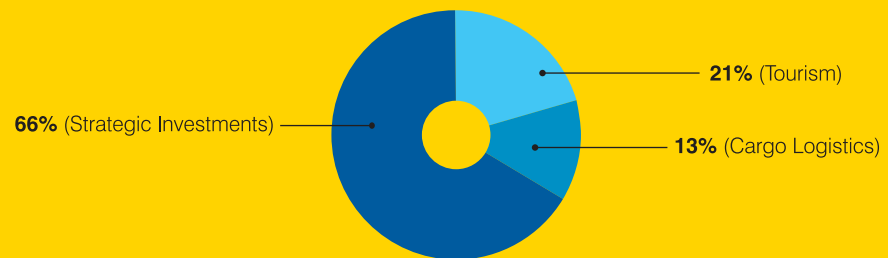
There is an urgent need for a collective promotion of Sri Lanka as a tourism destination, to eradicate the negative images of the country brought about by the tsunami. It also highlights and extenuates the need for the formation of the Tourism Authority. The Group however remains positive that with the right promotion of the destination and through its strong relationships with its tour operators its tourism sector would regain its former glory in 2006/07.

Group performance

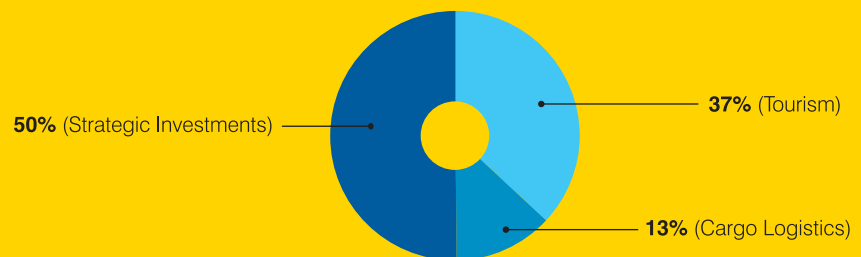
Sectoral Revenue for the year ended 31st March 2005



Sector Profits Before Income Tax for the year ended 31st March 2005



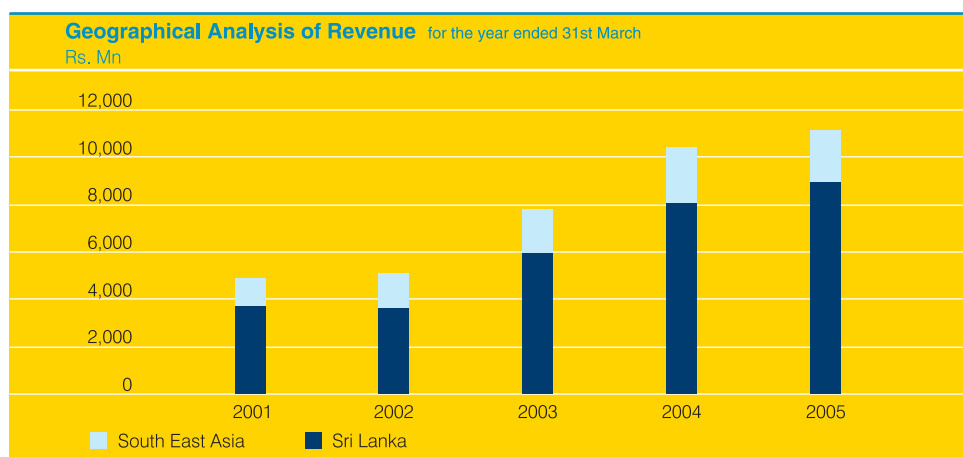
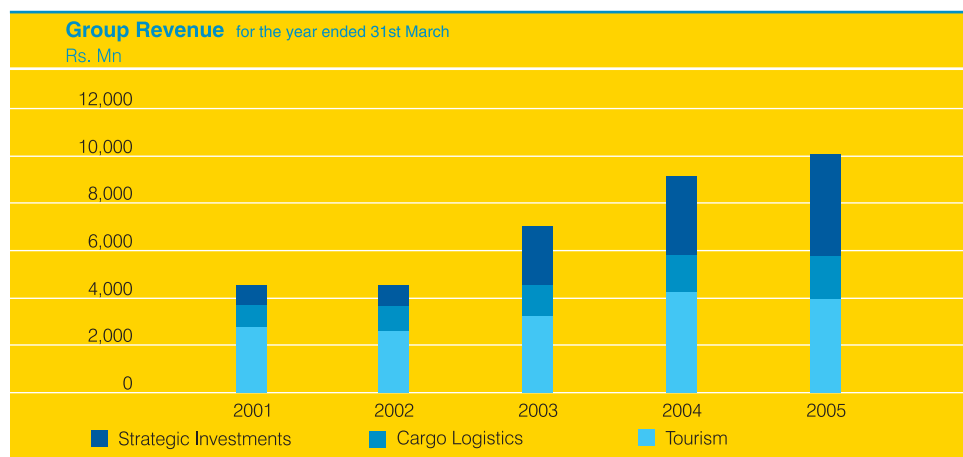
Capital Employed as at 31st March 2005



A strong
performance
despite Adversity

Withstanding negative pressures brought about by the tsunami, the Group surpassed the 10 billion mark in revenue during the year ended 31st March 2005, to record a revenue of Rs. 10.1 billion. This is an increase of 10% over the previous year. The Tourism sector did take a beating to record a 7% decline in revenue over last year. However, the revenue generation of the Cargo Logistics sector and the

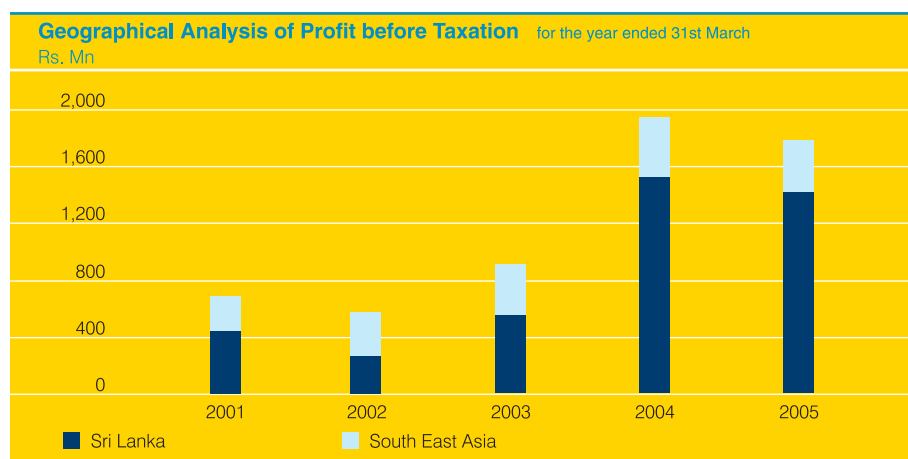
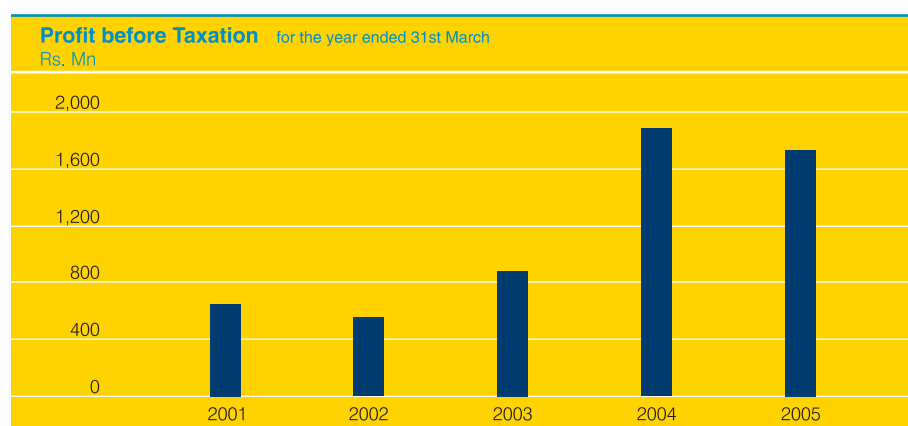
Strategic Investments sector posted gains of 17% and 28% respectively over the previous year. Sri Lankan operations accounted for 80% of the total revenue generated whilst 20% of the revenue was generated overseas with the main contribution coming from the Maldives.



Rs. 1.73 billion was recorded as profit on ordinary activities before taxation, a dip of 8% over last year. This includes Rs. 241 million as written off against assets destroyed in some of the Group's beach hotels and a provision for the cost of reconstruction of damaged buildings. The Group has made a valid insurance claim in lieu of the assets destroyed, which will be recognised as income as and when the funds are received from the insurer. The Group's exposure to the Tourism sector has declined, with tourism contributing only 21% of the profits from ordinary activities before taxation, reflecting the diversified nature of the Group's business ventures and its ability to withstand a major set back to a particular industry.

The other operating income of the Group is inclusive of the profit on sale of a 25% stake of the Group's Destination Management companies to TUI AG of Germany.

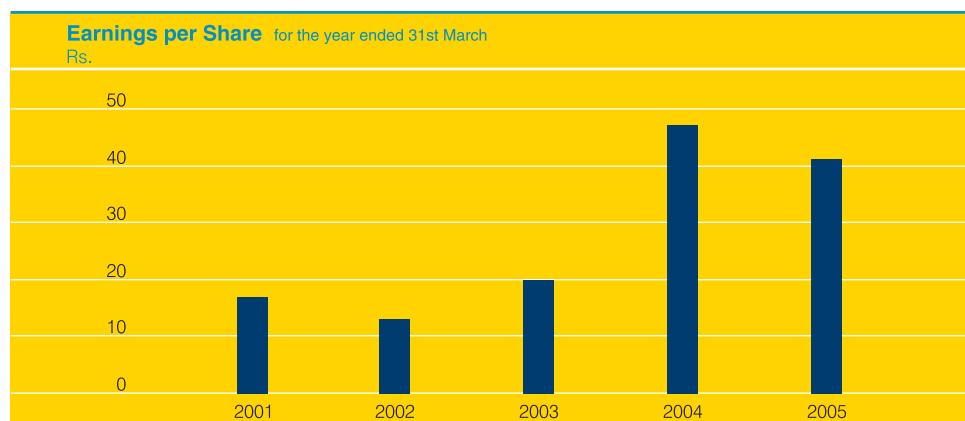
The Group achieved a net profit attributable to shareholders of Rs. 1.1 billion during the financial year under review. This is a dip of 12% over the previous year. This decline is as a result of the dismal performance by the Tourism sector during the post-tsunami period. The Group's Cargo Logistics sector and Strategic Investment sector have both recorded growths in profitability.



Returns to shareholders

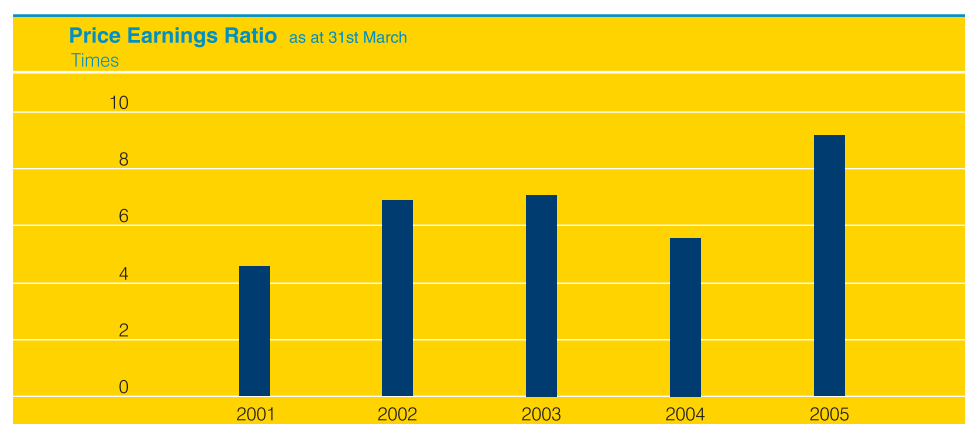
Continuing Value
Creation

Earnings per share The Group still remains one of the highest generators of shareholder value. The earnings per share for the period under review was Rs. 41.32 compared to Rs. 47.36 for the previous year.

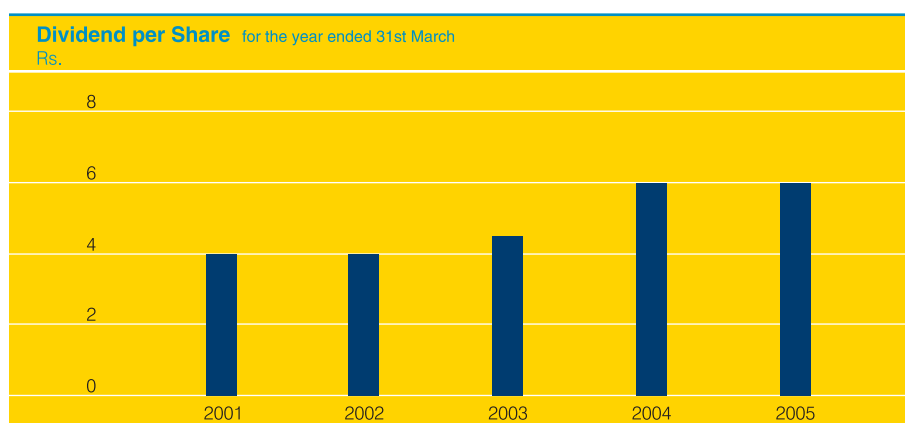


Share price The share price of the Company reached Rs. 380.00 at the close of the financial year compared to Rs. 263.50 to the beginning of the year. This was a 44% growth in share price, compared to the 18% increase recorded by the Milanka Price Index. The market capitalisation of the Company at year end stood at Rs. 10.3 billion.

Price earnings ratio The price earnings ratio (PER) of the Group remained below that of the diversified sector, as a result of the high earnings per share of the Group and as a reflection of the potential for share price growth. The PER of the Group stood at 9.2 times at the end of the financial year compared to 5.56 at the end of the last financial year. The diversified sector PER stood at 17.7 and the market PER stood at 13.0 as at 31st March 2005.

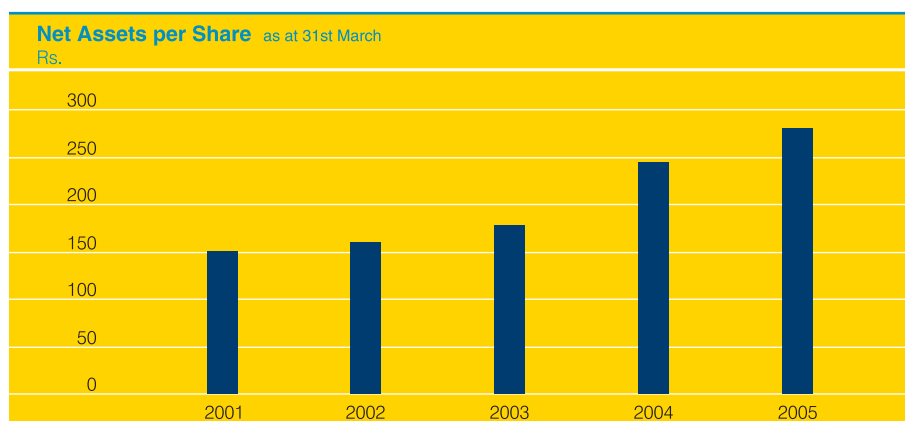


Dividend per share The dividend per share declared by the Group have steadily remained one of the highest in the market. An interim dividend of 25% was paid in April 2005, and the Board has recommended a final payment of 35%. Hence the Group has maintained the same dividend payment as last year of 60%, which is a pay out of Rs. 162 million this year. The dividend payout ratio would be 0.15 compared to the dividends payout ratio of 0.13 last year. The Group maintains a dividend cover of 6.88 times compared to 7.88 times for the last financial year.



Total shareholder return The total shareholder return for Aitken Spence for 2004/05 was 46.5% and the compound annual total shareholder return for the past three years was 63.9%.

Return on capital employed and net assets per share The Group recorded a Return on Capital Employed (ROCE) of 15.8% for the year under review compared to 22.6% for the previous year. The Group's Net Assets per Share (NAPS) increased by 15% to Rs. 279.67 at end of the year compared to Rs. 243.56 at the end of last year.

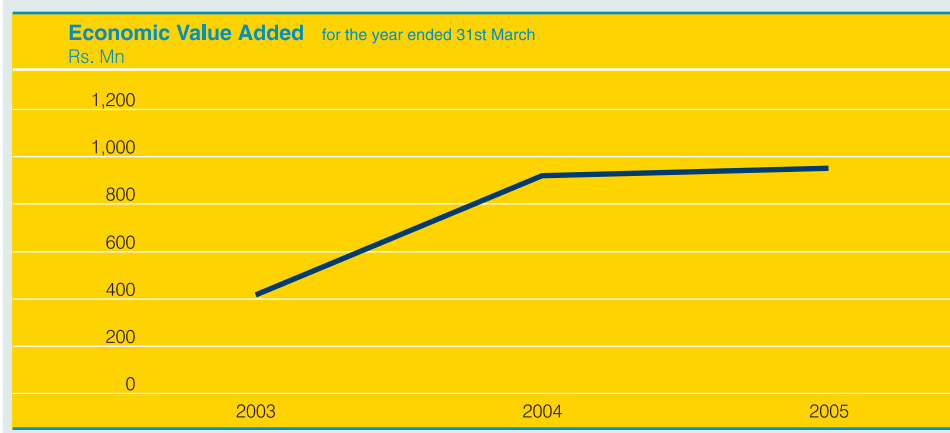


Economic value added The Group continued to create a positive economic value addition despite the drop in its profits. The Group created Rs. 951.4 million of positive economic value during the financial year of 2004/05. The Group has contributed Rs. 2.3 billion in economic value for the past three years.

Economic Value Added	2004/2005	2003/2004	2002/2003
	Rs. '000	Rs. '000	Rs. '000
Earnings			
Net Profit Attributable to Shareholders including Minority Interest	1,558,524	1,699,496	732,416
Add:			
Total Interest on Debt	280,650	259,187	264,599
Depreciation	459,915	444,833	414,064
Provisions for other Intangible Reserves	36,983	63,794	99,943
Adjusted Earnings	2,336,072	2,467,310	1,511,022
Total Invested Capital			
Capital Employed	9,371,923	8,372,143	6,181,981
Add:			
Total Debt	5,337,357	3,703,633	3,934,274
Cumulative Depreciation	2,390,909	2,216,463	1,844,639
Other Intangible Reserves	239,361	237,405	209,971
Adjusted Total Investment	17,339,550	14,529,644	12,170,865
WACC	8.7%	11.6%	9.7%
(based on Cost of Debt and Cost of Equity. Cost of Equity calculated based on the Dividend growth model)			
Cost of Average Investment	1,384,670	1,548,634	1,095,856
Economic Value Added	951,402	918,676	415,166

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

The Group has recorded a positive EVA of Rs. 951.4 million for 2004/2005. This is an increase of Rs. 32.7 million over 2003/2004.

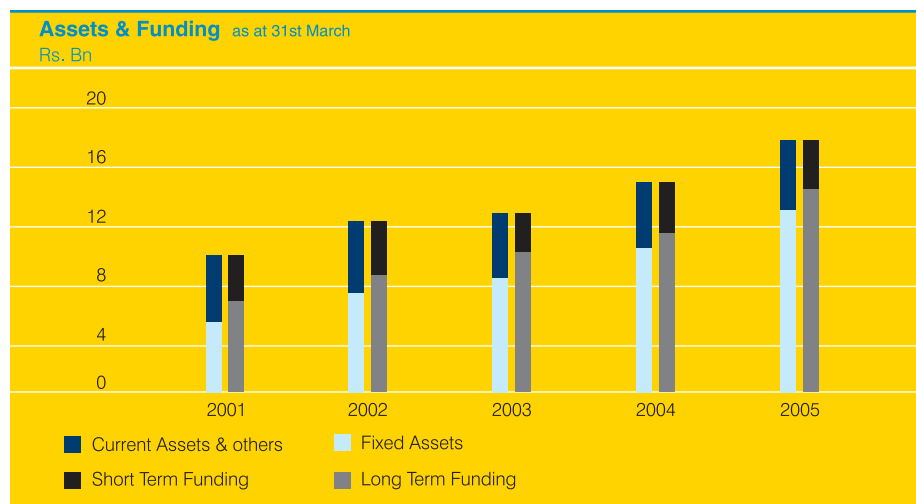


Investments and asset utilisation

More resources
deployed against
expected gains

The Group's investment in new ventures and property, plant & equipment increased to Rs. 11 billion from Rs. 8.6 billion last year. This was mainly as a result of the Group's investment in the third power plant at Embilipitiya. The current assets of the Group remained at relatively consistent levels ending the financial year with a value of Rs. 4.7 billion compared to Rs. 4.5 billion last year.

The total assets to turnover recorded a slight decrease for the year, due to the incorporation of the investments in Ace Power Embilipitiya (Pvt) Ltd., which commenced operations only in April 2005. The current ratio of the Group stood at 1.4 at the end of the year compared to 1.3 at the end of last year. The quick asset ratio also recorded a marginal improvement to end the year at 1.3 compared to 1.2 at the end of the previous year.



Gearing

A "down shift"
before expected
acceleration

The non-current interest bearing borrowings of the Group increased from Rs. 2.2 billion to Rs. 4.2 billion at the end of the year. This was due to the issue of Rs. 1 billion redeemable debentures to fund the investment in Ace Power Embilipitiya (Pvt) Ltd., and 50% of the syndicated loans taken by the project, which is a 50:50 joint venture. As a result of this the Group's debt equity ratio increased to 0.45 at the end of 2004/05 from 0.27 at the end of 2003/04. The Group's interest cover ratio remained marginally lower at 9.66 compared to that of 12.12 last year.

Cash generation

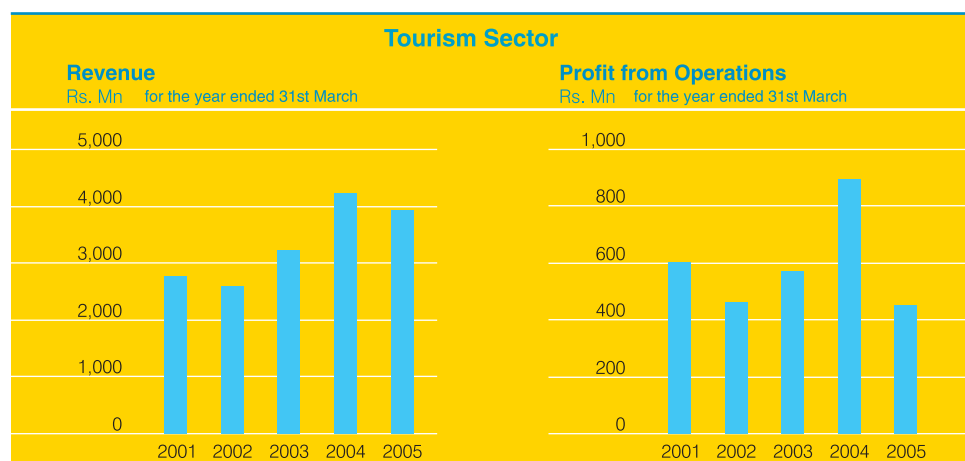
Greater Liquidity

The Group generated a positive cash flow of Rs. 476.5 million for the year. The cash generation from operating activities was Rs. 2.02 billion. A net cash of Rs. 1.75 billion was generated from financing activities. Rs. 2.6 billion amounted to proceeds received from long-term borrowings. A total of Rs. 879 million of interest bearing liabilities had been repaid by the Group during the year. Rs. 3.3 billion had been utilised in its investing activities.

Tourism sector

Resilient

The Group's Tourism sector was well poised to record its best year ever when the tsunami struck on 26th December. The Group was fortunate not to have any loss of life as a result of this devastation. However, two of its beach properties, Triton and Neptune were damaged extensively. A total refurbishment and revamp of Triton Hotel is being carried out at present and the hotel will recommence operations by winter 2005/06. Neptune Hotel was less affected with most of the damage being confined to the garden wing of the hotel. Apart from the garden wing Neptune has recommenced operations and has been able to achieve a satisfactory occupancy level. Neptune Ayurvedic Village was not affected by the tsunami and is performing well within expectations, confirming the Group's belief in the potential of wellness tourism. The Group's properties in the Maldives were only slightly affected by the tsunami and are operational though recording less than expected occupancies. This is a result of the decline in arrivals due to the negative sentiments of travellers to the destination following the tsunami and the cancellation of some of the regular charter flights.



The Group has commenced on the refurbishment of Kandalama Hotel in the financial year of 2005/06. This refurbishment is expected to be completed to cater to the tourist traffic of winter 2005/06. The Group will also be constructing 20 water villas at Meedhupparu Island Resort in Maldives.

The Group has witnessed a significant increase in its FIT (frequent independent traveller) traffic generated through web-based marketing. It is planned to place greater emphasis in the development of this potential market.

During the financial year under review a 25% stake of the Group's destination management arm was acquired by TUI AG of Germany, one of the largest tour operators in the world. This has enabled the complete vertical integration of the Group's destination management division and the opportunity to work in partnership with a global giant in tourism. This strategic partnership has brought in many synergies and global knowledge and know-how to the Group.

The Group recorded a 26% year on year increase in tourist arrivals up to the third quarter of 2004/05. However, a 70% decline in arrivals was witnessed in the fourth quarter of the year. India has become a major generating market to Sri Lanka as well as to the Group. The focussed marketing efforts in Eastern Europe has paid dividends with increasing number of arrivals handled from that destination. Market potential has also been identified from the Far East Asian nations.

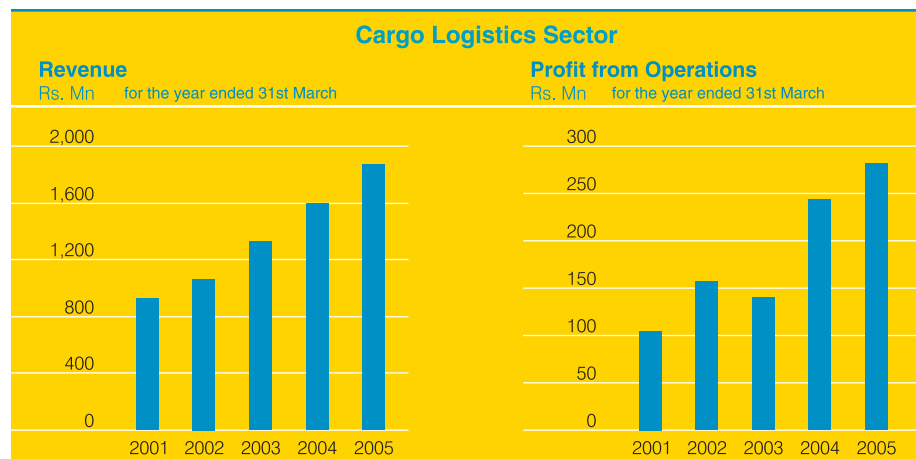
The Group's Maldivian resorts still remain the biggest contributor to the Tourism sector performance with it contributing 52% and 83% respectively of the sector's revenue and profits from operations. The sector profit from operations declined 49% to Rs. 453.2 million for the year compared to Rs. 893.4 million for 2003/04.

The Tourism sector incurred a capital expenditure of Rs. 139.1 million for the year, which mainly consists of the investment made in upgrading the transportation fleet and capital expenditure of routine nature incurred by the hotels.

Cargo Logistics sector

Setting sail

The Group's Cargo Logistics sector had a good year of operations with all three divisions, Maritime transport, Integrated logistics and Freight forwarding performing well above last year. The sector recorded a revenue of Rs. 1.87 billion, an increase of 17% and a profit from operations of Rs. 281.5 million, an increase of 15%.



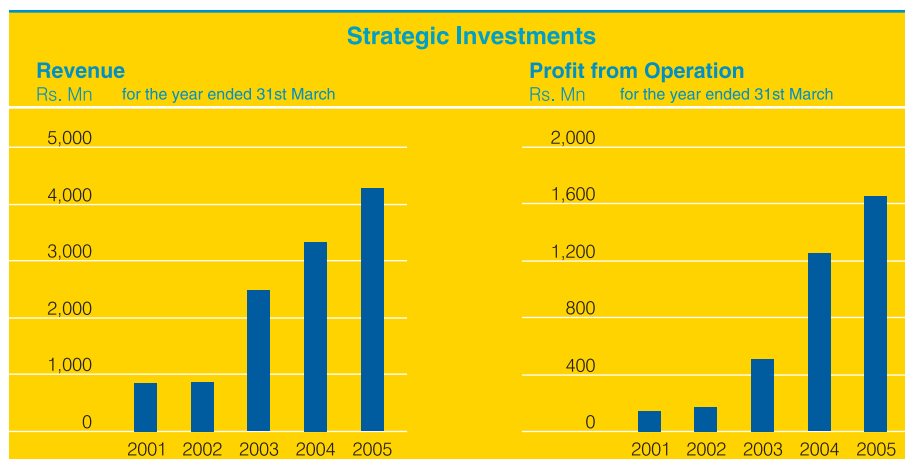
The Group entered into a joint venture with Mc Larens Holdings (Pvt) Ltd., forming Spence Mac Holdings (Pvt) Ltd., with a view of providing the entire spectrum of maritime transport operations under the umbrella of one holding company. The Group through a consortium that includes Ceyline Group, has also invested in three cargo vessels including a 1,300 TEU container ship, which is the largest ship owned by a Sri Lankan Company. The Group further hopes to expand its fleet with investments in two more vessels in the near future. The Maritime Transport division's profits from operations including the contribution from the associate companies involved in vessel ownership witnessed a 11% year on year growth.

The Integrated Logistics division of the Group was involved in the provision of logistics support in the setting up of the Group's power plant in Embilipitiya and handled the logistics for several other large-scale projects during the year. The division increased its investment in fuel transportation bowsters during the year to cater to the requirements of the Group's third thermal power plant. It is now the largest fuel transporter in the island with its fleet of 29 bowsters. It was also adjudged runner up in the category of the best company in the transportation business at a competition conducted by the Chartered Institute of Logistics and Transport, Sri Lanka. The division recorded a 11% growth in revenue and a 20% growth in profits from operations when compared to the previous year.

The profits of the Freight Forwarding division continued to grow recording the highest ever profit achieved. The division expanded its activities of handling cargo GSA's by obtaining the cargo GSA for a number of international airlines to Sri Lanka and Bangladesh on an offline basis. The Courier division which is the agent for TNT worldwide was adjudged the winner of the National Quality award under the category of small-scale services, conducted by the Sri Lanka Standards Institute. The TNT operations continue to expand its branch network, with the latest addition being a branch office in Matara. A 35% increase in revenue and a 15% increase in profits from operations was recorded by the division in comparison to the previous year.

The total capital expenditure incurred by the Cargo Logistics sector for the year amounted to Rs. 244.5 million. This mainly constitutes of the investment made in additional fuel transportation bowsters.

Strategic Investments



Rich dividends

A further consolidation of the Group's entry into the Power-Generation sector was registered with the commencement of operations of Ace Power Embilipitiya (Pvt) Ltd., a 100 MW thermal power plant on 6th April 2005. With its commissioning, the Group contributes a total of 12% of the total electricity units generated by the country.

The Printing division witnessed a 9% increase in the revenue generated for 2004/05 despite severe competition in the industry. The Company continues to cater to the high quality segment of the market and has recognised the necessity in investing in latest technological trends to maintain its position of market leadership. Therefore the Group is consciously looking at avenues of investment in new infrastructure and technology to increase the competitiveness of this division.

The Group's Garment manufacturing segment recorded another good year of operations with a 28% increase in revenue over last year. It is also the highest ever profit recorded. The end of the multi fibre agreement in December 2004, is not expected to have a material impact on the sector, and the Group remains optimistic of its future performance.

The Group's Services segment recorded a moderate growth in revenue during the year under review, with the main increase arising from the OTIS elevator agency. The elevator agency was able to further increase the number of installations handled over the previous year to record the highest ever installations carried out by the agency in a year.

The Group's investment in the management of the Mahapola lottery has been channelled through Aitken Spence GTECH (Pvt) Ltd., a joint venture between Aitken Spence and GTECH Global Services (Pvt) Ltd., which is a subsidiary of the GTECH Corporation of USA. The Mahapola on-line lottery was launched on 2nd December 2004. At present the Company is consolidating its on-line terminal network throughout the island, and is proposing the commencement of a more aggressive and focussed marketing plan for the financial year 2005/06.

The Strategic Investment sector profits from operations increased by 32% to Rs. 1.65 billion compared to Rs. 1.25 billion recorded for 2003/04. The total capital expenditure incurred by the sector was Rs. 2.5 billion, which included investment in the new power plant in Embilipitiya.

Plantations

A Good Year
against Odds

The Plantation sector witnessed an appreciably good year of operations during 2004/05 in spite the significant increase in wage costs. The sector contributed Rs. 54.8 million to Group profits compared to Rs. 26.3 million last year. Elpitiya Plantations and Talawakelle Plantations both witnessed a nearly 25% increase in the net sales average obtained for tea, due to increases in world prices and the superior quality of leaf. The increase in the net selling average of rubber has also helped the companies to improve profitability. However, the erratic weather patterns that prevailed in the island during the year, adversely affected the crop production with both companies reporting a drop in yield.

Taxation

Contributing to State
amidst Regulatory
Drawbacks

The Group's provision for taxation was Rs. 175.1 million against Rs. 189.2 million in the previous year. This included an adjustment against surplus provisions in prior years of Rs. 22.4 million. Taxation on current year profits was Rs. 197.5 million against Rs. 190.0 million in the previous year. The effective tax rate of the Group increased during the year due to the restrictions introduced in respect of claiming brought forward tax losses against the taxable profits of the current year.

The Group enjoys a low effective tax rate due to the Group's investment being made in priority sectors such as tourism, exports and infrastructure development sectors that are entitled to tax exemptions and or concessionary tax rates.

We welcome the initiative taken by the authorities to legislate the budget proposals for 2004 before the actual date of implementation of the law. We are concerned that many of the recent amendments to the tax statutes have been passed as urgent bills and did not follow the normal procedure required for change of legislation in the country. Further, some of the laws recently passed have been made applicable with retrospective effect, and in some instances going as far back as the financial year 2002/03, which had far reaching consequences to tax payers. We hope the Government will ensure that such practices are not adhered to in the future.

Information technology

Leveraging the Best
to be the Best

The Group's information technology road map envisages that all its business systems and other supportive systems embrace Web Technology and would be ready for quick "on-demand" deployment worldwide. All systems are currently undergoing revision to keep in line with this vision. Oracle - ERP software is used to handle financial accounting, supply chain management and asset management within the Group. The latest version of this software, which is fully internet enabled will be implemented in the Group shortly. However, secure communication is mandatory in such an environment. Therefore, appropriate encryption and digital key technologies are being implemented to strengthen secure communication, accountability and non-repudiation - the fundamental building blocks of secure internet business. The internet will also become the primary means of communication and information conveyance between the Group and its overseas partners.

The Company realises that the underlying infrastructure has to be improved together with a high degree of redundancy to sustain the above-mentioned systems and enable accessibility from all remote locations worldwide. The Group has almost achieved this goal from a technology perspective and permits a strict "Need Based" accessibility model.

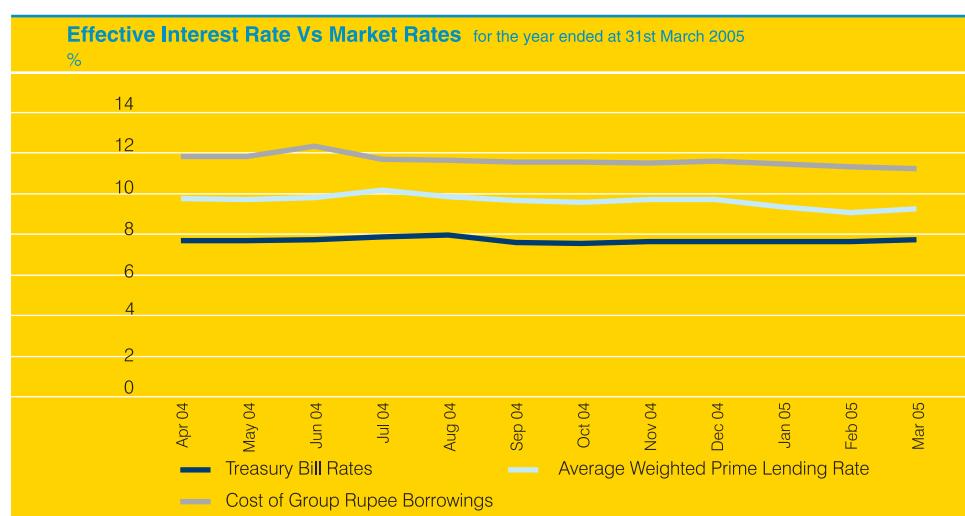
Financial market developments

Combating a
Slowing Growth Rate

The year under review saw rising inflation in the country following increases in crude oil prices, a severe drought and a slowing down of GDP growth. High inflation and perceptions of increasing interest rates resulted in insignificant demand for medium and long term bonds and there were no primary issues of 10, 15 and 20 year bonds throughout the financial year which was not conducive for the development of the bond market in the country. There was also less trading in the secondary bond markets compared to previous years. However, despite high inflation rates the Government in a bid to stimulate economic activity kept the interest rates suppressed.

The year 2004/05 saw the overnight repo rates increasing by just 50 basis points. The six-month and one year Treasury bill rates increased marginally during the year from 7.60% and 7.62% to 7.65% and 7.76% respectively. Short term bonds saw slightly higher increases during the year with the 5 year bond rates increasing from 7.06% to 8.19% and the 2 year bond rates increasing from 7.97% to 8.24%.

The Commercial Bank Average Weighted Prime Lending Rate (AWPLR) also reflected the low interest rate scenario by a marginal increase from 9.30% to 9.88% during the year.



The continuous rise in world oil prices and a slowdown of the economic growth rates saw the country's foreign exchange reserve position depleting and subjecting the rupee to significant pressure. This resulted in the Sri Lankan rupee depreciating rapidly from Rs. 97.28 to Rs. 104.57 during the first nine months of the year. However, due to an influx of foreign exchange to the country in the aftermath of the tsunami and more importantly due to perceptions that more foreign exchange grants will be forthcoming, the rupee recovered dramatically in the fourth quarter of 2004/05 and ended the year at Rs. 99.38.

In the International markets the US dollar continued its decline against the Euro and depreciated by a further 5.5% compared to a depreciation of 13% last year. The year also saw a significant reversal in the US Government's policy in the previous four years of maintaining a low interest rate regime. This policy change resulted in the six-month London Inter-Bank Offered Rate (LIBOR) rising from 1.17% as at 31st March 2004 to 3.40% as at 31st March 2005.

Funding & Liquidity

Strategic Sourcing

In the first half of the year, the holding company raised Rs. 1 billion from a privately placed debenture issue, which was mainly to fund its 50% equity investment in the 100 MW Embilipitiya power project. The debenture issue was for a 5-year term and was rated as AA (sri) by Fitch Ratings Lanka Ltd. Apart from this the Embilipitiya Project borrowed US dollar denominated loans equal to Rs. 3.3 billion during the year from a consortium of local financial institutions on a non-recourse project financing basis and 50% of these loans are reflected in the Group Balance Sheet.

The main loan repayments during the year was by the holding company which redeemed Rs. 200 million quoted debentures and the Matara & Horana power projects settling Rs. 385 million of their long term loans and a further Rs. 116 million debt being settled by the Maldivian Hotel sector.

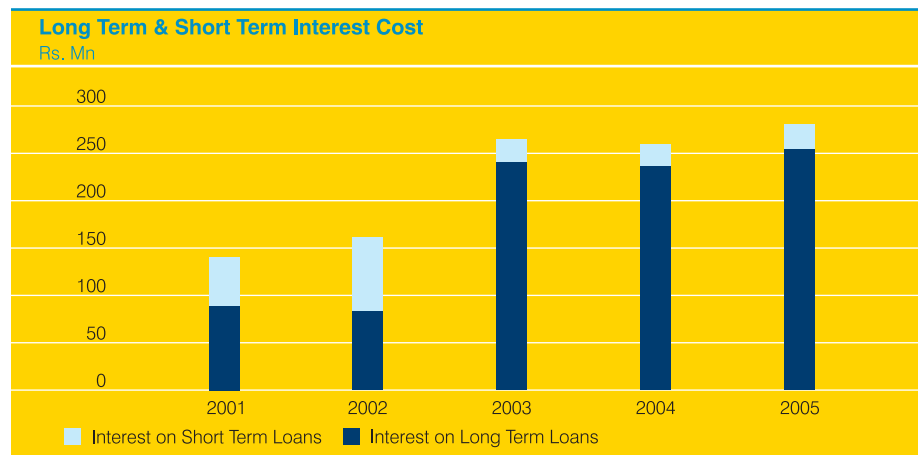
The net impact of above activities was an increase in the Group long term borrowings from Rs. 2.2 billion to Rs. 4.2 billion. Accordingly, the debt to equity ratio increased from 0.27 to 0.45.

As of 31st March 2005 the Group holds unutilised borrowing facilities amounting to Rs. 1.3 billion available for short term funding of investments and working capital requirements if necessary.

Interest and Foreign Exchange Management

Adequate Resources to ride the Dips

The Group's interest costs increased this year from Rs. 259 million to Rs. 280 million. This was mainly due to the additional interest costs arising from the Rs. 1 billion debenture issue which was partly offset by a reduction in interest costs arising from the loan settlements during the year by the holding company as well as the Maldivian Hotels sector and the Power sector which was made possible by the positive cash generations in these sectors.



Foreign Currency Generation

	2004/2005	2003/2004	2002/2003	2001/2002	2000/2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Travel & Tourism Sector	4,348,118	4,020,576	3,045,786	2,318,737	2,398,719
Cargo Logistics Sector	562,716	500,227	458,535	550,945	833,971
Strategic Investments					
Manufacturing Sector	530,498	367,357	311,003	390,268	383,192
Services & Others	84,991	73,431	65,872	105,754	99,949
Associate Companies	748,597	713,096	684,482	505,030	526,325
Total	6,274,920	5,674,687	4,565,678	3,870,734	4,242,156

The Group through its many activities directly and indirectly contributes towards the generation of foreign currency to the country. This generation for the period 2000/01 to 2004/05 is presented in the above statement.

The Group's total foreign currency generation increased by 11% over last year to reach Rs. 6.3 billion in 2004/05. The Tourism sector has remained the main contributor over the years with it contributing 69% of the total generation during the year under review. However the Tourism sector had witnessed only a marginal growth of 8% over the previous year due to the negative impacts brought about by the tsunami.

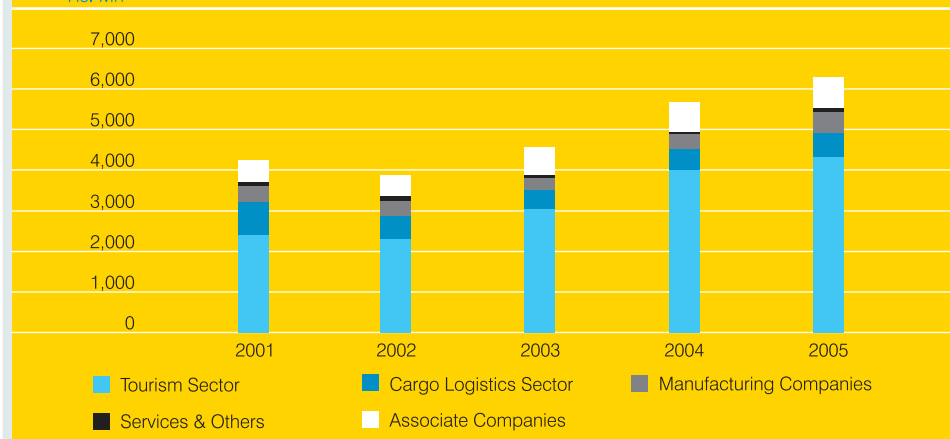
The contribution towards the foreign currency generation by the Group's Cargo Logistics sector increased by 12.5% mainly due to the expansion of operations by the Group's Maritime Transport division.

The improved performance by the Group's Printing and Garments divisions saw the Manufacturing sector contribution to foreign currency generation increasing by 44% over the previous year.

The Sri Lankan rupee, which depreciated against the dollar rapidly during 2004, witnessed a significant appreciation of value in the immediate post-tsunami period, due to the inflow of aid. This resulted in the rupee closing the financial year 2004/05 at 99.38, a 2% depreciation compared to 1st April 2004.

Foreign Currency Generation for the year ended 31st March

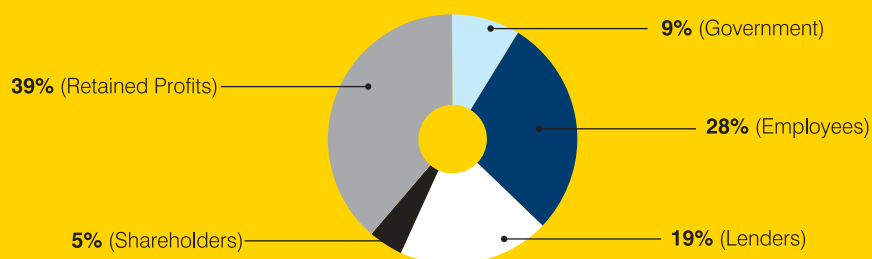
Rs. Mn



Statement of Value Added

	2004/2005		2003/2004		2002/2003		2001/2002		2000/2001	
	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000
Total revenue		10,063,989		9,157,160		7,030,843		4,536,324		4,524,020
Purchase of goods & services		(6,912,731)		(5,842,674)		(4,647,171)		(2,869,660)		(2,900,852)
		3,151,258		3,314,486		2,383,672		1,666,664		1,623,168
Other operating & interest income		389,337		338,407		88,311		91,152		72,206
Share of associate companies' profit before tax		67,226		33,585		31,271		65,762		87,323
Others		—		—		—		(1,544)		—
Total value added by the Group		3,607,821		3,686,478		2,503,254		1,822,034		1,782,697
Distributed as follows:										
To Government of Sri Lanka										
(Income Tax & other taxes)	9	315,937	9	311,694	11	281,674	14	260,833	11	203,390
To employees (Salaries & other Costs)	28	1,025,796	27	997,416	33	837,539	41	755,105	42	743,252
To lenders of capital (Interest on loan capital & minority interests)	19	697,709	18	663,144	18	450,924	10	175,785	10	179,975
To shareholders (dividends)	5	162,341	4	161,969	5	120,779	6	106,243	6	106,077
Retained for reinvestments & future growth (depreciation & retained profits)	39	1,406,038	42	1,552,255	32	812,338	29	524,068	31	550,003
	100	3,607,821	100	3,686,478	100	2,503,254	100	1,822,034	100	1,782,697

Value Added 2004/05



The effects of the tsunami during the fourth quarter saw a reduction of the overall Group profits from operations which has caused the Group interest cover to decrease from 12.12 in the previous year to 9.66.

The substantial increase in the long term liabilities at year end was due to the loans taken for the Embilipitiya power project. However, this had no impact on the interest costs charged to the income statement as this relates to interest incurred during project construction and was capitalised accordingly.

The Group interest income showed a slight dip from Rs. 92 million last year to Rs. 88 million this year reflecting the significant drop in free cash generation during the last quarter as a result of the adverse situation in the Tourism sector.

The Group's US Dollar denominated borrowings are linked to dollar revenue streams and are not exposed to currency rate risk and exchange losses arising from the dollars' fluctuations.

Risk Management

The Group has acknowledged the necessity of risk identification and proactive risk management given the highly volatile and competitive environment of today. The diversified nature of the Group makes it exposed to myriad types of risks. These risks would vary in impact and in certain instances could even be used positively by proper management. The Group's diversification strategy also minimises the net impact on the Group of the risks associated with any one sector.

The Group, bearing in mind its vision, its strategic objectives and the creation of shareholder wealth, addresses risk management at a strategic level with the participation of its Board of Directors, Board of Management, the Audit Committee, and the senior management of relevant divisions. Risk avoidance and risk mitigation are both integral parts of the Group's management policies and are addressed in a systematic manner.

The Group obtains expert legal advice to include wherever possible risk mitigatory clauses in its agreements concerning new investments, joint ventures, operations and maintenance contracts etc.

Detailed below are some of the main risks affecting the Group and a brief description of the mitigatory systems practised.

Investment risk The Group appreciates the link between risk and potential return and strives to minimise the risk exposure of the Group without sacrificing on the return on its investments. A stringent evaluation process is carried out on each new investment for risk identification and the possibilities of mitigating its effects. The Group prior to investment performs a comprehensive financial and non-financial evaluation to consider the risks and returns of a project along with its opportunity costs.

The diversified nature of the Group enables it to absorb a higher risk in certain areas that have potential for greater return. It also mitigates the Group's exposure to changes in the local or global context. The low levels of risk of the investments of the Group was highlighted with the 'AA' (sri) rating obtained from Fitch Ratings Lanka Ltd., for the Group's Rs. 1 billion redeemable debentures. The ability of the Group is to maintain one of the markets highest return on capital employed (ROCE) with low levels of expected risks, underpins the efficient risk return management of the Group.

Business risk These risks may arise internally within the Group or externally. It could be in the form of a natural disaster, the entrant of a new dominant competitor, a global acquisition or merger, socio-political climate etc. The Group has designed efficient systems for the prior identification of these risks and for its effective management.

The Group strives to provide a superior service to its customers and has remained market leader in many of the sectors in which it operates for a number of years. Innovative methods and emerging trends are constantly looked at for the provision of a higher value creation. Its diverse customer and supplier base has enabled the Group to avoid dependency on any one given party. The Group maintains cordial relationship with all relevant authorities and institutions.

The commitment of the Group and its employees in the mitigation of the impact of natural disasters and the level of training, preparedness and reaction time of employees came to the fore during the recent tsunami devastation at which no fatalities were recorded among its employees or guests who were in the Group's hotels, or those touring the country.

Operational risk Detailed levels of authority, procedures and frameworks are in place for the smooth functioning of operations within the Group. Special emphasis is placed on procurement, inventory control, receivables and payables. The Group also ensures that it maintains cordial industrial relations. These measures help in the minimising of risks associated with human and system error and fraud.

The organisational wide reporting framework detailing the Group's operational activity assists the management in the planning, controlling and monitoring of the said framework.

The internal audit function of the Group, under the guidance of the Group's Audit Committee performs systematic checks to ascertain whether the established systems and procedures are being followed. Corrective action and re-evaluation of set procedures are carried out as and when necessary.

Credit risk Provision of credit is an integral part of business transactions and is necessary for the smooth functioning of a business. However, the Group performs a stringent evaluation process of debtors credit worthiness prior to the approval of credit.

The Group has a prudent policy of provisioning for doubtful debtors with a general provision for bad debts being done based on the outstanding period of the debts. Facilities are monitored on a monthly basis and appropriate action taken as and when necessary. The Group also maintains a central list of blacklisted debtors.

Human risk Any company is only as good as the people who work in it. The Group acknowledges the value of its human capital. It believes in attracting and retaining the cream of available talent. A comprehensive career development and training programme is practised throughout the Group with the help of its Human Resources division. Periodic evaluations are carried out to identify training requirements. Systematic appraisals of performance are carried out to identify employee aspirations and inform the employee of his or her progress in the organisation. The Group keeps abreast of the market rates for remuneration of employees to ensure the provision of competitive and appropriate remuneration packages at all levels.

Free and frank exit interviews are carried out to identify areas in HR management that need attention and rectification.

The Group has continuously maintained good relationships with its employees. A detailed discussion of human resource initiatives is provided on pages 45 to 47.

Technology risk The Group, subsequent to a technology risk assessment, ensures that appropriate safeguards are put in place at multiple levels, namely the gateway, firewall, critical business systems infrastructure and at end user computing devices using appropriate security systems. The risks from virus, spam, spyware etc. have been minimised due to these efforts.

All key business systems have been subjected to an internally developed audit process. This process ranks security at several levels namely minimal, standard, above average and high. Initially all business systems are being improved to maintain an above average security ranking.

A comprehensive internet and e-mail policy has been laid out in the Group with the requirement that all employees read and sign the document prior to being given such facilities.

The installation of new personal computers for use in day-to-day operations is done after the relevant software and security features are installed by designated IT personnel at the centre.

The Group also continues to invest extensively on appropriate latest technology and internal processes. Change management practices have been strengthened to complement technology based security improvements.

Legal risk The Group recognises and conforms to its responsibilities as a public quoted company, a taxpayer and an employer. The Board of Management takes an active role in monitoring the adherence to all statutory and legal requirements in all transactions. The Group Legal division assists the Board in this endeavour and seeks external professional counsel when necessary.

Reputation risk Responsible corporate citizenship is high in the agenda of the Group. It remains closely involved with all stakeholders and recognises its contribution to stakeholders in all aspects of social, environmental and financial spheres.

Strict adherence to environmental regulations and all other statutory requirements are maintained. Active involvement in community development is undertaken wherever possible. The Group firmly believes in maintaining the highest ethical behaviour at all times.

Foreign exchange risk The Group is subject to two types of risks 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 inflows and outflows on a consolidated basis across Group companies. However, through careful and continuous monitoring of the relevant foreign currency involved the Group central treasury advises subsidiaries involved in imports as to the timing of forward bookings thus striving at all times to minimise the import cost whilst at the same time managing the risks.

The risk associated with future repayments of foreign currency loans and interest is mitigated by ensuring such outflows are 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 decides 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 Group.

Interest rate risk The Group manages its exposure to interest rate risk through the centralised treasury function with the innovative 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 companies' 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.

During the year, the Embilipitiya 100 MW power project subjected the Group to an exposure to a floating LIBOR over a 6-year period for project term loans of \$ 34 million. In order to mitigate this interest exposure the central treasury structured a derivative solution based on a "Cap Spread" transaction and agreement with HSBC, the Bank selected after a competitive bidding process. This is the first derivative solution of this nature done by a corporate in Sri Lanka. It marks a new chapter in the annals of the country's derivative trades and the Group has pioneered a significant step towards interactive risk management in Sri Lanka. The derivative agreements were signed under the International Swaps and Derivatives Association (ISDA) conventions.

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.

People, Environment and Community dimensions of Sustainability

Sustainability is a holistic concept and we believe that our entire annual report is in fact a report on sustainability; where we have endeavoured to spell out the businesses we are engaged in, our vision, our strategic outlook, management challenges and actions, governance procedures and practices as well as details of the financial resources employed and financial outcome.

In respect of the latter we are very mindful of creating wealth and have for some years now adopted the practice of reporting on Economic Value Added (EVA).

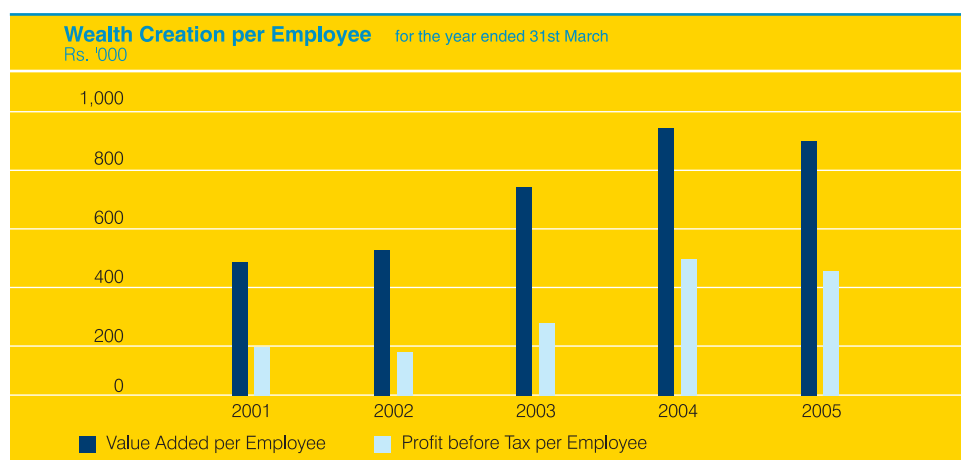
This section deals with the people, environment and community dimensions of sustainability.

People

Being primarily in services businesses, the skills, knowledge, commitment and passion of our people is the key driver of value.

Composition of our team	
Sector	Number of Employees
Tourism	1,777
Logistics	831
Strategic Investments	1,601

We receive a large number of unsolicited applications especially through our corporate website. A centralised database of potential applicants is maintained to cater to vacancies arising within the Group. Applications are called through advertisements when specialist skills are required. Group employment policies respect the individual and offer equal career opportunities regardless of sex, race or religion.



Much management time and company resources are diverted toward developing our team. We are instituting a performance based culture, encouraging multi-tasking, team work and driving productivity in every corner of the organisation.

Succession planning and developing future leaders is an area that is being increasingly focussed across the Group. We are nurturing young managers from within the Group and are giving them extensive training on all aspects of management based on the theme 'Managing scientifically with respect to humanity'.



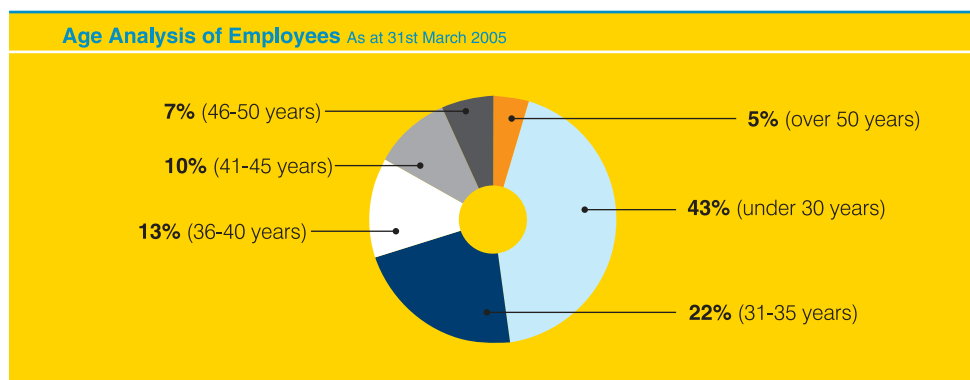
- 01. The Company wins the National HRM Award for Group of Companies - Services Sector
- 02. Staff Recreation - Bowling
- 03. Staff Sports Meet
- 04. Company Christmas Get-together
- 05. Learning through Fun - A Company Outward Bound

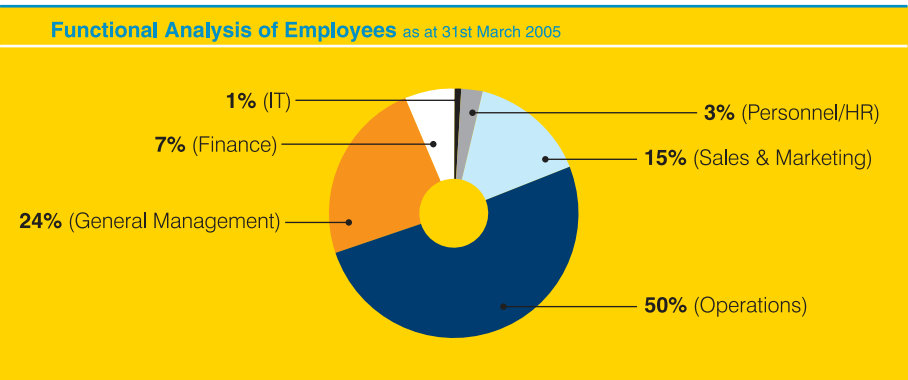
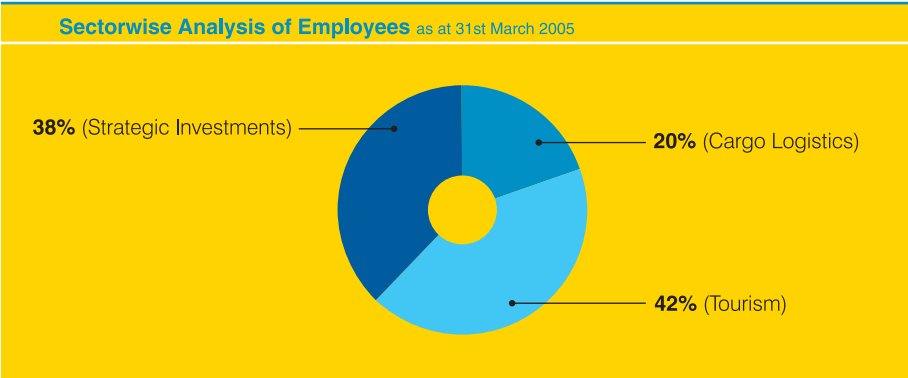
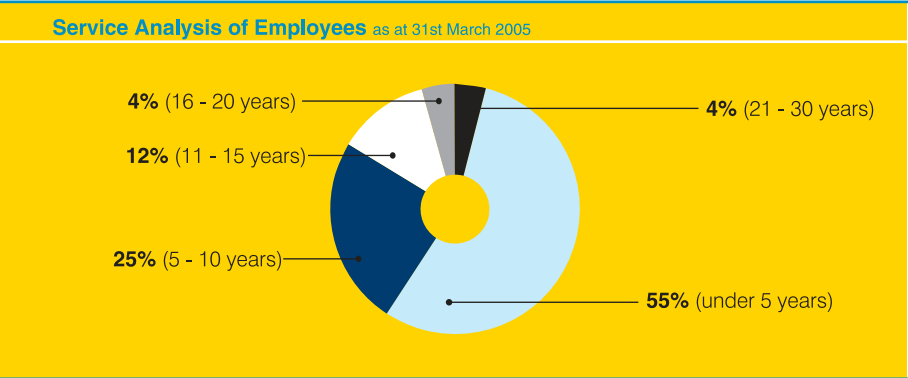
Whilst conforming to all statutory requirements and International Labour Organisation's (ILO) code of best practices, we go beyond these in the benefits we provide.

- A comprehensive health and safety policy that include maintaining stringent workplace safety standards, insurance cover and optical and dental services in addition to hospitalisation and out-patient treatment, for employees and dependants.
- A calendar of Company social events covering a broad range of activities from Company outings, family events, children's parties, retreats, sports, religious activities and community outreach activities.
- Recognition of long service with a special award.
- Assisting employees in career related higher education. This includes sponsoring a substantial component of the cost.
- Recognising the need to balance work and family life.
- A substantial sum is invested on training including overseas training.
- Workers on our plantations are provided innovative outward-bound training programmes, various team building exercises and leadership development programmes in addition to the standard agricultural training.

We were fortunate that none of our employees lost their lives on Boxing Day tsunami. Unfortunately 223 employees sustained either loss of family members or loss of property.

Immediately after the tsunami we made arrangements to contact the affected employees and make various arrangements to provide them assistance. Provisions were despatched to them within 48 hours. The efforts of our employees in helping victims of the disaster are documented elsewhere in this report.





Environment

We have relatively few factory locations and these are in our printing, garments and power generation businesses. In all these locations we strictly conform to standards laid down by the Central Environment Authority (CEA) of Sri Lanka. We have invested substantially in the requisite facilities to treat our factory wastes and emissions before they are released to the environment.

Our hotels and plantations are those of our businesses that the environment is relatively most exposed to.

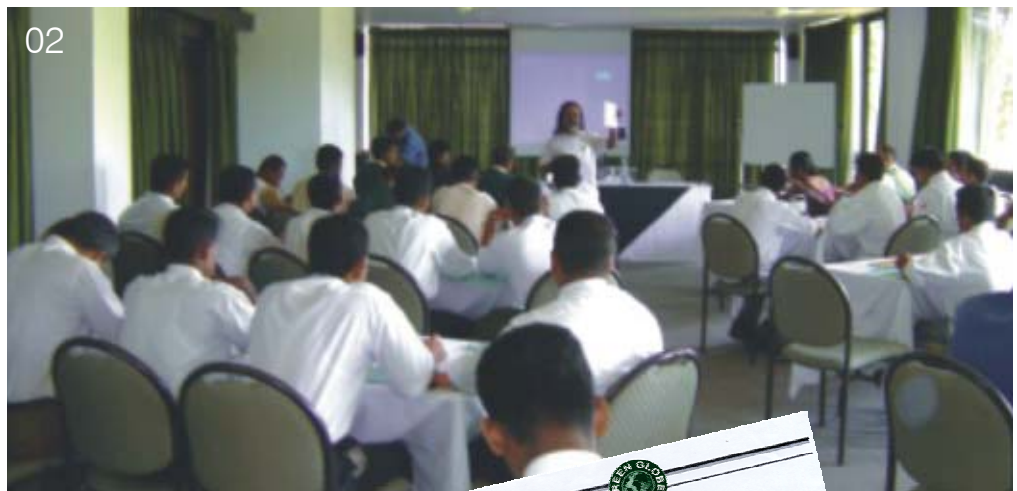
Aitken Spence hotels follow a formal conservation policy based on the Earth Summit's Agenda 21 'three R's' principle: reduce, re-use and recycle. The policy includes strict rules on energy use, waste management and water conservation. For example, all hotels in the Group now follow the 14-point European Union water management plan.

During the year training programmes were held for staff at all hotels in concurrence with the drive towards achieving ISO 14000 and Green Globe certification.

The flagship of the Company's conservation efforts is Kandalama Hotel. The very concept of this property - that of a luxurious modern hotel hidden amid the ecologically fragile forests of Sri Lanka's central plain - demands an imaginative and comprehensive approach to environmental protection, if it is not to pollute and destroy the very attraction that draws so many guests to it. Nature and the environment are key selling points of the hotel, and management is now in the process of setting up a separate department to concentrate on these.

Kandalama was designed from the outset as an eco-friendly hotel, and this aspect of its operations is continually being refined and improved. Six staff committees are charged with key areas of responsibility within the general ambit of environmental protection and sustainability.

Concern for the environment does not end at the boundaries of the property, but extends into the surrounding community. For example, all interactions with stakeholders must conform to strict rules and guidelines. In particular, all purchasing is undertaken with sensitivity to environmental issues involved in manufacturing, transportation and processing waste management.



- 01. Post tsunami Clean-up - Negombo beach
- 02. An Environmental Training Course in progress.
- 03. Tree planting under the Company's "Greener Village" programme
- 04. Benchmark Recognition - Green Globe 21 Certificate for Kandalama Hotel

Kandalama has won numerous environmental awards over the years. It was the first Green Globe 21-certified hotel in Asia, the first in the world to obtain the prestigious LEEDS building certificate from the US Green Building Council, and it has won awards for environmental education and commitment from Thomson, the international travel agent, and the Pacific Asia Travel Association (PATA). The hotel's Green Globe status and environmental activities were recently showcased on Asian television.

During the year under review, various activities were undertaken to improve the effectiveness of environmental management at Kandalama. The hotel now produces no waste at all; everything is recycled or reused.

As part of a general refurbishment planned for 2005, a new Eco Museum will supplement the hotel's Eco Park. This facility will play a key role in the hotel's environmental education effort, in which programmes are held for visiting students and school children. A team consisting of a naturalist, an environmental animator, bird watching guides and other environmental champions host these programmes.

The environmental commitment exemplified by Kandalama extends across our entire hotel network in Sri Lanka and the Maldives. Garbage disposal costs at all our Sri Lankan hotels have now been reduced to zero, and some hotels are actually deriving an income from the sale of products derived from waste.

Noteworthy investments in environmental management for the year under review include the replacement of the anaerobic waste treatment facility at the Tea Factory hotel. Compost produced by the plant is used in the hotel grounds in place of chemical fertiliser and treated wastewater is used for gardening purposes.

At Triton Hotel, Ahungalla, the sewage treatment plant was upgraded and work commenced on an Ayurvedic Garden, growing herbs and other plants used in traditional medicine. The garden is partly supported by guest contributions.

Sewage treatment facilities were also upgraded at Hotel Hilltop, Kandy, with fertiliser and wastewater derived from the treatment process recycled for use in the hotel gardens. Other environmental initiatives at Hilltop included improvements to the rainwater flow management system, helping to reduce erosion and the threat of landslides, as well as a new project to improve the sorting of garbage for recycling.

Kandalama Hotel has already gained ISO 14000 certification with respect to environmental management. Other Aitken Spence hotels are making good progress toward compliance with this standard and are also moving to achieve coveted Green Globe certification.

The Company believes it has a responsibility to educate and encourage the community at large in the benefits and methods of environmental protection and sustainable management. Community environmental activities carried out in 2004-2005 included the following:

- ***Triton:*** planting of 200 pihimbiya trees at Ahungalla village as part of a hotel-sponsored 'greener village' campaign.
- ***Tea Factory:*** tree planting campaign with the participation of hotel guests and members of the local community.
- ***Tea Factory:*** educational seminar for residents of Hethersett village on sanitary practices and water management.
- ***Brown's Beach Hotel:*** beach and community cleanup campaigns in collaboration with local residents.

In addition, many hotels in the Group were active in holding environmental education activities in local schools and community centres in the year under review.

Our plantations extend over an area of approximately 15,000 hectares and are mainly under tea, rubber and oil palm. We are conscious of employing agricultural best practices that not only improves yields and productivity but also affords maximum protection to the land and environment. Reforestation and planting trees for timber and fuelwood has been an on-going exercise and today we have a substantial area covered in these. We have also been conscious of seeking ways in which we can put the land and the natural resource base to best productive use. We recently invested in a state-of-the-art palm oil factory complete with an effluent treatment plant. We also invested in a furniture factory, providing an opportunity for higher value addition to trees, that would have up until now be used for fuelwood. We have also increased the energy productivity in our tea factories. Over the past five years or more, our record has improved from around 1.1 to 1.3 kgs of tea per unit of electricity.

Community

Each of our locations has become an integral part of the community around them. Not only do we give preference to people from local communities when it comes to recruitment and procurement but we also get involved in their welfare. Our staff plays a key role in these initiatives not only by way of their time, energy and efforts but also by way of donations in cash and kind.

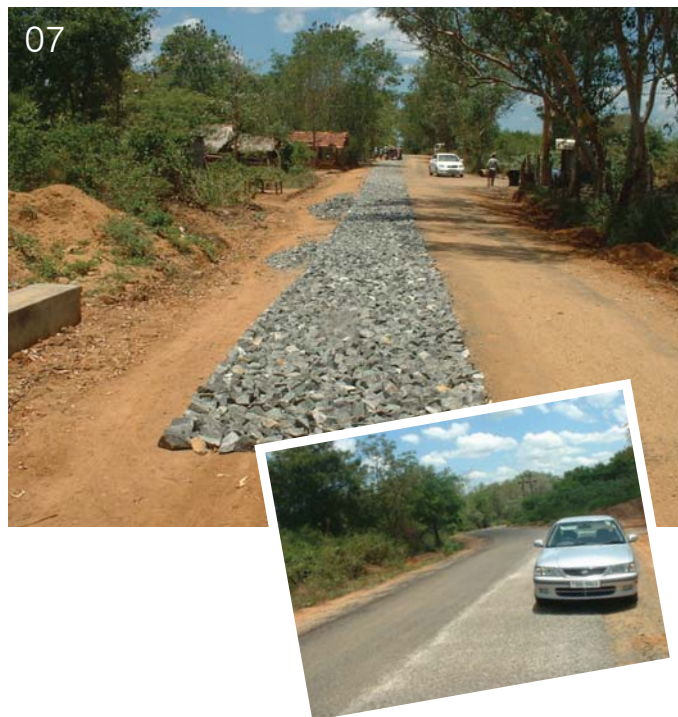
Activities in this area are so numerous and diverse that only a few of the most significant are mentioned in this report.

In Embilipitiya we got involved in the electrification of three villages made up of some 350 families at an approximate cost of Rs. 7 million. This included the construction of a road in same area at a cost of Rs. 13 million. Our work in Embilipitiya also included the refurbishment of a nursery school, construction of a Dharma Shalawa, refurbishment of a temple roof, repairing two incubators belonging to the General Hospital and running a medical camp where we provided 700 spectacles and medicines.

In Matara too we constructed a village road, ran a medical camp and provided school uniforms and school bags, and maintains the sports pavillion that was constructed by us.

Kandalama Hotel undertook the rehabilitation of the water supply for one local school and comprehensive support, including school books, clothing and scholarships. Dambulla base hospital also received considerable support: the hotel donated new furnishings and sanitary facilities, as well as funds for the rehabilitation of the air-conditioning system used by the hospital's operating theatre. Triton Hotel continued its programme of support for a local school, Rajapakse Maha Vidyalaya, repainting classrooms and holding of a 5S awareness programme for students.

Given that the large workforce on our plantations is almost entirely a resident workforce; our involvement naturally extends to the families of our workers as well. Whilst subscribing to industry standard practices such as providing housing, medical facilities including small hospitals and crèches (day-care centres) for workers' children, we are constantly seeking ways to improve their quality of life through our own resources and through harnessing the support of our friends. In the year under review we were able to further develop and assist some of the crèches through a donation of Rs. 500,000/- received from a Norwegian family. Since 1998, we have been funding scholarships to



01. "Walk the World" - a TNT Worldwide and World Food Programme sponsored charity walk to feed needy children of the world. Picture shows the Sri Lankan leg organised by the local TNT office.
02. Tsunami Relief - a consignment of aid sponsored by TNT arrives in Sri Lanka.
03. Staff from the Company's Hotel sector perform shramadana at Beruwela Hospital.
04. School water supply inauguration at Kandalama.
05. An outing for children of the School for the Disabled at Kandalama.
06. Teaching workplace management to nurses and school children.
07. Development of infrastructure for betterment of communities at Embilipitiya.
08. Coping with Tragedy - Post tsunami counselling was provided by Company staff to the afflicted.
09. Staff sorting tsunami aid donations.

workers' children who attend university. Forty to fifty such scholarship-holders receive a sum of Rs. 750/- each, monthly. Another recent initiative was to provide a mid-day meal on a regular basis to some of our retired workers who are very old and have hardly anyone to look after them. We recently commenced a vocational training programme on some of our estates. The maiden programme was to impart the skill of screen printing to some of our workers on the plantations.

The Company through its staff participated in a wide range of community activities in various parts of the country: offering vocational and job search training to young people, maintaining shared local infrastructure such as access roads at our own expense, helping keep villages, towns and the countryside clean and engaging in miscellaneous charity projects on a needs basis. We provide apprentice opportunities to a number of trainees from various institutes. We conduct regular management training programmes for undergraduates of the Universities of Colombo and Ruhuna, the Employers' Federation of Ceylon and the academic staff of some of the leading schools in Colombo.

The tsunami and after With several of our key hotel properties located on the southern and western coasts of Sri Lanka, it was inevitable that the Company and its people should be struck hard by the December 26 tsunami. We were exceedingly fortunate that no guests or employees lost their lives.

In the aftermath of the disaster, the Company and its people reached out to their surrounding communities and other affected groups. The construction of two new villages for those rendered homeless is being sponsored by the Group. One of these villages is in Ahungalla and the other in Trincomalee. Each village will, in addition to the new houses, have its own school, hospital, playground, police station and community centre. Principals, business partners, well-wishers and employees have pledged to join us in funding these through the Tsunami Relief Fund that we have launched. An Independent Auditors' Report on the utilisation of funds will be circulated among those who have contributed.

Last June our freight forwarding arm organised the Sri Lanka leg of 'walk-the-world' programme conducted in different parts of the world by TNT Worldwide and World Food Programme (WFP) to collect funds for feeding needy children. The organisers subsequently decided to utilise all the funds collected in Sri Lanka toward feeding children affected by tsunami. These funds were thus used to feed some of the affected children in Trincomalee. The WFP has since sent funds on a regular basis to help feed tsunami affected children.

Some other tsunami-related activities are listed below:

- Water supply to Ahungalla village and nearby residents from 26th December until local wells and other resources could be cleaned up and restored; relief distributed to more than 2,000 local residents trauma-counselling assistance to local school children.
- Rations distributed to tsunami victims in the Pottuvil and Panama area; rations, school books and bags donated to affected children in Galle District.
- Donation of clothing, water and dry rations to victims in the Ampara District.
- Post-tsunami cleanup activities in the Negombo Beach.
- Assistance to victims in the Hambantota District, offered in collaboration with the Chefs' Guild of Ceylon.
- Clearing and delivering free-of-charge or at cost, consignments consisting of aid for tsunami victims to WHO and several Embassies.
- Installation of an ultra-sound scanner donated by one of our Principals - in the Karapitiya Hospital, Galle.

The above offers no more than a snapshot of tsunami-related activities undertaken by the Group. Many more such activities were undertaken, often on the spur of the moment in response to immediate needs; many were not even documented. We should like to take this opportunity to thank and to celebrate all those in our Group - shareholders, management and staff - who excelled themselves in their courage, energy, selflessness and human fellow-feeling at this time of crisis.

Country Economic Overview

Sri Lanka's Economy in 2004-2005

Internal and external shocks affected the performance of Sri Lanka's economy in 2004-2005. An unexpected change of government in April 2004 fed uncertainty and apprehension about policy changes likely to affect the business sector. On the whole, these fears were not realised; business continued to do well in an atmosphere of private-public partnership.

Other shocks were natural. The effects of a mid-year drought on agricultural production and hydro electric power generation were exacerbated by a sudden and steep worldwide rise in oil prices. The Indian Ocean tsunami of 26th December 2004 inflicted massive losses of life and destroyed homes, businesses and infrastructure in most coastal areas of the country. The magnitude of this terrible loss has yet to be fully assessed.

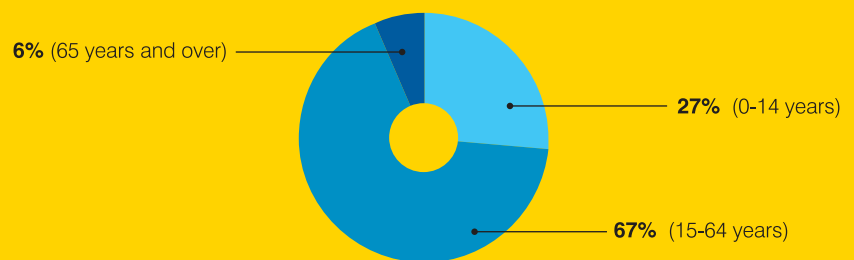
In spite of such set backs, the Sri Lankan economy grew at between 5 and 5.5 per cent in 2004. This was considerably lower than the figure of 6.4 per cent earlier projected by the Central Bank of Sri Lanka, the shortfall being due in large measure to the tsunami. In the wake of that disaster, expectations are naturally reduced; nonetheless, business confidence remains high. The Sri Lankan economy has shown great resilience in the face of previous shocks and is expected to recover rapidly from this one, though official growth projections for 2005 remain at a relatively low 5 to 6 per cent. Rs. 5.1 billion was received for relief, rehabilitation and reconstruction in the wake of tsunami from both local and foreign individuals and organisations through the banking system which further helped to support the economy.

Inflation, which remained at manageable levels throughout the Nineties and beyond, once again became a concern. This was primarily due to rises in energy costs, though supply shortages caused by drought and high international commodity prices also contributed. The annual average inflation rate, as measured by the Colombo Consumers' Price Index (CCPI), stood at about 7 per cent at the end of 2004, exceeding the projected GDP growth rate by nearly 2 per cent.

Economic growth and tourism In spite of rising energy prices and tightening credit due to central bankers' fear of inflation, worldwide growth continued steady. The ongoing global recovery from the recession of 2001-2003 helped drive demand for Sri Lankan products and services. The resulting economic expansion continued to generate employment, causing a quarter-on-quarter fall in the national rate of unemployment from 9.0 to 8.0 per cent in early 2004.

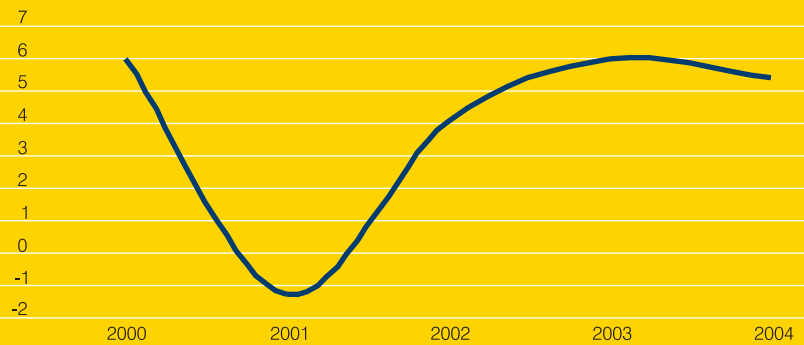
With the economy heavily dependant on apparel exports, it was widely feared that the end of the Multi Fibre Agreement in January 2005 would adversely affect output; however, the first half of 2005 has seen the industry adjust to a new free-trading environment with relatively little stress, which augurs well for the future. The Sri Lankan logistics industry, which is closely involved with the Clothing sector, is also expected to go on performing well.

Age Distribution



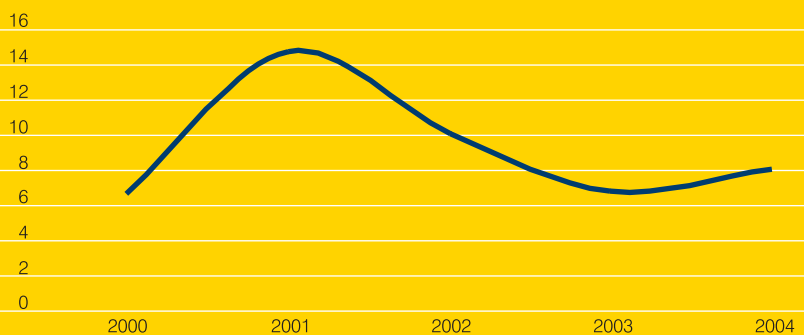
GDP Growth Rates

%



Inflation

% Change



Steady worldwide growth had positive effects on other areas of the Sri Lankan economy. One of these was tourism. The industry, which is another major contributor to the Sri Lankan economy, is expected to be the world's largest source of employment by 2020. In Sri Lanka, a strong and steady recovery in tourism began with the signing of the cease-fire agreement between the Government and the LTTE in December 2002. Growth continued apace into 2004, with many hotels and tour operators recording their largest guest and turnover numbers ever.

Overall, tourist arrivals grew by 14% in the months up to the tsunami, reaching a figure of 434,250 by December 2004. Most arrivals were from Western Europe, with tourists from France and particularly the UK helping to reduce Sri Lanka's former heavy dependence on the Western market.

Economic growth in India, China and the region at large left Asian consumers with more disposable income and a greater inclination to spend it on travel. India, in particular, became an important market for the Sri Lankan tourism industry, with 105,151 arrivals from that country registered in 2004, the highest figure ever recorded.

The December tsunami was a major set back for tourism, wiping out many of the year's gains. Happily, the industry was quick to recover from the immediate effects of the disaster. Tourists are now returning to Sri Lanka's shores, and strong growth is expected from the sector in the short to medium term.

Sri Lanka at a glance

Location	6° 93N, 79° 85E
Time Zone	GMT + 6 hr
Area	65,610 sq km
Annual Mean Temperature (Colombo)	27°C
Commercial Capital	Colombo
Population (est.)	19.4 million
Population Density	310/km².
Population Growth Rate (est.)	1.0%
Currency	Sri Lankan rupees
Languages	Sinhalese, Tamil, English
Religion	Buddhist, Hindu, Muslim, Christian
Literacy Rate	92.5%
Per Capita GDP US\$ - 2004	1,031
Per Capita GDP Growth - 2004	5.4%
Trade Balance (US\$) - 2004	-2,243
- Exports (US\$)	5,757
- Imports (US\$)	8,000
Inflation	7.6%

Source: Central Bank of Sri Lanka, Annual Report 2004

Corporate Governance

Corporate Governance is the system by which companies are directed and managed and influences the manner in which the objectives of the Company are set and achieved. A sound governance system provides a mechanism of monitoring and assessing risks and facilitates the optimisation of performance in order to safeguard and enhance value to the stakeholders of the Company.

Aitken Spence & Company Ltd., places great emphasis and importance on the principles and practices of good Corporate Governance. The Board of Aitken Spence & Company Ltd., takes responsibility for good Corporate Governance, and is committed to best practices in Corporate Governance while ensuring that such practices are appropriate and add value to the Group. The Board of Directors define and sets the direction of the Group and communicates such practices and procedures to the strategic business units of the Group.

The Company is guided by the Code of Best Practice on Corporate Governance by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange, in its application of Corporate Governance practices.

The Board of Directors

Aitken Spence & Company Ltd. and its subsidiaries are managed under the direction of the Board. The Board is the ultimate decision making body of the Company, except for those matters reserved for or shared with the shareholders. The Board exercises leadership, integrity and judgement in directing the Company so as to achieve continuing prosperity for the organisation and acts in the best interest of the Company and its stakeholders in a transparent, accountable and responsible manner.

Structure of the Board of Directors

The Board of Aitken Spence & Company Ltd., comprises of a Chairman, a Deputy Chairman & Managing Director, and five other Directors of whom one is an Executive Director responsible for new business development with the other four being Non-Executive Directors. The names and profiles of the Directors are given on page 119 of this report.

The functions of the Chairman and the Managing Director are clearly defined and separated which ensure the balance of power and authority within the organisation. The Chairman of the Company is responsible for conducting the Board Meetings and ensures the effective discharge of Board functions. The Managing Director of the Company is responsible for the operations of the Company's businesses. The balance of power and authority within the organisation ensures that no person has unfettered powers of decision making.

The Board of Directors formally met 6 times during the financial year. The Company Secretary is present at all Board meetings and ensures that proper facilities are in place for conducting effective Board meetings.

All Directors receive a detailed agenda with related papers prior to each Board meeting. The Board of Directors have access to independent professional advice, as and when deemed necessary for better management of the Company.

The Chairman who chairs the Board meetings ensures that proper procedures are followed in the conduct of Board meetings. The Board is in complete control of the Company's affairs and alert to its obligations to all stakeholders. The Chairman ensures the effective participation of both Executive and Non-Executive Directors at the Board meetings.

The Managing Director, who is from a multidisciplinary background with a wealth of international business management experience is responsible for the conducting of the Company's business and the implementation of Board policies.

The Directors individually and collectively possess a wide range of aptitudes, skills, business acumen, knowledge and experience. Each of them adds value and independent judgement on the decision-making process, which is of immense value to the effective functioning of the Board.

The key responsibilities of the Board include:

- Ensuring the appointment of a competent Managing Director.
- Approving the terms of employment of the Members of the Board of Management and the Senior Management.
- Formulating, communicating, implementing and monitoring the business strategies, objectives and goals of the Group.
- Reviewing and approving the operational and financial budgets of the Group.
- Evaluating and monitoring performance of each business sector on a regular basis and when required instituting remedial and revisionary action.
- Approving business proposals recommended by the Managing Director and the Board of Management.
- Ensuring the implementation and strict compliance of legal, ethical, health and safety standards by the Group.
- Approving the quarterly, half yearly and the annual accounts, determining the quantum of the dividends and recommending the final dividend for approval by the shareholders.
- Evaluating, monitoring and managing risks.
- Ensuring the optimisation and the evaluation of opportunities for income generation.

Appointment and retirement of Directors

In accordance with the Articles of Association of the Company the Board has the power to appoint Directors to fill a casual vacancy or appoint additional Directors. Directors so appointed hold office until the next annual general meeting and are eligible for re-election.

In order to ensure that the Board is composed of members who add value to the Group, the Board evaluates the qualifications and performance of each retiring Director before recommending such persons for re-election.

Directors' training

Internal and external training facilities are available for Directors to update their knowledge and skills to meet the rapid changes taking place in the environment.

Board of Management of the Group

The day-to-day operations are delegated by the Board of Directors to the Board of Management. The Board of Management comprises of the Managing Director of Aitken Spence & Company Ltd., who acts as the Chairman, and the Managing Directors of the strategic business units of the Group.

The names of the Directors of the Board of Management and their profiles are disclosed on pages 120 and 121 of this report.

The Board of Management meets regularly to ensure proper management and implementation of the objectives and goals formulated and communicated by the Board of Directors.

Management of risks

Good Corporate Governance entails the responsible handling of commercial and operational risks. Risk is inherent to every business organisation and covers a wide spectrum of issues. The Board of Directors manage these risks through a control based environment by monitoring, evaluating and taking remedial action, when necessary.

Stakeholders risks are minimised by a strict evaluation procedure for all investments in new projects and the expansion, reconstruction and re-engineering of existing businesses. Proposals for new investments are subjected to an exhaustive project feasibility evaluation by the Group Finance Division headed by the Group's Chief Financial Officer. The feasibility study covers the financial, marketing technological, operational, legal and other risks associated with new proposals. In addition to performing sensitivity analysis on key assumptions, the Company seeks expert advice from outside sources where necessary. The findings of the study including issues and concerns raised are discussed critically by the Board of Management and thereafter an appropriate decision is taken. The decision of the Board of Management is then forwarded to the Board of Directors, for their approval.

The Board reserves the right to approve, reject or amend investment proposals. The Board may in certain instances request the proposals, to be re-evaluated, and the amended proposals are submitted for the re-consideration of the Board. The above system ensures the protection of all stakeholders.

Internal control and compliance

The Company maintains a management structure with clearly defined lines of responsibility and authority to safeguard the shareholders' investment and the Company's assets. 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.

The Board ensures that the Company maintains strict accountability for all transactions. The Board further ensures a system of internal control, which is designed to provide reasonable assurance that all transactions entered into by the Company are relevant, properly authorised, and appropriately recorded. Written policies and guidelines are in place in respect of all transactions undertaken by the Company.

The internal control system is augmented by the Internal Audit Department, which is totally independent of management. Group companies are subject to regular internal audit and systems review. The Group Internal Audit Department is headed by the Chief Internal Auditor of the Group and ensures that the Group complies with the internal control systems and procedures of the Group. Observations and findings of the Chief Internal Auditor are discussed by the Audit Committee. The Audit Committee which is a sub-committee, reports to the Board of Directors of Aitken Spence & Company Ltd.

A close rapport is maintained with institutions such as the Registrar of Companies, Securities & Exchange Commission of Sri Lanka, Colombo Stock Exchange, Board of Investment, Department of Inland Revenue, Central Bank of Sri Lanka, External Auditors, Banks, and Professional and Trade Associations. The Group's operations and activities strictly adhere to proper practices in relation to the country's regulatory and advisory bodies and the laws of the country.

The Board has reviewed the effectiveness of the internal control system established in the Group and is satisfied with the internal controls in operation.

Audit Committee

The Board has appointed an Audit Committee as a sub-committee of the Board. The names of the members of the Audit Committee are listed on the inner back cover and the Report of the Audit Committee is given on page 66 of this Annual Report.

Remuneration Committee

The Remuneration Committee of the Aitken Spence Group consists of the Chairman of Aitken Spence & Company Ltd., as Chairman of the Committee and two Non-Executive Directors. The names of the members of the Remuneration Committee are listed on the inner back cover of the report. The Remuneration Committee met twice during the financial year and the report of the Remuneration Committee is set out on page 67 of this report.

Shareholders' Rights and Relationship with the Company

The right and responsibility of electing Directors and the Auditors of the Company as per Companies Act of No. 17 of 1982 of Sri Lanka are recognised as important contributions made by the shareholders to ensure good governance of the Company.

The Board recognises the importance of maintaining good relations with shareholders. All shareholders are invited to participate and vote at the annual general meeting. The annual general meeting provides an opportunity for the shareholders to seek clarifications and information on the performance and management of the Company and to informally meet the Directors after the annual general meeting. The representatives of KPMG Ford, Rhodes, Thornton & Co., the External Auditors of the Company are present at the annual general meeting to render any clarifications that may be appropriately requested.

Shareholders who are not in a position to attend the annual general meeting in person are entitled to have their voting rights exercised by a proxy of their own choice. Prior to the annual general meeting, all relevant documents are provided to the shareholders within the stipulated period as per the Companies Act No. 17 of 1982.

As a communication strategy with shareholders, potential investors and interested parties, the Company maintains a website, which gives Company information, announcement of corporate results and other relevant information. The Board is committed to ensure that the Colombo Stock Exchange and the shareholders are informed of all transactions and events that have a significant impact on the Group's performance. The Managing Director and the Senior Management meet regularly with institutional shareholders and fund managers to keep them abreast of the performance of the Group.

Areas of Relevance

Employee Communication The Board of Management ensures that the vision, goals and objectives of the Group are clearly communicated to and understood by all employees. Thereby the direction of the Company is known to all employees of the Group. The Board ensures that all information is communicated properly and accurately. The employee communication is mainly through the Group's intranet, electronic mail, memos, meetings and discussions.

Business and Corporate Ethics The Board ensures that the Group strictly complies with all relevant laws, regulations and codes of best business practices and is not involved in any unethical practices. In order to achieve the above, the Group maintains a comprehensive and well-defined code of business conduct and ethics for its Directors and employees. The Board of Directors ensures that the code of ethics has been documented and given to all executives of the Group. Non-adherence to the code of ethics is considered a violation of the terms and conditions of employment.

Statutory Obligations The Directors, to the best of their knowledge and belief are satisfied that all financial obligations due to the State and to the employees have been either duly paid or adequately provided for in the financial statements.

Operating Environment The Board of Directors to the best of their ability have applied very high standards to protect the environment. The Group promotes health and safety standards of its employees and others who come into contact with the organisation. Adherence to Environmental Standards are not compromised by the Group. The numerous environmental awards won by Group Companies are ample testimony to this aspect of good Corporate Governance.

Responsibility for Financial Statements

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

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 Chief Financial Officer and the Chief Internal Auditor, when they attend Committee meetings, do so on invitation, but not as members.

The Audit Committee endeavours to assist the Directors to discharge their duty of ensuring that the Company's internal controls and conduct of business are in accordance with 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 formally three times during the financial year ended 31st March 2005. In addition, the Chairman of the Audit Committee had a regular dialogue with the Chief Internal Auditor, Chief Financial Officer and the Company Secretary in connection with audit related issues. At these meetings the Internal Audit Reports together with the responses thereto were tabled, discussed and appropriate action was initiated. The functional heads of Strategic Business Units were requested to attend meetings, whenever the Committee deemed it necessary. Appropriate corrective action was taken where necessary, to strengthen internal controls and procedures.

Having evaluated the performance of the external auditors, the Audit Committee decided to recommend to the Board of Aitken Spence & Co. Ltd. the re-appointment of the external auditors - Messrs. KPMG Ford, Rhodes, Thornton & Co. subject to the approval of the share holders at the Annual General Meeting.

The Committee had discussions with the External Auditors regarding the audit for the year ended 31st March 2005. The Committee reviewed the Management Letter issued by the External Auditors for the year ended 31st March 2004, and directed that the Group Companies take cognizance of their comments and implement the recommendations made therein.



G.C. Wickremasinghe
Chairman
Audit Committee

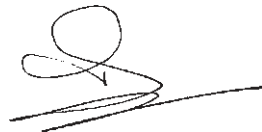
9th May 2005

Remuneration Committee Report

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

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

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



D.H.S. Jayawardena

Chairman

Remuneration Committee

9th May 2005

Financial Reports

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Financial Calendar 2005/2006

12th April 2005

Interim Dividend for 2004/2005 (*ex dividend date 31st March 2005*)

8th July 2005

Fifty Third Annual General Meeting -

Final Dividend for 2004/2005 (*ex dividend date 28th June 2005*)

First week of August 2005

Interim Statement for the three months ended 30th June 2005

First week of November 2005

Interim Statement for the six months ended 30th September 2005

First week of February 2006

Interim Statement for the nine months ended 31st December 2005

Directors' Report

The Directors of Aitken Spence & Company Ltd., have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31st March 2005 which were approved by the Directors on 7th June 2005.

Principal Activities

The Group is engaged in diverse business activities, which are described on pages 124 to 125.

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 and Financial Review.

Group Revenue

The Revenue of the Group was Rs. 10,063,989,316/- (2003/2004 - Rs. 9,157,159,605/-). An analysis of revenue based on business and geographical segments is disclosed in Note 1 to the financial statements on page 87.

Profit

The net profit before tax of the Group decreased by 8% to Rs. 1,733,654,627/- and the profit after tax decreased by 8% to Rs. 1,558,524,225/-. The profit available for distribution to shareholders for the year was Rs. 1,116,776,456/- which is a decrease of 12%.

The segmental profits are disclosed in Note 1 to the financial statements on page 87.

Donations

During the year charitable donations amounting to Rs. 26,641,621/- were made by the Group.

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 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. The deferred tax liability of the Group is given in Note 22 to the financial statements.

Dividends

An interim ordinary dividend of 25% was paid on 12th of April 2005. The Directors recommend a final ordinary dividend of 35% making a total dividend payment of 60% for the year ended 31st March 2005. The total dividend is paid out of exempt dividends received by the Company and is exempt from tax in the hands of the shareholders.

Group Profits

	2004/2005 Rs.	2003/2004 Rs.
The net profit of the Group for the year after providing for all expenses, known liabilities and depreciation on property, plant & equipment was	1,733,654,627	1,888,676,402
From which taxes has to be deducted	(175,130,402)	(189,180,259)
Leaving the Group with a profit after taxation of	1,558,524,225	1,699,496,143
From which the amount attributable to minority interest has to be adjusted	(441,747,769)	(423,972,740)
Leaving a profit for the year applicable to the Company of	1,116,776,456	1,275,523,403
To which the balance of the previous year has to be added	2,311,365,487	1,559,551,258
The amount available to the Company for appropriation therefore was	3,428,141,943	2,835,074,661

Appropriations

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

Transfer to/(from) general reserves	233,951,021	361,544,756
Transfer to proposed dividend	31,449	195,000
Interim dividend declared (2003/04 - paid)	67,642,258	67,487,257
Final dividend recommended	94,699,161	94,482,161
Leaving an unappropriated balance to be carried forward of	3,031,818,054	2,311,365,487
	3,428,141,943	2,835,074,661

Share Capital

The total issued and paid up ordinary share capital of the Company as at 31st March 2005 was Rs. 270,569,030/- which is an increase of Rs. 620,000/- over the issued ordinary share capital as at the end of the previous financial year. The increase in share capital is due to 62,000 share options being exercised by employees of the Company.

Reserves

The total Group reserves as at 31st March 2005 was Rs. 7,296,349,081/- (2004 - Rs. 6,304,866,794/-). This consisted of Capital Reserves of Rs. 3,269,559,442/- (2004 - Rs. 3,266,690,442/-) and Revenue Reserves of Rs. 4,026,789,639/- (2004 - Rs. 3,038,176,352/-). The movement in these reserves is shown in the Statement of Changes in Equity - Consolidated on page 78.

Debentures

Quoted Debentures

On the 4th of April 2004, the Company redeemed 2,000,000 of the unsecured quoted debentures of Rs. 100/- each. The interest on these debentures was 15.25% per annum payable semi-annually.

The details of the unredeemed quoted debentures as at 31st March 2005 are as follows:

- 1,000,000 four-year debentures of Rs. 100/- each with interest payable semi-annually at a fixed interest rate of 15.75% p.a. and
- 1,000,000 four-year debentures of Rs. 100/- each with interest payable annually at a fixed interest rate of 16.00% p.a.

Trading information on debentures during the year are reflected on page 117 of this report.

Unquoted Debentures

During the year the Company raised Rs. 1 billion through a private placement of unsecured debentures. Each debenture is for a period of five years with a face value of Rs. 100,000/- with a credit rating of AA (sri) granted by Fitch Ratings Lanka Ltd. The details of the debentures issued are as follows:

- 5,000 fixed rate unsecured redeemable debentures of Rs. 100,000/- each issued on the 30th of June 2004, with interest payable semi-annually at an interest rate of 10.96% p.a.
- 5,000 floating rate unsecured redeemable debentures of Rs. 100,000/- each issued on the 30th of July 2004, with interest payable semi-annually at an interest rate of the six months net treasury bill rate + 2.15% p.a.

The unquoted debentures were issued to fund the Company's equity investment in the 100 MW medium-term power generation project at Embilipitiya and to fund the investments in the tourism sector.

Property, Plant & Equipment

The total expenditure on the acquisition of property, plant & equipment during the year in respect of new assets and replacements amounted to Rs. 2,927,915,301/-. The majority of these investments were in the infrastructure development and cargo logistics sectors. The movement in property, plant & equipment of the Group is reflected in Note 10.1 to the financial statements.

Market Value of Freehold Properties

The freehold land owned by companies in the Group were revalued, by professionally qualified independent valuers during the financial year 2003/2004, other than those owned by Aitken Spence Hotel Holdings Ltd., which were revalued in 2001/2002. The Group revalues its freehold land once in every five years. Details of the revaluation, written down value and the carrying amount at cost is reflected in Note 10.3 to the financial statements.

Shareholder Information

Information relating to earnings, net assets, dividends and market price per share are given in the Financial Highlights on page 20. The Share & Debenture Information is given on page 114 to 117 of this Annual Report.

Investments and Future Developments

During the year the Group invested Rs. 177,149,120/- in existing and new business sectors. The investments made by the Group are given in Notes 12-14 of the financial statements. The future developments of the Group are highlighted in the Chairman's Message and the Managing Director's Review.

Corporate Governance

The Company's corporate governance practices are set out on pages 60 to 65 of the Annual Report.

Internal Control

The Directors accept ultimate responsibility for the Group's system of internal control. The systems are geared to provide with reasonable assurance that the assets of the Group are safeguarded and that all transactions entered into by the Group are relevant, duly authorised and properly recorded. Further details of the internal controls in operation are contained in the Statement of Directors' Responsibilities on page 74 and the Audit Committee Report set out on page 66 of the Annual Report.

Contingent Liabilities

Contingent liabilities exist in respect of guarantees given to third parties in respect of bank and credit facilities obtained by subsidiaries and 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 for in the financial statements. A compliance statement is included in the Statement of Directors' Responsibilities on page 74 of this report.

Environmental Protection

The Board of Directors to the best of its abilities has applied very high standards to protect the environment in which the Group operates and ensures strict adherence to all environmental laws. The numerous environmental awards won by Group companies are ample testimony to this aspect of the Group's Corporate Governance systems. The Group has not engaged in any activities which are harmful to the environment. The environment report of the Group is included in the Sustainability Report which is on pages 49 to 52 of the Annual Report.

Going Concern

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

Events occurring after the Balance Sheet date

There have not been any material events that occurred subsequent to the date of the Balance Sheet, that require disclosure or adjustments to the financial statements.

Shareholdings

There were 1,548 shareholders as at 31st March 2005. The distribution of the shares is detailed on page 114. Details of the twenty largest shareholders as at 31st March 2005 are given on page 115.

Directors

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

All Directors of the Company held office during the entire financial year other than Dr. R.M. Fernando who was appointed to the Board, on 1st April 2005.

Mr. E.P.A. Cooray who retires by rotation in terms of Article 85 of the Articles of Association of the Company, has given notice in writing to the Company that he will not be seeking re-election as a Director at the forthcoming Annual General Meeting.

Dr. R.M. Fernando retires in terms of Article 91 of the Articles of Association of the Company and being eligible is recommended by the Board for re-election at the forthcoming Annual General Meeting.

Directors' Shareholding and their Interests

The Directors of the Company together with their spouses held as at 31st March 2005, 1,129,481 shares in the Company. Their holdings amounted to 4.2% of the total issued share capital, as detailed below:

Shareholding of Directors together with their spouses

	31.03.2005	31.03.2004
D.H.S. Jayawardena	Nil	Nil
J.M.S. Brito	3,733	3,733
R.M. Fernando	Nil	Nil
G.C. Wickremasinghe	487,216	487,216
R. Sivaratham	503,290	503,290
E.P.A. Cooray	135,242	135,242
C.H. Gomez	Nil	Nil

The Indirect Shareholding of Directors

	31.03.2005	31.03.2004
D.H.S. Jayawardena		
- Stassen Exports Ltd.	216,300	216,300
- Milford Exports (Ceylon) Ltd.	288,100	288,100
G.C. Wickremasinghe		
- Manohari Enterprises Ltd.	19,922	19,922

Shares held by the Directors in Group Companies

	31.03.2005	31.03.2004
Aitken Spence Hotel Holdings Ltd.		
J.M.S. Brito	3,000	1,100
G.C. Wickremasinghe	316,551	316,551
R. Sivaratnam	73,334	100,089
E.P.A. Cooray	932	932

Hethersett Hotels Ltd.

G.C. Wickremasinghe	1,041,500	1,041,500
R. Sivaratnam	25,000	25,000
E.P.A. Cooray	5,000	5,000

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

Debentures held by the Directors

	31.03.2005	31.03.2004
R. Sivaratnam	12,320	12,320

The above debentures are held in Ace Power Generation Matara Ltd., a subsidiary company of Aitken Spence & Company Ltd. The above debentures are quoted debentures of Rs. 100/- each with interest payable semi-annually at AWDR + 5.5%.

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

Directors' Interests in Contracts

The Directors have disclosed their interests in contracts of the Company at meetings of the Directors, the details of such are set out in the "Notes to the financial statements" on page 109.

Share Option Scheme

The Company as at 31st March 2005 had offered 1,169,800 shares by way of stock options to executives including Executive Directors of the Group companies. As at 31st March 2005, options for 695,403 shares had been exercised, options for 452,397 shares had lapsed and the balance options for 22,000 shares may be exercised at a price of Rs. 85.50 per share on or before 28th January 2006.

During the year, executives of the Group exercised options for 62,000 shares at prices ranging from Rs. 85.50 to Rs. 121.00 per share.

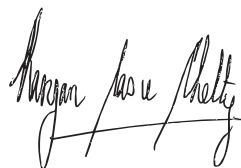
Public Holding

The percentage of the shares held by the public as at 31st March 2005 is 49.56%.

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

7th June 2005

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 the Sri Lanka Accounting Standards.

The Directors confirm that the financial statements of the Company and its subsidiaries for the year ended 31st March 2005 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 operations, the Directors are of the view that the Company has adequate resources to continue in operation.

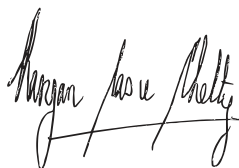
The Directors have accepted the responsibility to ensure that the companies within the Group maintain accurate records which disclose the financial position of each such company and hence the Group.

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, levies and financial obligations of the Group have been either duly paid or adequately provided for in the financial statements.

By Order of the Board,



R.E.V. Casie Chetty

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

Secretary

Colombo

7th June 2005

Report of the Auditors



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 242 6426
Fax : +94 - 11 244 5872,
244 6058, 254 1249
Internet : www.lk.kpmg.com

To the Members of Aitken Spence & Company Ltd.

We have audited the balance sheet of Aitken Spence & Company Ltd. as at 31st March 2005, 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 76 to 110 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 2005, 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 and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st March 2005, and of its profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and statements of income, cash flow and changes in equity and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act No. 17 of 1982 and Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31st March 2005, 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 2005, except as stated in Note 32 to these financial statements.

Chartered Accountants

Colombo
7th June 2005

KPMG Ford, Rhodes, Thornton & Co.,
a Sri Lankan partnership, is the Sri Lankan member
firm of KPMG International, a Swiss cooperative

R. N. Asirwatham FCA
R. Seevaratnam FCA
M. R. Mihular FCA
P. Y. S. Perera FCA
T. J. S. Rajakarier FCA
Ms. S. Joseph ACA

A. N. Fernando FCA
S. Sirikananathan FCA
Ms. M. P. Perera FCA
C. P. Jayatilake FCA
W. W. J. C. Perera FCA

Income Statements

<i>For the year ended 31st March</i>							
		2005	Group 2004	%	2005	Company 2004	%
	Notes	Rs. '000	Rs. '000	Change	Rs. '000	Rs. '000	Change
Revenue	1	10,063,989	9,157,160	10	178,636	147,058	21
Revenue tax		(140,807)	(107,916)	30	—	—	—
Net revenue		9,923,182	9,049,244	10	178,636	147,058	21
Other operating income	2	301,193	246,098	22	784,286	1,138,854	(31)
Changes in inventories of finished goods and work-in-progress		3,659	(9,023)	(141)	—	—	—
Raw materials and consumables used		(2,550,693)	(1,822,288)	40	—	—	—
Staff costs		(1,025,796)	(997,416)	3	(47,754)	(85,667)	(44)
Depreciation and amortisation		(459,874)	(444,833)	3	(19,113)	(16,047)	19
Other operating expenses - direct	3	(2,789,323)	(2,754,078)	1	—	—	—
Other operating expenses - indirect		(1,525,530)	(1,227,701)	24	(85,871)	(78,952)	9
Profit from operations	1 & 4	1,876,818	2,040,003	(8)	810,184	1,105,246	(27)
Interest income		88,144	92,309	(5)	97,730	143,115	(32)
Finance cost	5	(298,534)	(277,221)	8	(146,324)	(113,933)	28
Profit from operations after interest		1,666,428	1,855,091	(10)	761,590	1,134,428	(33)
Share of associate companies profit before taxation	6	67,226	33,585	100	—	—	—
Profit on ordinary activities							
before taxation		1,733,654	1,888,676	(8)	761,590	1,134,428	(33)
Taxation	7	(175,130)	(189,180)	(7)	1,463	(1,268)	(215)
Profit after taxation		1,558,524	1,699,496	(8)	763,053	1,133,160	(33)
Minority interest		(441,748)	(423,973)	4	—	—	—
Net profit for the year		1,116,776	1,275,523	(12)	763,053	1,133,160	(33)
Earnings per share (Rs.)	8	41.32	47.36	(13)	28.23	42.07	(33)
Diluted earnings per share (Rs.)	8	41.29	47.26	(13)	28.22	41.99	(33)

The accounting policies and notes on pages 82 to 110 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Balance Sheets

As at 31st March		Group		Company	
	Notes	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Assets					
Non-current assets					
Property, plant & equipment	10	11,005,913	8,576,500	735,706	748,449
Intangible assets	11	170,058	92,017	–	–
Investments in subsidiaries and joint ventures - unquoted	12	–	–	2,807,698	2,556,947
Investments in subsidiaries - quoted	12	–	–	679,300	679,300
Investments in associates	13	672,513	541,726	398,441	341,204
Long-term investments	14	558,899	608,413	550,269	567,617
		12,407,383	9,818,656	5,171,414	4,893,517
Current assets					
Inventories	15	363,089	316,068	1,369	1,076
Amount due from subsidiaries		–	–	1,138,350	897,267
Amount due from associates		80,129	27,234	75,822	27,106
Trade and other receivables	16	1,954,557	2,159,779	70,684	61,803
Current investments	17	3,670	4,003	139	139
Deposits and prepayments		248,570	315,387	2,480	1,892
Short-term deposits		1,370,665	740,069	825,279	116,665
Cash & cash equivalents		678,662	896,466	69,119	340,859
		4,699,342	4,459,006	2,183,242	1,446,807
Total assets	18	17,106,725	14,277,662	7,354,656	6,340,324
Equity and liabilities					
Equity					
Issued and fully paid share capital	19	270,569	269,949	270,569	269,949
Reserves	19	4,169,832	3,899,020	3,390,182	3,015,655
Retained earnings		3,031,818	2,311,365	982,998	753,816
Proposed dividend		94,699	94,482	94,699	94,482
Total equity		7,566,918	6,574,816	4,738,448	4,133,902
Minority interest		1,774,362	1,765,622	–	–
Non-current liabilities					
Deferred income	20	30,643	31,705	–	–
Interest-bearing liabilities	21	4,206,804	2,235,722	1,000,000	200,000
Deferred tax	22	103,625	106,963	11,059	15,022
Retirement benefit obligations	23	135,736	130,442	14,471	16,236
		4,476,808	2,504,832	1,025,530	231,258
Current liabilities					
Trade payables		777,727	1,078,358	–	–
Provisions and other payables	24	1,249,542	770,477	255,434	198,434
Interest bearing liabilities repayable within one year	21	745,903	867,943	200,000	200,000
Amount due to subsidiaries		–	–	1,024,973	1,506,011
Amount due to associates		310	10,360	–	–
Provision for taxation		62,863	105,286	–	590
Interim dividend declared		67,642	–	67,642	–
Short-term bank borrowings		384,650	599,968	42,629	70,129
		3,288,637	3,432,392	1,590,678	1,975,164
Total equity and liabilities		17,106,725	14,277,662	7,354,656	6,340,324

The accounting policies and notes on pages 82 to 110 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 7th June 2005.



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 2005

	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 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 for 2002/2003	—	—	—	—	—	—	—	(67,235)	(67,235)
Interim dividend paid for 2003/2004 (Note 9)	—	—	—	—	—	—	(67,487)	—	(67,487)
Final dividend proposed 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
Currency translation differences	—	—	—	—	—	33,833	—	—	33,833
Net gains and losses not recognised in the income statement	—	—	—	—	—	33,833	—	—	33,833
Net profit for the period	—	—	—	—	—	—	1,116,776	—	1,116,776
Transfer to general reserve	—	—	—	—	371,500	—	(371,500)	—	—
Transfer to/from retained earnings	—	—	—	—	(137,549)	—	137,518	31	—
Unclaimed dividend transferred to reserves	—	—	—	—	159	—	—	—	159
Final dividend paid 2003/2004 (Note 9)	—	—	—	—	—	—	—	(94,513)	(94,513)
Interim dividend 2004/2005 (Note 9)	—	—	—	—	—	—	(67,642)	—	(67,642)
Final dividend recommended for 2004/2005 (Note 9)	—	—	—	—	—	—	(94,699)	94,699	—
Debenture issue expenses	—	(3,800)	—	—	—	—	—	—	(3,800)
Shares issued under stock option scheme	620	6,669	—	—	—	—	—	—	7,289
Balance as at 31st March 2005	270,569	1,863,757	1,278,282	127,521	820,700	79,572	3,031,818	94,699	7,566,918

The accounting policies and notes on pages 82 to 110 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 2005

	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 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
Transfers to general reserve	—	—	—	292,769	(292,769)	—	—
Transfer from retained earnings	—	—	—	—	(195)	195	—
Final dividend paid for 2002/2003	—	—	—	—	—	(67,235)	(67,235)
Interim dividend paid (Note 9)	—	—	—	—	(67,487)	—	(67,487)
Final dividend proposed 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
Net profit for the period	—	—	—	—	763,053	—	763,053
Transfer to general reserve	—	—	—	371,499	(371,499)	—	—
Transfer from retained earnings	—	—	—	—	(31)	31	—
Unclaimed dividend transferred to reserves	—	—	—	159	—	—	159
Final dividend paid for 2003/2004 (Note 9)	—	—	—	—	—	(94,513)	(94,513)
Interim dividend 2004/2005 (Note 9)	—	—	—	—	(67,642)	—	(67,642)
Final dividend recommended for 2004/2005 (Note 9)	—	—	—	—	(94,699)	94,699	—
Debenture issue expenses	—	(3,800)	—	—	—	—	(3,800)
Shares issued under stock option scheme	620	6,669	—	—	—	—	7,289
Balance as at 31st March 2005	270,569	1,863,757	735,904	790,521	982,998	94,699	4,738,448

The accounting policies and notes on pages 82 to 110 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Cash Flow Statements

For the year ended 31st March	Group		Company	
	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Cash flow from operating activities				
Net profit before taxation	1,733,654	1,888,676	761,590	1,134,428
Adjustments for				
Depreciation & amortisation	459,874	444,833	19,113	16,047
Interest expense	280,650	259,187	145,812	113,581
Profit on sale of property, plant & equipment	(14,354)	(15,934)	(3,643)	(19)
Profit on sale of investments	(200,538)	(166,063)	(237,459)	(743,169)
Interest income	(88,144)	(92,309)	(97,730)	(143,115)
Amortisation of surplus on acquisition	(2,278)	(2,246)	–	–
Share of associate companies' profit before tax	(67,226)	(33,585)	–	–
Provision/write off of bad and doubtful debts	(2,924)	19,709	–	4,033
Effect of subsidiaries disposed during the year	(49,705)	–	–	–
Effect of subsidiaries acquired during the year	5,973	–	–	–
Write offs of property, plant & equipment	103,863	12,952	–	4,223
Provisions made during the year (Note 34)	127,930	–	–	–
Unclaimed dividends transferred to reserves	159	–	159	–
Movement in provision for fall in value of investment	275	(104)	–	–
Foreign exchange profit	(44,799)	(41,351)	(9,343)	–
Gratuity provision	29,931	37,837	3,696	4,941
	538,687	422,926	(179,395)	(743,478)
Operating profit before working capital changes	2,272,341	2,311,602	582,195	390,950
(Increase)/decrease in trade and other receivables	155,251	(308,453)	(292,102)	108,487
(Increase)/decrease in inventories	(47,021)	(29,386)	(293)	(773)
(Increase)/decrease in deposits & prepayments	66,817	(132,709)	(588)	985
Increase/(decrease) in trade and other payables	48,209	149,974	(416,283)	51,649
	223,256	(320,574)	(709,266)	160,348
Cash generated from operations	2,495,597	1,991,028	(127,071)	551,298
Interest paid	(280,650)	(259,187)	(145,812)	(113,581)
Income tax paid	(181,704)	(128,499)	(9,668)	(5,799)
Gratuity payment	(17,517)	(12,765)	(5,461)	(538)
	(479,871)	(400,451)	(160,941)	(119,918)
Net cash flow from operating activities				
(carried forward to next page)	2,015,726	1,590,577	(288,012)	431,380

Cash Flow Statements

<i>For the year ended 31st March</i>	Group		Company	
	2005	2004	2005	2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net cash flow from operating activities				
(brought forward from previous page)	2,015,726	1,590,577	(288,012)	431,380
Cash flow from investing activities				
Investments made during the year	(177,149)	(459,947)	(339,034)	(1,466,540)
Purchase of property, plant & equipment	(2,927,915)	(543,023)	(6,660)	(20,102)
Proceeds from sale of property, plant & equipment	24,879	26,922	3,933	216
Proceeds from sale of investment	275,977	352,390	285,853	888,268
Dividends and dividend taxes paid by subsidiary companies to outside shareholders	(491,435)	(119,664)	–	–
Dividends received from associate companies	5,556	8,326	–	–
Net cash used in investing activities	(3,290,087)	(734,996)	(55,908)	(598,158)
Cash flow from financing activities				
Interest received from deposits	88,144	92,309	97,730	143,115
Proceeds from interest bearing liabilities	2,640,966	–	1,000,000	–
Issue of shares	7,289	18,406	7,289	18,406
Issue of shares by subsidiaries	–	125	–	–
Debenture issue expenses	(3,800)	–	(3,800)	–
Repayment of interest-bearing liabilities	(879,457)	(401,880)	(200,000)	–
Dividends paid	(102,268)	(127,670)	(102,268)	(127,670)
Net cash from financing activities	1,750,874	(418,710)	798,951	33,851
Net increase in cash & cash equivalents	476,513	436,871	455,031	(132,927)
Cash & cash equivalents at the beginning of the period	1,188,164	599,696	396,738	520,322
Cash & cash equivalents at the end of the period	1,664,677	1,036,567	851,769	387,395
Cash & cash equivalents at the end of the period				
Cash at bank and in hand	678,662	896,466	69,119	340,859
Short term deposits	1,370,665	740,069	825,279	116,665
Short-term bank borrowings	(384,650)	(599,968)	(42,629)	(70,129)
Cash & cash equivalents as previously reported	1,664,677	1,036,567	851,769	387,395
Effect of exchange rate changes	–	151,597	–	9,343
Cash & cash equivalents as restated	1,664,677	1,188,164	851,769	396,738

The accounting policies and notes on pages 82 to 110 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 Accounting 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 7th June 2005.

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 or 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 have control over the financial and operating policies.

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

1.2.5 Joint Ventures

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

1.2.6 Reporting Date

All the Group's subsidiaries, jointly controlled entities and associate companies have a common financial year other than Aventis Pharma Ltd., Talawakelle Plantations Ltd., GAC Shipping Ltd., GAC Marine Services Ltd., and GAC Logistics (Pvt) Ltd. whose financial year ends on 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 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 meet the conditions for special hedge accounting in relation to Cash Flow Hedges, the portion of the exchange gain or loss on the hedge instrument that is determined to be an effective hedge is recognised directly in equity through the statement of changes in equity, which 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 is reported using the exchange rate that prevailed at the date of acquisition in accordance with the Sri Lanka Accounting Standard No. 21 - Effects of Changes in Foreign Exchange Rates.

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. The details of land revaluation are disclosed in Note 10.3 to the financial statements.

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 Plants	20 years
Plant & Machinery	10-20 years
Equipment	4-5 years
Motor Vehicles	4-10 years
Furniture & Fittings	10 years
Computer Equipment	3-5 years
Crockery, Cutlery & Glassware	3-5 years
Soft Furnishing	5-10 years

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

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 purchase 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 loans repayable on demand are included as a component of cash & cash equivalents for purpose of cash flow disclosures.

3. Liabilities and Provisions

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

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

4. Taxation

4.1. Income Tax

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

4.2 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.

5. Income Statement

5.1 Revenue

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

5.2 Profit

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

5.3 Expenditure

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

5.4 Borrowing Cost

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

5.5 Revenue Recognition

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

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

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

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

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

5.6 Disposal of Property, Plant & Equipment

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

5.7 Movement of Reserves

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

6. Segment Information

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

6.1 Business Segment

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

6.2 Geographical Segment

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

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

6.4 Segment information analysed by industry and geographical segments is disclosed in Notes to the accounts 1 & 18 on pages 87, 101 and 102.

7. Cash Flow

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

8. Commitments and Contingencies

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

Contingent liabilities are disclosed in Note 28 to the financial statements.

9. Retirement Benefits

9.1 Defined Benefit Plan - Retiring Gratuity

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

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

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

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

9.1.3 The liability is not externally funded.

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

9.2 Defined Contribution Plan

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

10. Events occurring after the Balance Sheet date

There were no material events that occurred after the Balance Sheet date that requires adjustments to or disclosure in the financial statements.

11. Comparative Figures

The Accounting Policies have been consistently applied by the Group and are consistent with those used in the previous year.

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	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Tourism sector	4,156,625	4,773,396	16,534	16,781	211,512	528,898	3,928,579	4,227,717
Cargo Logistics sector	2,110,754	1,745,571	105,032	76,041	134,608	75,581	1,871,114	1,593,949
Strategic investments								
- Manufacturing sector	962,317	836,042	5,414	8,509	7,769	7,943	949,134	819,590
- Infrastructure development sector	3,156,902	2,402,123	—	—	—	—	3,156,902	2,402,123
- Services & others	383,282	324,178	202,667	191,405	22,355	18,992	158,260	113,781
Total revenue	10,769,880	10,081,310	329,647	292,736	376,244	631,414	10,063,989	9,157,160

b. Profit

	Profit from Operations		Profit from Ordinary Activities		Non-Cash Expenses		Income Tax	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Tourism sector	453,224	893,362	447,446	859,486	9,602	23,870	56,117	78,290
Cargo Logistics sector	281,491	243,869	284,182	287,031	18,152	16,028	68,399	78,340
Strategic investments								
- Manufacturing sector	91,625	62,414	74,011	46,436	(971)	9,051	5,369	3,564
- Infrastructure development sector	787,425	654,398	662,091	505,183	531	367	315	—
- Services & others	775,815	537,252	711,460	508,247	6,375	12,001	6,295	7,951
	2,389,580	2,391,295	2,179,190	2,206,383	—	—	136,495	168,145
Amortisation of (goodwill)/negative goodwill	(5,992)	(3,886)	(5,992)	(3,886)	—	—	—	—
Associate companies	—	—	67,226	33,585	—	—	12,531	5,175
Inter-company dividends	(506,770)	(347,406)	(506,770)	(347,406)	—	—	26,104	15,860
	1,876,818	2,040,003	1,733,654	1,888,676	33,689	61,317	175,130	189,180

1.2 Geographical Segment

	Revenue		Profit on Ordinary Activities	
	2004/2005	2003/2004	2004/2005	2003/2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka	8,659,553	8,066,260	1,375,468	1,481,930
South Asia (Maldives & Bangladesh)	2,110,327	2,015,050	358,186	406,746
	10,769,880	10,081,310	1,733,654	1,888,676

2. Other Operating Income

	Group		Company	
	2004/2005	2003/2004	2004/2005	2003/2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Profit/(loss) on sale of property, plant & equipment	14,354	15,934	3,643	19
Profit on sale of investments *	200,538	166,063	237,459	743,169
Dividend (net) from investments	3,993	15,492	533,841	395,584
Amortisation of surplus on acquisition	2,278	2,246	—	—
Provision for fall in value of investments	(275)	104	—	—
Foreign exchange profit	44,799	41,351	9,343	—
Advance against insurance	30,435	—	—	—
Sundry income	5,071	4,908	—	82
	301,193	246,098	784,286	1,138,854

* During the year the Group entered into strategic alliances with third parties in respect of its investments in the destination management sector and maritime transport sector. Profits resulting from the divestments of part of the Group's holding in these companies are included under the profit on sale of investments.

3. Other Operating Expenses - Direct

Direct operating expenses as disclosed in the income statements 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	
	2004/2005	2003/2004	2004/2005	2003/2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost of inventories and services	6,522,568	5,853,307	40,338	76,289
Directors' emoluments	111,514	84,415	10,581	10,560
Auditors' remuneration	4,858	4,666	457	392
Fees paid to auditors for non-audit services				
- KPMG Ford, Rhodes, Thornton & Co.	1,724	1,360	531	452
- Other auditors	1,563	1,634	—	—
Depreciation	451,603	438,701	19,113	16,047
Amortisation	8,271	6,132	—	—
Provision for bad and doubtful debts	3,845	23,610	—	4,033
Defined contribution plan cost - EPF & ETF	81,881	85,224	8,921	6,394
Defined benefit plan cost - Gratuity	29,931	37,837	3,696	4,941

5. Finance Cost

	Group		Company	
	2004/2005	2003/2004	2004/2005	2003/2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest on long-term borrowings	253,789	236,891	36,137	62,534
Interest on short-term borrowings	26,861	22,296	109,675	51,047
Bank charges	15,712	15,754	512	352
Finance charges on leases	2,172	2,280	—	—
	298,534	277,221	146,324	113,933

Borrowing costs capitalised on qualifying assets by the Group during the financial year 2004/2005 was Rs. 50,529,283/-. (Company - Nil). There were no borrowing costs capitalised during the financial year 2003/2004.

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

	Group	
	2004/2005	2003/2004
	Rs. '000	Rs. '000
M.P.S. Hotels Ltd.	1,762	1,615
Browns Beach Hotels Ltd.	(2,131)	1,029
Aventis Pharma Ltd.	6,318	4,678
Aitken Spence Plantation Managements (Pvt) Ltd. (consolidated with Elpitiya Plantations Ltd.)	23,239	6,470
Hayleys Plantation Services Ltd. (consolidated with Talawakelle Plantations Ltd.)	31,604	19,793
Ceyspence (Pvt) Ltd.	1,596	—
Ceyserv Lines (Pvt) Ltd.	7,398	—
Ceyfirst Shipping (Pvt) Ltd.	(2,560)	—
	67,226	33,585

7. Taxation

- 7.1** Income tax provision of Aitken Spence & Co., Ltd. being a quoted public company where the number of shareholders exceeds 300 throughout the year, has been calculated on its adjusted profit at 30% 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 21C of the Inland Revenue (Amendment) Act No. 19 of 2003.
- 7.1.6** The profits of Ace Ayurvedic (Pvt) Ltd., are exempt from income tax in terms of Section 15 of the Inland Revenue (Amendment) Act No. 8 of 2001.
- 7.1.7** The profits of Kandalama Hotels Ltd., are exempt from income tax for a period of 10 years from 1997/1998 being the year in which the Company commenced to make profit in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No. 4 of 1978.

- 7.1.8** 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.
- 7.1.9** 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.
- 7.1.10** 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.
- 7.1.11** 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.
- 7.1.12** The profits of Ace Power Embilipitiya (Pvt) Ltd., are exempt from income tax for a period of 10 years from the year of assessment 2005/2006 in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.
- 7.1.13** The profits and income of Aitken Spence GTECH (Pvt) Ltd. are exempt from income tax for a period of 3 years in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No. 4 of 1978.
- 7.1.14** The profits and income of Ceyfirst Shipping (Pvt) Ltd., Ceyspence (Pvt) Ltd., Ceyserv Lines (Pvt) Ltd., are exempt from income tax for a period of five years, in terms of agreements concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No 4 of 1978.
- 7.1.15** The profits and income of GAC Marine Services (Pvt) Ltd., is liable to tax at a concessionary rate of 15% as per the agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No. 4 of 1978.
- 7.1.16** Vauxhall Property Developments Ltd., has completed its tax exempt period and as per the agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No. 4 of 1978 the Company is liable to income tax at a rate of 2% of turnover.
- 7.1.17** 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.
- 7.1.18** The profits of B.I.R. Hotel Management (Pvt) Ltd., Jetan Travel Services Company (Pvt) Ltd., Cowrie Investments (Pvt) Ltd., Crest Star Ltd., Crest Star (BVI) Ltd., and Ace Bangladesh Ltd., being non-resident companies in Sri Lanka and not deriving income from Sri Lanka is out of scope of income taxation in Sri Lanka.
- 7.1.19** The profits of B.I.R. Hotel Management (Pvt) Ltd., Jetan Travel Services Company (Pvt) Ltd., Cowrie Investments (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.
- 7.1.20** The profits of Ace Bangladesh Ltd., are liable to income tax at 37.5% in Bangladesh.

7.1.21 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.

7.1.22 All subsidiaries, joint ventures and associate companies whose taxable income is less than Rs. 5 million for the year, are liable to income tax at 20%.

Where the taxable income of a quoted company with more than 300 registered shareholders during the year of assessment exceeds Rs. 5 million, same is liable to tax at 30%, and all other non-quoted companies within the Group are liable to tax at 32.5%. This rate includes a 2.5% contribution to the Human Resource Endowment Fund.

7.2 The companies in the Group have tax losses amounting to Rs. 349.7 million which are available to be set off against the future tax profits of those companies.

7.3 Provision for Taxation

	Group		Company	
	2004/2005	2003/2004	2004/2005	2003/2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Taxation on current year profits	132,650	146,705	2,500	3,250
Under/(over) provision in previous years	(22,369)	(850)	—	—
Associate companies	12,531	5,175	—	—
Tax on dividends	55,104	35,788	—	—
Deferred taxation	(2,786)	2,362	(3,963)	(1,982)
	175,130	189,180	(1,463)	1,268

7.4 Reconciliation of the Accounting Profit and the Income Tax Expense

	Group		Company	
	2004/2005	2003/2004	2004/2005	2003/2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Profit from operations after interest	1,666,428	1,855,091	761,590	1,134,428
Consolidation adjustments	5,993	3,886	—	—
Profit from operations after adjustments	1,672,421	1,858,977	761,590	1,134,428
Profit exempt from tax	(1,363,947)	(1,299,533)	(771,300)	(1,156,203)
Profits liable for income tax	308,474	559,444	(9,710)	(21,775)
Disallowable expenses for taxation	409,995	307,051	46,080	53,833
Tax deductible expenses for taxation	(251,259)	(156,933)	(28,037)	(21,223)
Current year losses not utilised	71,150	1,389	—	—
Non-current losses utilised in the year	(20,036)	(76,711)	—	—
Taxable profit	518,324	634,240	8,333	10,835
Taxed at 15%	30,538	46,833	—	—
Taxed at 32.5%	92,296	93,763	2,500	—
Taxed at other rates	9,661	5,129	—	3,250
Tax on inter-company dividends	55,104	35,788	—	—
Tax on foreign subsidiaries	155	980	—	—
Deferred tax charge	(2,786)	2,362	(3,963)	(1,982)
	184,968	184,855	(1,463)	1,268
Under/(Over) provisions in previous years	(22,369)	(850)	—	—
Associate Companies	12,531	5,175	—	—
	175,130	189,180	(1,463)	1,268

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	
	2004/2005	2003/2004	2004/2005	2003/2004
Profit attributable to shareholders (Rs.)	1,116,776,456	1,275,523,403	763,053,042	1,133,159,687
Weighted average number of shares outstanding during the year	27,026,827	26,934,449	27,026,827	26,934,449
Earnings per share (Rs.)	41.32	47.36	28.23	42.07

8.2 Diluted Earnings per Share

	Group		Company	
	2004/2005	2003/2004	2004/2005	2003/2004
Profit attributable to shareholders (Rs.)	1,116,776,456	1,275,523,403	763,053,042	1,133,159,687
Adjusted weighted average number of shares	27,043,877	26,987,231	27,043,877	26,987,231
Diluted earnings per share (Rs.)	41.29	47.26	28.22	41.99

8.2.1 Adjusted Weighted Average Number of Shares

	2004/2005	2003/2004
Average No. of shares before dilution	27,026,827	26,934,449
Number of shares outstanding under share option scheme	22,000	90,500
Number of shares that would have been issued at fair value	(4,950)	(37,718)
Adjusted weighted average number of shares	27,043,877	26,987,231

9. Dividends

	2004/2005 Rs. '000	2003/2004 Rs. '000
25% interim ordinary dividend declared (2003/2004 - 25%) (paid on 12th April 2005)	67,642	67,487
35% final ordinary dividend recommended (2003/2004 - 35%)	94,699	94,513
	162,341	162,000

The Directors have recommended a 35% final dividend payment for the year ended 31st March 2005 (2003/2004 - 35%) to be approved at the Annual General Meeting on 8th July 2005.

The entire dividend for the year is paid out of exempt dividends received by the Company and is exempt from tax in the hands of the shareholders.

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 01.04.2004	1,485,083	3,911,462	4,081,157	344,951	514,063	67,102	389,145	10,792,963
Companies acquired during the year	–	–	7,835	17,199	893	–	–	25,927
Companies disposed during the year	–	(514)	(14,679)	(34,360)	(6,161)	(293)	–	(56,007)
Exchange difference	–	41,424	7,910	843	4,505	–	–	54,682
Additions	9,064	32,009	482,596	212,915	53,473	–	2,137,858	2,927,915
Transfers	34,039	(1,247)	2,008	2,534	(307)	(2,534)	(454)	34,039
Write offs	–	(20,525)	(183,202)	–	(116,165)	(1,083)	–	(320,975)
Disposals	–	–	(18,316)	(14,075)	(26,061)	(2,967)	(300)	(61,719)
Balance as at 31.03.2005	1,528,186	3,962,609	4,365,309	530,007	424,240	60,225	2,526,249	13,396,825
Accumulated Depreciation								
Balance as at 01.04.2004	–	576,907	1,069,081	221,710	286,394	60,695	1,676	2,216,463
Companies acquired during the year	–	–	4,976	14,269	729	–	–	19,974
Companies disposed during the year	–	(298)	(9,870)	(23,002)	(3,827)	(293)	–	(37,290)
Exchange difference	–	3,579	2,386	506	1,997	–	–	8,468
Charge for the year	–	101,367	267,583	28,022	53,368	425	838	451,603
Transfers	–	(27)	(155)	1,651	182	(1,651)	–	–
Write offs	–	(5,100)	(141,582)	–	(69,347)	(1,083)	–	(217,112)
Disposals	–	–	(16,790)	(9,241)	(23,495)	(1,668)	–	(51,194)
Balance as at 31.03.2005	–	676,428	1,175,629	233,915	246,001	56,425	2,514	2,390,912
Written Down Value								
as at 31.03.2005	1,528,186	3,286,181	3,189,680	296,092	178,239	3,800	2,523,735	11,005,913
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

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.

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 01.04.2004	568,596	191,353	90,678	5,977	22,730	879,334
Additions	—	—	6,535	—	125	6,660
Disposals	—	—	(3,068)	—	(55)	(3,123)
Balance as at 31.03.2005	568,596	191,353	94,145	5,977	22,800	882,871
Accumulated Depreciation						
Balance as at 01.04.2004	—	51,915	62,987	—	15,983	130,885
Charge for the year	—	4,652	11,578	1,494	1,389	19,113
Disposals	—	—	(2,779)	—	(54)	(2,833)
Balance as at 31.03.2005	—	56,567	71,786	1,494	17,318	147,165
Written Down Value as at 31.03.2005	568,596	134,786	22,359	4,483	5,482	735,706
Written Down Value as at 31.03.2004	568,596	139,438	27,691	5,977	6,747	748,449

10.3 Details of Land Revaluation

Company	Location	Last Revaluation Date	WDV as at 31.03.2005	Revaluation Surplus	Carrying Amount at Cost 31.03.2005
			Rs. '000	Rs. '000	Rs. '000
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.	305, 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.

11. Intangible Assets

Goodwill on Consolidation

	Group	
	31.03.2005	31.03.2004
	Rs. '000	Rs. '000
Balance brought forward	120,276	120,244
Goodwill on acquisitions of subsidiaries	86,312	32
Balance carried forward	206,588	120,276
Accumulated amortisation		
Balance brought forward	(28,259)	(22,127)
Amortisation during the year	(8,271)	(6,132)
Balance carried forward	(36,530)	(28,259)
Total intangible assets	170,058	92,017

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 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.

There has been no permanent impairment of intangible assets which requires a provision in the financial statements.

12. Investments

12.1 Investments in Subsidiaries - Unquoted

	Number of Shares	Company Holding %	Group Holding %	31.03.2005 Rs.'000	31.03.2004 Rs.'000
a) Ordinary Shares					
Subsidiary Companies					
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 %	31.03.2005 Rs.'000	31.03.2004 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	375
Aitken Spence Corporate Finance (Pvt) Ltd.	2	100.0	100.0	—	—
Ace Cargo (Pvt) Ltd.	922,500	93.2	93.2	231,547	—
Ace International Express (Pvt) Ltd.	10,000	100.0	100.0	100	—
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	—	—
Cowie Investments (Pvt) Ltd.*	—	—	44.6	—	—
Ace Ayurvedic (Pvt) Ltd.*	—	—	74.4	—	—
Neptune Ayurvedic (Pvt) Ltd.*	—	—	74.4	—	—
Joint Ventures					
Aitken Spence Travels Ltd.	2,556,000	75.0	75.0	91,308	121,744
Ace Travels & Conventions (Pvt) Ltd.*	—	—	75.0	—	—
Aitken Spence Overseas Travel Services (Pvt) Ltd.*	—	—	75.0	—	—
Aitken Spence GTECH (Pvt) Ltd.	16,830,000	50.0	50.0	168,300	168,300
Ace Power Embilipitiya (Pvt) Ltd.	83,806,360	50.0	50.0	838,064	838,064
Aitken Spence (Garments) Ltd.	998,750	50.0	50.0	26,257	26,257
Clark Spence Garments Ltd.*	—	—	50.0	—	—
Vauxhall Shipping (Pvt) Ltd.	12,250	49.0	49.0	150	—
Spence Mac Holdings (Pvt) Ltd.	5,000,000	50.0	50.0	50,000	—
Aitken Spence Shipping Ltd.*	—	—	50.0	—	100
Shipping & Cargo Logistics (Pvt) Ltd.*	—	—	25.0	—	—
Ultimate Freight Services (Pvt) Ltd.*	—	—	25.5	—	—
Delta Shipping (Pvt) Ltd.*	—	—	25.5	—	—
GAC Shipping Ltd.*	—	—	25.0	—	—
GAC Logistics Ltd.*	—	—	25.0	—	—
GAC Marine Services (Pvt) Ltd.*	—	—	25.0	—	—
Mc Ships Agencies (Colombo) Ltd.*	—	—	50.0	—	—
Ace Global Aviation Services (Pvt) Ltd.*	—	—	60.0	—	—
Ace Bangladesh Ltd.*	—	—	45.7	—	—
Ace Link Herbal Health Care (Pvt.) Ltd.	—	—	—	—	510
				2,447,698	2,196,947

	Number of Shares	Company Holding %	Group Holding %	31.03.2005 Rs.'000	31.03.2004 Rs.'000
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	–	–
				2,807,698	2,556,947

12.2 Investment in Subsidiaries - Quoted

	Number of Shares	Company Holding %	Group Holding %	31.03.2005 Rs. '000	31.03.2004 Rs. '000
Aitken Spence Hotel Holdings Ltd.					
(Ordinary Shares of Rs.10/- each)	27,368,127	71.2	74.4	679,300	679,300
Net Book Value as at 31st March				679,300	679,300
Market value as at 31st March				2,661,550	1,785,402

* Investments are held by one of the following companies: Aitken Spence Hotel Holdings Ltd., Aitken Spence Hotels Ltd., Aitken Spence Travels Ltd., Aitken Spence (Garments) Ltd., Spence Mac Holdings (Pvt) Ltd., Ace Cargo (Pvt) Ltd., Triton Ltd., Ace Containers (Pvt) Ltd., Aitken Spence Shipping Ltd. or Aset 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 Investment in Associate Companies - Unquoted

	Group				Company			
	No. of Shares	Holding %	31.03.2005 Rs. '000	31.03.2004 Rs. '000	No. of Shares	Holding %	31.03.2005 Rs. '000	31.03.2004 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.)	—	23.7	—	—	—	—	—	—
Talawakelle Plantations Ltd. (Ordinary Shares of Rs.10/- each) (Subsidiary of Hayleys Plantation Services Ltd.)	—	23.3	—	—	—	—	—	—
Ceyspence (Pvt) Ltd. (Ordinary Shares of Rs.10/- each)	5,723,712	40.0	57,237	—	5,723,712	40.00	57,237	—
Ceyfirst Shipping (Pvt) Ltd. (Ordinary Shares of Rs.10/- each) (Associate of Spence Mac Holdings (Pvt) Ltd.)	—	20.0	9,412	—	—	—	—	—
Ceyserv Lines (Pvt) Ltd. (Ordinary Shares of Rs.10/- each) (Associate of Spence Mac Holdings (Pvt) Ltd.)	—	12.5	15,000	—	—	—	—	—
Net Book Value as at 31st March			455,765	374,116			398,441	341,204
Share of movement in equity value			161,028	109,760				
Equity value of investments			616,793	483,876				

13.2 Investment in Associate Companies - Quoted

	Group				Company			
	No. of Shares	Holding %	31.03.2005 Rs. '000	31.03.2004 Rs. '000	No. of Shares	Holding %	31.03.2005 Rs. '000	31.03.2004 Rs. '000
Browns Beach Hotels Ltd. (Ordinary Shares of Rs.10/- each)	2,841,718	21.9	67,810	67,810			—	—
Net Book Value as at 31st March			67,810	67,810			—	—
Share of movement in equity value			(12,090)	(9,960)				
Equity value of investments			55,720	57,850				
Market value of quoted investments as at 31st March			78,858	40,494			—	—
Equity value - Unquoted			616,793	483,876	Net Book Value - Unquoted		398,441	341,204
Equity value - Quoted			55,720	57,850	Net Book Value - Quoted		—	—
Equity value as at 31st March			672,513	541,726	Net Book Value - as at 31st March		398,441	341,204

14. Long-Term Investments

	Group		Company	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Unquoted investments	529,963	545,438	521,333	538,681
Investment property	28,936	62,975	28,936	28,936
	558,899	608,413	550,269	567,617

14.1 Unquoted Investments

	No. of Shares	Group 31.03.2005 Rs. '000	31.03.2004 Rs. '000	No. of Shares	Company 31.03.2005 Rs. '000	31.03.2004 Rs. '000
Sumiko Lanka Hotels (Pvt) Ltd. (Preference Shares of Rs 10/- each)	7,500,000	75,000	75,000	7,500,000	75,000	75,000
Sumiko Lanka Hotels (Pvt) Ltd. (Secured Redeemable Debentures of Rs.100/- each)	1,150,000	115,000	132,000	1,150,000	115,000	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 Holdings (Pvt) Ltd.* (Ordinary Shares of Rs.10/- each)	30,250,000	302,803	302,803	30,250,000	302,803	302,803
Rainforest Ecolodge (Pvt) Ltd. (advance against investment)	—	25,000	25,000	—	25,000	25,000
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	—	—	—
Wilkin Spence Packaging Lanka (Pvt) Ltd. (Ordinary Shares of Rs 10/- each)	187,500	1,875	—	—	—	—
Ingrin Institute of Printing & Graphics Sri Lanka Ltd. (Ordinary Shares of Rs 10/- each)	10,000	100	100	—	—	—
Sri Lanka Port Management & Consultancy Service Ltd. (Ordinary Shares of Rs 10/- each)	—	—	2	—	—	—
Perennial Acceptances Ltd. (Ordinary Shares of HK \$ 100/- each)	—	—	348	—	—	348
		530,213	545,688	—	521,333	538,681
Provision for fall in value of investments	—	(250)	(250)	—	—	—
Net Book Value as at 31st March	—	529,963	545,438	—	521,333	538,681

* Holding Company of Sri Lanka Insurance Corporation Ltd.

14.2 Investment Property

14.2.1 Movement during the year

	Group		Company	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01st April	62,975	62,975	28,936	28,936
Transferred to fixed assets	(34,039)	—	—	—
Balance as at 31st March	28,936	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	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Freehold land	28,936	110,936	28,936	28,936
	28,936	110,936	28,936	28,936

15. Inventories

	Group		Company	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Raw materials	207,047	178,988	—	—
Work-in-progress & finished goods	49,162	32,388	—	—
Consumables	104,281	102,093	1,369	1,076
Land	2,599	2,599	—	—
	363,089	316,068	1,369	1,076

Value of inventories pledged as security for facilities obtained from banks amounted to Rs. 161,450,733/- (2003/04 - Rs. 116,068,049/-)
Company - Nil.

16. Trade and Other Receivables

	Group		Company	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade debtors	1,759,990	1,902,273	—	—
Other debtors	249,830	311,069	64,326	51,631
Provision for bad debts	(68,001)	(70,925)	(5,496)	(5,496)
	1,941,819	2,142,417	58,830	46,135
Loans to employees	12,738	17,362	11,854	15,668
	1,954,557	2,159,779	70,684	61,803

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

	31.03.2005	31.03.2004
	Rs. '000	Rs. '000
Loans as at 1st April	13,917	13,254
Loans granted during the year	3,250	5,066
	17,167	18,320
Recoveries during the year	(6,567)	(4,403)
Loans as at 31st March	10,600	13,917

No loans have been given to the Directors of the Company.

17. Current Investments

	Group			Company		
	No. of Shares	31.03.2005 Rs. '000	31.03.2004 Rs. '000	No. of Shares	31.03.2005 Rs. '000	31.03.2004 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)	5,850	59	117	—	—	—
Hatton National Bank Ltd.						
(Non-voting Ordinary Shares of Rs. 10/- each)	63,800	4,060	4,060	—	—	—
		4,268	4,326		149	149
Provision for fall in value of investments		(598)	(323)		(10)	(10)
Net Book Value as at 31st March		3,670	4,003		139	139
Market Value as at 31st March		3,670	4,003		1,019	1,255

18. Segment Information

a. Business Segment

	Total Assets		Total Liabilities	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Tourism sector	5,053,525	5,169,941	1,580,310	1,731,310
Cargo Logistics sector	1,584,652	1,133,704	404,087	846,978
Strategic investments				
- Manufacturing sector	514,701	591,362	173,684	216,602
- Infrastructure development	6,581,308	4,464,387	3,928,782	2,361,114
- Services & others	3,202,481	2,826,251	1,647,939	749,515
	16,936,667	14,185,645	7,734,802	5,905,519
Goodwill on consolidation/deferred income	170,058	92,017	30,643	31,705
	17,106,725	14,277,662	7,765,445	5,937,224
	Additions to Property, Plant & Equipment		Depreciation & Amortisation	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Tourism sector	144,104	124,050	211,536	209,749
Cargo Logistics sector	244,570	14,105	33,585	36,729
Strategic investments				
- Manufacturing sector	21,764	2,719	20,228	23,356
- Infrastructure development	2,504,962	380,365	160,720	146,090
- Services & others	12,515	21,784	33,805	28,909
	2,927,915	543,023	459,874	444,833

b. Geographical Segment

	Total Assets		Total Liabilities	
	31.03.2005 Rs. '000	31.03.2004 Rs. '000	31.03.2005 Rs. '000	31.03.2004 Rs. '000
Sri Lanka	14,037,404	11,372,509	6,967,509	5,106,703
South Asia (Maldives & Bangladesh)	2,899,263	2,813,136	767,293	798,816
	16,936,667	14,185,645	7,734,802	5,905,519
Goodwill on consolidation/deferred income	170,058	92,017	30,643	31,705
	17,106,725	14,277,662	7,765,445	5,937,224

	Additions to Property, Plant & Equipment		Depreciation & Amortisation	
	31.03.2005 Rs. '000	31.03.2004 Rs. '000	31.03.2005 Rs. '000	31.03.2004 Rs. '000
Sri Lanka	2,879,100	511,750	339,033	328,457
South Asia (Maldives & Bangladesh)	48,815	31,273	120,841	116,376
	2,927,915	543,023	459,874	444,833

19. Share Capital & Reserves

19.1 Share Capital

	31.03.2005 Rs. '000	31.03.2004 Rs. '000
Authorised		
75,000,000 ordinary shares of Rs.10/- each	750,000	750,000
Issued & fully paid		
As at 1st April		
26,994,903 ordinary shares at Rs. 10/- each (2003/2004 - 26,815,760)	269,949	268,158
Issued during the year		
62,000 ordinary shares of Rs. 10/- each (2003/2004 - 179,143)	620	1,791
As at 31st March		
27,056,903 ordinary shares of Rs. 10/- each (2003/2004 - 26,994,903)	270,569	269,949

The shares were issued in 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.

Exchange Fluctuation Reserve

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

Other Capital Reserves

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

20. Deferred Income**Negative Goodwill on Consolidation**

	Group	
	31.03.2005	31.03.2004
	Rs. '000	Rs. '000
Balance brought forward	44,967	44,909
Surplus on acquisitions and change in percentage holding in subsidiaries	1,216	58
Balance carried forward	46,183	44,967
Accumulated Amortisation		
Balance brought forward	(13,262)	(11,017)
Amortisation during the year	(2,278)	(2,245)
Balance carried forward	(15,540)	(13,262)
Net balance	30,643	31,705

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 these investments are expected to flow to the Group over a period of more than twenty years.

21. Interest-Bearing Liabilities

21.1 Analysed by Lending Institution

	Group		Company	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Hatton National Bank Ltd.	935,140	1,069,762	—	—
Commercial Bank of Ceylon Ltd.	528,257	429,864	—	—
People's Bank	647,459	262,922	—	—
Hongkong & Shanghai Banking Corporation Ltd.	175,212	217,118	—	—
Bank of Ceylon	608,621	215,217	—	—
DFCC Bank	256,679	73,050	—	—
Sri Lanka Insurance Corporation Ltd.	292,814	—	100,000	—
Seylan Bank Ltd.	96,325	—	—	—
Pan Asia Bank Ltd.	71,251	87,641	—	—
Standard Chartered Bank	12,571	15,225	—	—
National Development Bank of Sri Lanka	501,221	7,697	500,000	—
National Savings Bank	200,000	—	200,000	—
Waldock Mackenzie Ltd.	200,000	—	200,000	—
Central Finance Co. Ltd.	92	159	—	—
Quoted Debentures	352,500	579,000	200,000	400,000
Advances from tour operators	74,565	146,010	—	—
	4,952,707	3,103,665	1,200,000	400,000
Current portion of interest-bearing liabilities	(745,903)	(867,943)	(200,000)	(200,000)
Non-current interest-bearing liabilities	4,206,804	2,235,722	1,000,000	200,000

21.2 Analysed by Repayment Period

	Group		Company	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Payable within one year	745,903	867,943	200,000	200,000
Payable between one and two years	866,652	643,116	400,000	—
Payable between two and five years	1,463,560	1,233,419	600,000	200,000
Payable after five years	1,876,592	359,187	—	—
	4,952,707	3,103,665	1,200,000	400,000

21.3 Analysed by Currency Equivalent in Rupees

	Group				Company	
	31.03.2005		31.03.2004		31.03.2005	31.03.2004
	Rs.	%	Rs.	%	Rs.	Rs.
	Equivalent		Equivalent		Equivalent	Equivalent
United States Dollars	3,535,027	71	2,443,760	79	—	—
Sri Lankan Rupees	1,417,680	29	659,905	21	1,200,000	400,000
	4,952,707	100	3,103,665	100	1,200,000	400,000

21.4 Movement of Interest-Bearing Liabilities

	Group		Company	
	31.03.2005	31.03.2004	31.03.2005	31.03.2004
	Rs.	Rs.	Rs.	Rs.
Total outstanding as at 1st April	3,103,665	3,489,799	400,000	400,000
Exchange difference	87,533	15,746	—	—
Loans received during the year	2,640,966	—	1,000,000	—
	5,832,164	3,505,545	1,400,000	400,000
Loan repayments during the year	(879,457)	(401,880)	(200,000)	—
	4,952,707	3,103,665	1,200,000	400,000
Current portion of interest-bearing liabilities	(745,903)	(867,943)	(200,000)	(200,000)
Non-current interest-bearing liabilities	4,206,804	2,235,722	1,000,000	200,000

21.5 Interest-Bearing Liabilities

Loans

Company	Lender/Rate of Interest (p.a.)	31.03.2005 Rs. '000	31.03.2004 Rs. '000	Repayment	Security
Aitken Spence & Co., Ltd.	Listed debentures [Rated AA (Sri)]				
	15.25%	—	200,000	April 2004	—
	15.75%	100,000	100,000	April 2006	—
	16.00%	100,000	100,000	April 2006	—
	Privately placed debentures [Rated AA (Sri)]				
	National Savings Bank 6 Month Net TB + 2.15%	200,000	—	Repaid over 5 years in equal instalments commencing June 2005	—
	Sri Lanka Insurance Corporation Ltd. 6 Month Net TB + 2.15%	100,000	—	-do-	—
	Waldock Mackenzie Ltd. 6 Month Net TB + 2.15%	200,000	—	-do-	—
	National Development Bank of Sri Lanka 10.96%	500,000	—	-do-	—
Aitken Spence Printing (Pvt) Ltd.	National Development Bank of Sri Lanka 8.5%	92	367	60 equal monthly instalments from August 2000	—
Aitken Spence (Garments) Ltd.	Standard Chartered Bank 3 months LIBOR + 1.75%	12,571	15,225	US \$ 5,000/- p.m. from January 2004	Mortgage over land, building & machinery
	Hatton National Bank Ltd. 3 months LIBOR + 2.5%	818	6,061	6 equal instalments of US \$ 7,500/- 5 equal instalments of US \$ 8,167/- Final Instalment of US \$ 8,165 commencing May 2004	Mortgage over land, building & machinery Corporate guarantee of Aitken Spence & Co. Ltd.
	Hongkong & Shanghai Banking Corporation Ltd. 3 months SIBOR + 2%	299	1,902	48 equal monthly instalments from September 2001	Mortgage over land, building & machinery Corporate guarantee of Aitken Spence & Co. Ltd.
Aitken Spence Hotels Ltd.	National Development Bank of Sri Lanka 9%	—	650	60 equal monthly instalments from October 1999	Corporate guarantee from Aitken Spence Hotel Holdings Ltd.

Notes to the Financial Statements

Company	Lender/Rate of Interest (p.a.)	31.03.2005 Rs. '000	31.03.2004 Rs. '000	Repayment	Security
Hethersett Hotels Ltd.	National Development Bank of Sri Lanka 9.5%	–	3,888	72 equal monthly instalments from July 1997	Corporate guarantee by Aitken Spence Hotel Holdings Ltd.
	National Development Bank of Sri Lanka 10%	–	307	20 monthly instalments from April 2002	Corporate guarantee by Aitken Spence Hotel Holdings Ltd.
Cowrie Investments (Pvt) Ltd.	Hatton National Bank Ltd. 4%	286,330	402,988	72 equal monthly instalments from July 2001	Mortgage over leaseholder's rights of Maldivian Property
	Advance from tour operators 5%	74,565	146,010	In full after June 2005	–
Aitken Spence Hotel Holdings Ltd.	National Development Bank of Sri Lanka 5%	1,129	2,484	60 equal monthly instalments from February 2001	Promissory note from Aitken Spence Hotel Holdings Ltd.
	DFCC Bank 11%	6,067	8,450	60 equal monthly instalments from April 2002	Primary mortgage over equipment and promissory note from Aitken Spence Hotel Holdings Ltd.
Ace Power Generation Matara (Pvt) Ltd.	Syndicate 7.7%	172,813	218,170	Quarterly instalments over 5 years from September 2003	Mortgage Bond over immovable assets
	Syndicate 7.7%	586,830	740,852	Quarterly instalments over 5 years from September 2003	Mortgage Bond over movable assets and book debts
	Listed Debenture AWDR + 5%	–	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 3 month LIBOR + 3%	203,603	244,525	Quarterly instalments over 5 years from June 2004	Mortgage Bond over immovable assets
	3 Month LIBOR + 3%	556,231	668,027	Quarterly instalments over 5 years from June 2004	Mortgage Bond over movable assets and book debts
	Unquoted Debenture DFCC Bank AWDR + 7%	57,800	64,600	Repayment over 5 years (2003 - Bridging Finance)	Same security as above ranking on a pari passu basis
Ace Power Embilipitiya (Pvt) Ltd.	Syndicate 3 month LIBOR + 3%	285,100	–	Quarterly instalments over 5 years starting from June 2006	Mortgage over imovable assets
	Syndicate 3 month LIBOR + 3%	1,163,053	–	Quarterly instalments over 5 years starting from June 2006	Mortgage over movable assets and Book debts
	Syndicate 3 month LIBOR + 3%	192,813	–	Quarterly instalments over 5 years starting from June 2006	Secondary Mortgage over Movable Assets
		4,952,614	3,103,506		
Current portion of interest-bearing loans		(745,834)	(867,875)		
Non-current interest-bearing loans		4,206,780	2,235,631		

Leases

Company	Lessor	31.03.2005 Rs. '000	31.03.2004 Rs. '000	Repayment	Leased Asset
Ace Cargo (Pvt) Ltd.	Central Finance Company Ltd.	93	159	48 equal monthly instalments from August 2002	Motor vehicles
		93	159		
Current portion of interest-bearing leases		(69)	(68)		
Non-current interest-bearing leases		24	91		
Total non-current interest-bearing liabilities		4,206,804	2,235,722		

22. Deferred Taxation

	Group		Company	
	31.03.2005 Rs. '000	31.03.2004 Rs. '000	31.03.2005 Rs. '000	31.03.2004 Rs. '000
As at 1st April	106,963	104,601	15,022	17,004
Subsidiaries disposed during the year	(552)	—	—	—
Transfer from/(to) income statement	(2,786)	2,362	(3,963)	(1,982)
As at 31st March	103,625	106,963	11,059	15,022

23. Retirement Benefit Obligations

	Group		Company	
	31.03.2005 Rs. '000	31.03.2004 Rs. '000	31.03.2005 Rs. '000	31.03.2004 Rs. '000
As at 1st April	130,442	105,370	16,236	11,833
Subsidiaries acquired during the year	2,505	—	—	—
Subsidiaries disposed during the year	(9,625)	—	—	—
Provision for the year	29,931	37,837	3,696	4,941
Payments during the year	(17,517)	(12,765)	(5,461)	(538)
As at 31st March	135,736	130,442	14,471	16,236

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. Provisions and Other Payables

	Group		Company	
	31.03.2005 Rs. '000	31.03.2004 Rs. '000	31.03.2005 Rs. '000	31.03.2004 Rs. '000
Accruals and other payables	1,120,452	761,562	254,274	189,519
Provisions made during the year (note 34)	127,930	—	—	—
Unclaimed dividends	1,160	8,915	1,160	8,915
	1,249,542	770,477	255,434	198,434

25. Joint Ventures

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

	31.03.2005 Rs. '000	31.03.2004 Rs. '000
Income	392,359	389,212
Expenses	398,713	351,326
Current assets	289,573	815,008
Non-current assets	2,893,418	401,037
Current liabilities	312,308	219,915
Non-current liabilities	1,655,140	19,782

26. Foreign Currency Translation

The principal exchange rates used for translation purposes were:

	31.03.2005	31.03.2004
	Rs.	Rs.
US Dollar	99.38	97.28
Pound Sterling	186.75	178.36
Taka	1.66	1.66
Euro	128.42	119.04

27. Contracts for Capital Expenditure

The following commitments for capital expenditure approved by the Directors as at 31st March 2005 have not been provided for in the accounts:

	Group	
	31.03.2005	31.03.2004
	Rs. '000	Rs. '000
Approximate amount approved but not contracted for	2,846,348	3,002,007
Approximate amount contracted for but not incurred	31,627	413,764
	2,877,975	3,415,771

28. Contingent Liabilities

The contingent liability as at 31.03.2005 on guarantees given by Aitken Spence & Co. Ltd., to third parties amounted to Rs. 1,186,460,400/-. Of this sum, Rs. 148,749,600/-, Rs. 874,939,000/- and Rs. 162,771,800/- relates to facilities obtained by subsidiaries, joint ventures and associate companies respectively. Liability as at 31.03.2005 on guarantees given by subsidiaries to third parties amounted to Rs. 304,447,500/-. 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 2005.

30. Employees' Share Option Scheme

The Company as at 31st March 2005 has offered 1,169,800 shares by way of stock options to executives including Executive Directors of the Group companies. As at 31st March 2005, options for 695,403 shares had been exercised, options for 452,397 shares had lapsed and the balance options for 22,000 shares may be exercised at a price of Rs. 85.50 per share on or before 28th January 2006.

During the year, executives of the Group exercised options for 62,000 shares at prices ranging from Rs. 85.50 to Rs. 121.00 per share.

31. Subsidiaries, Joint Ventures and Associates not audited by Messrs. KPMG Ford, Rhodes, Thornton & Co.

The subsidiaries, joint ventures and associates 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 Ltd., Crest Star (BVI) Ltd., Ace Bangladesh Ltd., Aset Airways Ltd., Ace Power Generation Horana (Pvt) Ltd., Ace Power Generation Matara (Pvt) Ltd., Ace Power Embilipitiya (Pvt) Ltd., Aitken Spence GTECH (Pvt) Ltd., Ace International Express (Pvt) Ltd., Ace Global Aviation Services (Pvt) Ltd., GAC Shipping Ltd., GAC Logistics Ltd., GAC Marine Services (Pvt) Ltd., Mc Ships Agencies (Colombo) Ltd., M.P.S. Hotels Ltd., Aventis Pharma Ltd., Elpitiya Plantations Ltd., Talawakelle Plantations Ltd., Ceyspence (Pvt) Ltd., Ceyserv Lines (Pvt) Ltd. and Ceyfirst Shipping (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 the companies indicated by a * in Note No. 33. Mr. D.H.S. Jayawardena was also a Director of some of the subsidiaries listed in Note 12 to the financial statements throughout the financial year.

Mr. J.M.S Brito, Deputy Chairman/Managing Director of the Company is either Chairman or a Director of most 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. Further Mr. J.M.S. Brito is also a Director of Sri Lanka Insurance Corporation Ltd., and of DFCC Bank with effect from 23rd March 2005, with which companies trading transactions as disclosed in Note 33, have taken place.

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.	2,061	834
		Purchase of hotel rooms	24,317	157
		Payment of fees for services provided by Aitken Spence & Co., Ltd.	89	205
Browns Beach Hotels Ltd.*	Associate Company	Payment of management fees to Aitken Spence Hotel Managements (Pvt) Ltd.	6,595	2,635
		Purchase of hotel rooms	20,202	218
		Payment of fees for services provided by Aitken Spence & Co., Ltd.	292	1,171
Aitken Spence Plantation Managements Ltd.	Associate Company	Payment of interest and fees for services provided by Aitken Spence & Co., Ltd.	296	1,492
Elpitiya Plantations Ltd.	Associate Company	Payment of interest and fees for services provided by Aitken Spence & Co., Ltd.	4,387	42,279
Hayleys Plantation Services Ltd.	Associate Company	Provision of short-term finance to Hayleys Plantation Services Ltd.	8,375	8,375
Ceyfirst Shipping (Pvt) Ltd.	Associate Company	Provision of short-term finance to Ceyfirst Shipping (Pvt) Ltd	25,703	25,703
Distilleries Company of Sri Lanka Ltd.*	Common Director/ Shareholder	Supply of goods to Group Hotels	16,587	299
		Purchase of packaging material	8,415	2,025
		Air freight and Courier services obtained from the Group	434	—
Stassens Exports Ltd.*	Common Director	Supply of goods to Group Hotels	95,219	(5,142)
		Air freight and courier services obtained from the Group	882	190
		Sale of bottled water	6,805	663
		Purchase of packaging material	9	—
		Hire of Containers from Group	1,254	222
Stassens International Ltd.*	Common Director	Purchase of packaging material	86	13

Amounts payable are indicated in brackets.

Notes to the Financial Statements

Name of Related Party	Relationship	Nature of Transaction	Amount Rs. '000	Balance Outstanding as at year end Rs. '000
Lanka Milk Foods (CWE) Ltd.*	Common Director	Purchase of packaging material	10,531	–
		Supply of goods to Group Hotels	3,857	182
		Hire of containers from Group	275	–
Hatton National Bank Ltd.*	Common Director	Short/Long-term facilities	2,228,490	(1,696,840)
		Courier services obtained from the Group	6,295	550
		Printing services obtained from the Group	7,242	–
DFCC Bank	Common Director	Long-Term facilities	256,679	(256,679)
		Printing services obtained from the Group	1,131	–
Sri Lanka Insurance Corporation Ltd. *	Common Director	Printing services obtained from the Group	22,585	3,944
		Provision of Insurance services to the Group	103,747	(24,652)
		Long - Term borrowings	(292,814)	(292,814)
		Courier services obtained from the Group	63	25
		Sale of bottled water	23	–
Ambewela Livestock Company Ltd. *	Common Director	Purchase of packaging material	30	–

Amounts payable are indicated in brackets.

Related party transactions should be read in conjunction with Note 32 - Directors' interest in contracts.

34. Impact of the Tsunami

Some of the Group's beach hotels were damaged by the tsunami on 26th December 2004. The total value of the assets destroyed have been written off to the income statement as at 31st March 2005. Further, the Group made a provision of Rs. 127.9 million (Note 24) for the cost of reconstruction of the damaged buildings in accordance with the SLAS 36 - Provisions, Contingent Liabilities and Contingent Assets. The Group has also made valid insurance claims for the damages caused by the tsunami. The amount received as an advance against the insurance claim is recognised under other operating income. A substantial portion of the claim which is pending finalisation and expected to be received in the future will be recognised as income when the cash is received by the Group.

35. Number of Employees

The number of employees of the Group at the end of the year was 4,209 (2004 - 4,112). The number of employees of the Company at the end of the year was 99 (2004 - 100).

36. Events after the Balance Sheet date

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

37. Comparative Information

The Accounting Policies have been consistently applied by the Group and are consistent with those used in the previous year.

38. Directors' Responsibilities

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

Ten Year Summary

Year ended 31st March	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

Operating Results

Revenue	10,063,989	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
Profit before taxation	1,733,654	1,888,676	884,070	552,398	654,931	496,958	392,362	236,577	136,936	102,208
Taxation	175,130	189,180	151,654	112,855	106,632	90,723	62,779	46,954	28,675	20,903
Profit after taxation	1,558,524	1,699,496	732,416	439,543	548,299	406,235	329,583	189,623	108,288	81,305
Profit attributable to										
Aitken Spence & Co. Ltd.	1,116,776	1,275,523	525,185	346,082	452,720	352,579	279,642	157,192	95,747	61,838

Equity & Liabilities

Share capital	270,569	269,949	268,158	265,722	265,139	264,962	264,306	145,080	144,950	144,950
Reserves	4,169,832	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
Retained earnings	3,031,818	2,311,365	1,559,551	1,303,856	1,064,503	754,720	496,473	240,734	175,619	121,843
Proposed dividend	94,699	94,482	67,040	—	—	—	—	—	—	—
Minority interest	1,774,362	1,765,622	1,433,522	1,252,413	1,146,962	477,875	440,673	416,249	400,780	406,762
Non-current liabilities	4,476,808	2,504,832	3,439,933	2,517,504	1,088,454	478,078	816,309	1,276,667	899,405	992,710
Current liabilities	3,288,637	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
	17,106,725	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

Assets

Property, plant & equipment	11,005,913	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
Intangible assets	170,058	92,017	98,117	102,251	117,417	269,535	190,164	170,860	155,692	140,145
Investments	1,231,412	1,150,139	856,579	933,971	981,392	1,133,604	750,423	722,886	306,956	296,863
Current assets	4,699,342	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
	17,106,725	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

Share Information

Earnings per share (Rs.)	41.32	47.36	19.69	13.05	17.08	13.33	11.93	8.13	6.24	5.58
Market value per share (Rs.)	380.00	263.50	140.00	90.00	78.25	120.00	90.00	190.00	110.50	190.00
Highest market value										
per share (Rs.)	390.00	319.00	156.00	125.00	121.00	140.00	200.00	225.25	180.00	200.00
Market capitalisation on										
31st March (Rs. Mn)	10,282	7,113	3,754	2,391	2,075	3,180	2,379	2,757	1,602	2,754
Price earnings ratio	9.20	5.56	7.11	6.90	4.58	9.00	7.54	23.37	17.71	34.05
Net assets per share (Rs.)	279.67	243.56	175.81	158.42	149.44	136.87	127.78	171.60	147.26	141.62

Employees' Information

No. of employees	4,209	4,112	3,590	3,783	4,040	3,967	4,558	4,686	4,376	4,598
Value added per										
employee (Rs. '000)	857	897	697	482	441	366	276	239	217	182

Ratios & Statistics

Ordinary dividend (Rs. '000)	162,341	161,969	120,974	106,243	106,077	92,757	79,292	50,818	21,743	14,495
Effective rate of dividend (%)	60.00	60.00	45.00	40.00	40.00	35.0	30.0	30.0	15.0	10.0
Dividend cover (times covered)	6.88	7.88	4.34	3.26	4.27	3.68	3.53	3.09	4.40	4.27
Dividend - payout ratio	0.15	0.13	0.23	0.31	0.23	0.26	0.25	0.37	0.24	0.18
Current ratio (times covered)	1.43	1.30	1.35	1.04	1.09	0.93	1.17	1.01	1.03	1.19
Debt / Equity	0.45	0.27	0.53	0.43	0.18	0.08	0.18	0.39	0.32	0.37
ROCE (%)	15.79	22.60	11.77	8.47	11.93	9.72	9.15	6.36	4.12	3.00
Interest cover ratio	9.66	12.12	5.10	4.55	5.75	5.96	3.59	2.11	1.63	1.61

Consolidated Income Statement in USD

For the year ended 31st March

	2005 US \$ '000	2004 US \$ '000
Revenue	101,268	94,132
Revenue tax	(1,417)	(1,109)
Net revenue	99,851	93,023
Other operating income	3,031	2,530
Changes in inventories of finished goods and work-in-progress	37	(93)
Raw materials and consumables used	(25,666)	(18,732)
Staff costs	(10,322)	(10,253)
Depreciation and amortisation	(4,627)	(4,573)
Other operating expenses - direct	(28,068)	(28,311)
Other operating expenses - indirect	(15,351)	(12,620)
Profit from operations	18,885	20,971
Interest income	887	949
Finance cost	(3,004)	(2,850)
Profit from operations after interest	16,768	19,070
Share of associate companies profit before taxation	676	345
Profit on ordinary activities before taxation	17,444	19,415
Taxation	(1,762)	(1,945)
Profit after taxation	15,682	17,470
Minority interest	(4,445)	(4,358)
Net profit attributable to Aitken Spence & Co. Ltd.	11,237	13,112
Unappropriated profit brought forward	23,258	16,032
Transfer from/to reserves	951	689
Profit available for appropriation	35,446	29,833
Appropriations		
Transfer to general reserve	(2,354)	(3,717)
Final dividend for the year ended 31.03.2004	(951)	(691)
Gross dividend	(1,634)	(1,665)
Retained in the business	30,507	23,760
Earnings per share (US \$ cents)	42	49
Exchange rate	US \$ = Rs. 99.38	Rs. 97.28

Consolidated Balance Sheet in USD

As at 31st March

	2005 US \$ '000	2004 US \$ '000
Assets		
Non-current assets		
Property, plant & equipment	110,746	88,163
Intangible assets	1,711	946
Investments in associates	6,767	5,569
Long term investments	5,624	6,254
	124,848	100,932
Current assets		
Inventories	3,654	3,249
Amount due from associates	806	280
Trade and other receivables	19,668	22,202
Current investments	37	41
Deposits and prepayments	2,501	3,242
Short term deposits	13,792	7,608
Cash & cash equivalents	6,829	9,215
	47,287	45,837
Total assets	172,135	146,769
Equity and liabilities		
Equity		
Issued and fully paid share capital	2,723	2,775
Reserves	41,959	40,080
Retained earnings	30,507	23,760
Proposed dividends	953	971
Total equity	76,142	67,586
Minority interest	17,854	18,150
Non-current liabilities		
Deferred Income	308	326
Interest bearing liabilities	42,330	22,982
Deferred tax	1,043	1,100
Retirement benefit obligations	1,366	1,341
	45,047	25,749
Current liabilities		
Trade payables	20,399	19,005
Interest bearing liabilities repayable within one year	7,506	8,922
Amount due to associates	3	107
Provision for taxation	633	1,082
Interim dividend declared	681	—
Short-term bank borrowings	3,870	6,168
	33,092	35,284
Total equity and liabilities	172,135	146,769
Exchange rate	US \$ = Rs. 99.38	Rs. 97.28

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.

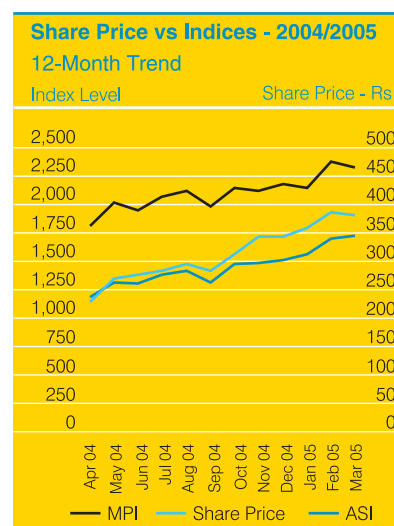
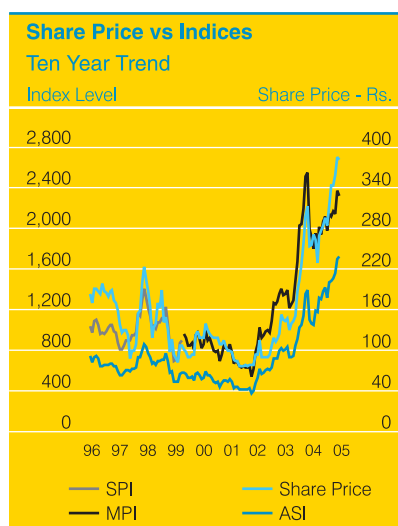
Shareholders

There were 1,548 registered shareholders as at 31st March 2005 (31st March 2004 - 1,534), whose shareholding is distributed as follows:

Category	31st March 2005			31st March 2004		
	No. of Shareholders	No. of Shareholding	%	No. of Shareholders	No. of Shareholding	%
1 - 1,000	1,113	268,317	0.99	1,113	275,072	1.02
1,001 - 5,000	280	649,218	2.40	267	584,183	2.16
5,001 - 10,000	50	376,694	1.39	56	402,978	1.49
10,001 - 50,000	53	1,233,726	4.56	52	1,155,803	4.28
50,001 - 100,000	18	1,374,900	5.08	15	987,030	3.66
100,001 - 500,000	29	7,492,745	27.70	25	6,224,134	23.06
500,001 - 1,000,000	—	—	0.00	2	1,359,800	5.04
Over 1,000,001	5	15,661,303	57.88	4	16,005,903	59.29
All Holdings	1,548	27,056,903	100.00	1,534	26,994,903	100.00

	31st March 2005		31st March 2004	
	Shareholding	%	Shareholding	%
Institutions	23,259,860	85.97	23,324,023	86.40
Individuals	3,797,043	14.03	3,670,880	13.60
All Holdings	27,056,903	100.00	26,994,903	100.00

	31st March 2005		31st March 2004	
	Shareholding	%	Shareholding	%
Nationals	15,377,332	56.83	14,017,315	51.93
Non-Nationals	11,679,571	43.17	12,977,588	48.07
All Holdings	27,056,903	100.00	26,994,903	100.00



Share Options

The Company as at 31st March 2005, had offered 1,169,800 shares under a stock option scheme of which 695,403 shares had been exercised, 452,397 shares have lapsed and 22,000 shares are available to be exercised.

These available options may be exercised at a price of Rs. 85.50. If these options are not exercised it would lapse on 28th January 2006.

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.)
121.00	56,000	6,776,000
85.50	6,000	513,000

Total number of shares allotted under the stock option scheme during the financial year 2004/2005 are 62,000.

Substantial Shareholdings

The twenty largest shareholdings as at 31st March 2005, are given below:

Name	No. of Shares	%
Distilleries Company of Sri Lanka Limited	4,658,355	17.22
Rubicond Enterprises Limited	4,399,343	16.26
Sri Lanka Insurance Corporation Ltd – General Fund	2,935,505	10.85
HSBC International Nominees Ltd – SNFE Arisaig India Fund Ltd.	2,512,700	9.29
HSBC International Nominees Ltd-BPSS LDN-Aberdeen Far East Emerging Economies Unit Trust	1,155,400	4.27
Mr. G.C. Wickremasinghe	487,216	1.80
Employees Provident Fund	455,439	1.68
Mr. R. Sivaratnam	445,290	1.64
HSBC International Nominees Ltd –BPSS LDN- Aberdeen Investment Fund ICVC Aberdeen Emerging Markets Fund	394,500	1.46
Bank of Ceylon A/C Ceybank Unit Trust	381,132	1.41
Asia Capital limited	375,400	1.39
Placidrange Holdings Limited	368,100	1.36
Voyager Capital (International) Limited	359,200	1.33
HSBC International Nominees Ltd – JPMCB-Scottish ORL SML TR GTI 6018	350,000	1.29
HSBC International Nominees Ltd – SSBTL Aberdeen New Dawn Investment Trust XCC6	300,237	1.11
Explorer Capital (International) Services Ltd. A/C 01	297,500	1.10
Milford Exports (Ceylon) Ltd.	288,100	1.06
The Galle Face Hotel Co. Ltd.	243,500	0.90
Hongkong & Shanghai Banking Corp. Ltd.- National Equity Fund	241,400	0.89
HSBC International Nominees Ltd –BPSS LDN- Aberdeen International Fund PLC- Asian Smaller Companies Fund	229,500	0.85
Total	20,877,817	77.16

Share Valuation

The market value of the ordinary shares as at 31st March 2005 was Rs. 380.00 per share (31st March 2004 - Rs. 263.50). The market value of ordinary shares as at 30th May 2005 was Rs. 405.00 per share.

Earnings

Earnings per share for 2004/2005 was Rs. 41.32 (2003/2004 - Rs. 47.36). The price earnings ratio (P/E) was 9.20 (2003/2004 - 5.56).

Dividends

A 25% (2003/2004 - 25%) interim dividend was paid on 12th April 2005 (2003/2004 - 26th March 2004). A final ordinary dividend of 35% (2003/2004 - 35%) is proposed and payable on 8th July 2005. (2003/2004 - 29th June 2004).

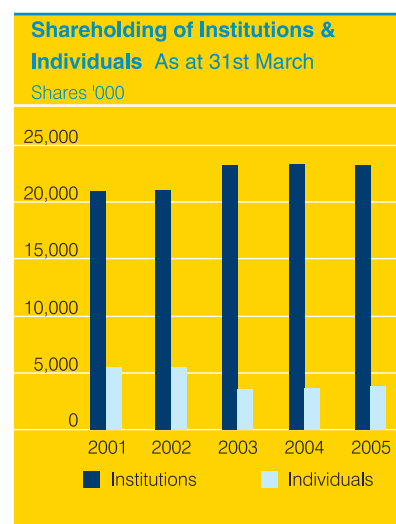
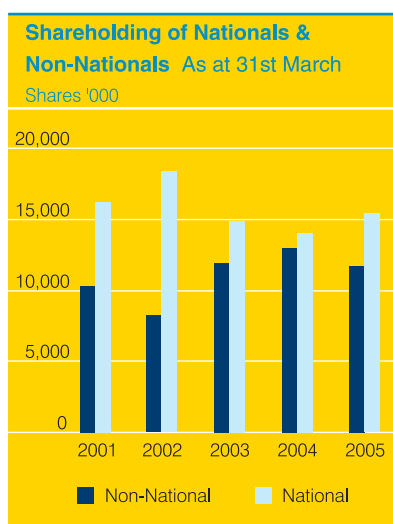
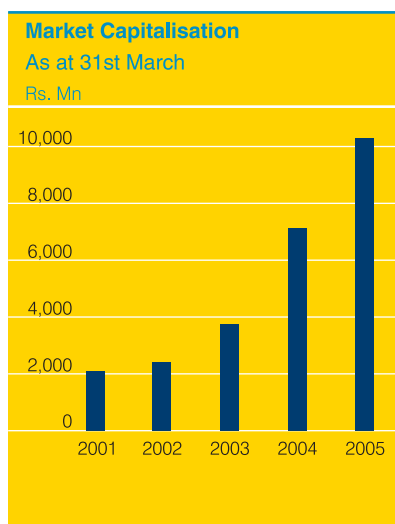
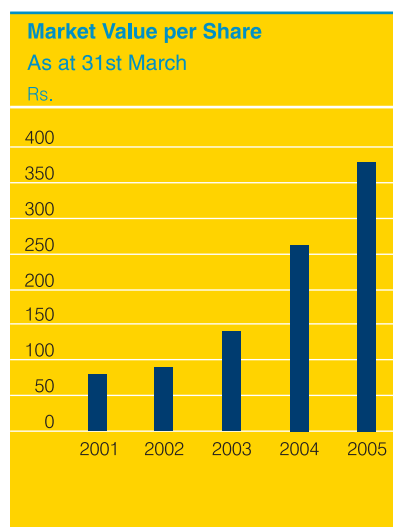
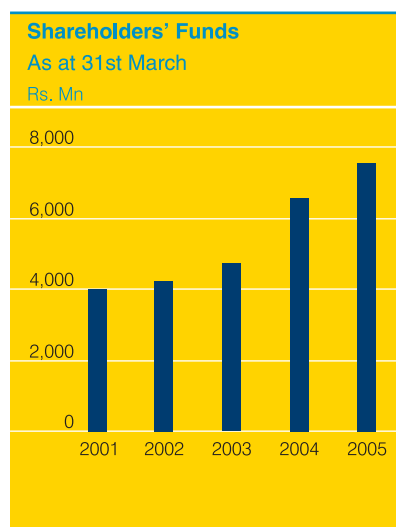
The dividend per share amounted to Rs. 6.00 per share (2003/2004 - Rs. 6.00), while the dividend cover was 6.88 times (2003/2004 - 7.88 times).

Quoted 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 fixed interest rate of 15.25% p.a., with interest being paid semi annually. These debentures were redeemed during the year on 4th April 2004.
- (ii) 1,000,000 four year debentures carrying a fixed interest rate of 15.75% p.a., with interest being paid semi annually.
- (iii) 1,000,000 four year debentures carrying a fixed interest rate of 16.00% p.a., with interest being paid semi annually.

The debentures were listed on the debt securities board of the Colombo Stock Exchange on 21st May 2002. The interest payments due in 2004/2005 were duly paid on 30th June 2004 and on 31st December 2004.



Unquoted Debentures

The Company raised by a private placement Rs 1,000,000,000 by way of unsecured redeemable debentures with a tenor of 5 years of Rs 100,000/- each. Fitch Ratings Lanka Ltd granted a credit rating of AA (Sri) on these debentures, The details of the unquoted debentures issued are as follows:

1. 5,000 debentures carrying a semi annual fixed interest rate of 10.96% p.a were issued on 30 th June 2004.
2. 5,000 debentures carrying a semi annual floating interest rate of six month coupon net treasury bill rate + 2.15% p.a. were issued on 30th July 2004.

The interest on the above debentures is paid semi-annually and during the year interest was duly paid on 29th December 2004.

Debentures Traded during the year

	2004/2005	2003/2004
Highest Price Traded	111.00 (09.08.2004)	110.50 (12.03.2004)
Lowest Price Traded	110.75 (23.04.2004)	104.00 (08.03.2004)
Last Traded Price	111.00 (09.08.2004)	110.50 (12.03.2004)
Debt/Equity Ratio	0.45	0.27
Quick Asset Ratio (times)	1.32	1.21
Interest Cover	9.66	12.12
Interest yield as at date of last debenture trade	14.41 %	14.48 %
Yield to maturity of last debenture trade	8.27 %	9.57 %
Interest rate of comparable Government Securities		
- For the 4 year debenture	7.76 %	7.95 %

Shares Traded during the year

	2004/2005	2003/2004
Number of transactions	1,639	2,815
Number of shares	5,541,800	10,870,500
Total value (Rs. million)	1,692	2,636
Percentage of total value transacted	2.27 %	3.22 %
Highest price traded (Rs.)	390.00 (03.03.2005)	319.00 (31.10.2003)
Lowest price traded (Rs.)	225.00 (22.04.2004)	135.00 (03.04.2003)
Market Capitalisation on 31st March (Rs. million)	10,281.6	7,113.2

Market Sector : Diversified Holdings

Reuters Code : SPEN.CM

Board of Directors

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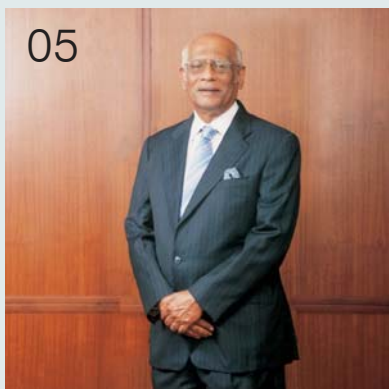
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01. Mr. D.H.S. Jayawardena

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 export and import trade, the Distilleries Company of Sri Lanka Ltd., and Lanka Milk Foods (CWE) Ltd. He is also 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 and is a Director of the Board of Investment of Sri Lanka. He is a former Chairman of Air Lanka, as the national carrier was then known.

Mr. Jayawardena is also the Senior Advisor to H.E. 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.

02. Mr. J.M.S. Brito

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

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

03. Dr. Rohan M. Fernando

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

04. Mr. G.C. Wickremasinghe

Mr. G.C. Wickremasinghe started his career 51 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.

05. 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 also 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 abroad, and has held many positions in various tourism related associations. He was the first Sri Lankan to be invited to join the World Travel & Tourism Council. He also serves on various Government Advisory Committees 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 also sits on the Board of Hatton National Bank and Acme Aluminium. He is a past Chairman of the Export Development Board and the Sri Lanka Conventions Bureau.

06. 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.

07. 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



01



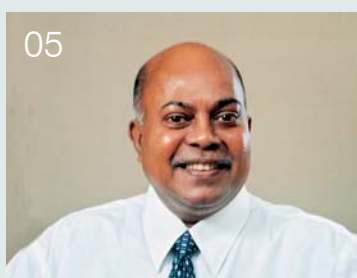
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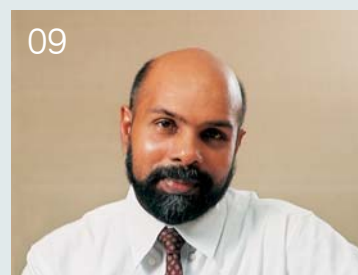
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01. Mr. Rajan Brito

Mr. Rajan Brito is the Chairman of the Board of Management (Profile appears on page 119).

02. Dr. Rohan M. Fernando

(Profile appears on page 119)

03. Mr. Ranjan Casie Chetty

Mr. Ranjan Casie Chetty is the Company Secretary of Aitken Spence & Co. Ltd., and a Director of certain companies in the Aitken Spence Group. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants of UK. He is also a Member of the Chartered Management Institute of UK and has been awarded the Joint Diploma in Management Accounting Services. He 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 the immediate past Chairman of the Sri Lanka Apparel Exporters Association.

04. Mr. Rohantha Peiris

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

05. Mr. Niranjan Nallaratnam

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

06. Mr. Indrajit Abeywardene

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.

07. Ms. Nilanthi Sivapragasam

Ms. Nilanthi Sivapragasam who is the Chief Financial Officer of the Group is a Fellow of the Chartered Institute of Management Accountants of U.K. and an Associate of the Institute of Chartered Accountants of Sri Lanka. She serves on several Faculty Committees and is a Member of the

Urgent Issue Task Force of ICASL and is a Member of the Technical Committee of CIMA Sri Lanka Division. She is also the Chairperson of the Accounting Standards Sub-Committee and a Member of the Taxation Sub-Committee of the Ceylon Chamber of Commerce.

08. Mr. Gehan M. Perera

Mr. Gehan Perera heads the Destination Management sector in the Group. He is the Immediate Past President and a Honorary Member of the Sri Lanka Association of Inbound Tour Operators (SLAITO) the apex body representing inbound travel companies. He also serves in the Tourism Cluster facilitated by USAID. He is a Fellow of the Australian Institute of Management.

09. Mr. Devan de Mel

Mr. Devan de Mel is the Managing Director of the power generation sector of the Group. He formerly headed the Corporate Planning Unit and was closely involved in the Group's diversification into the power generation sector. He has a Bachelor's Degree in Mechanical Engineering and a Master's Degree in Business Administration.

10. Dr. Parakrama Dissanayake

Dr. Parakrama Dissanayake who heads Maritime Transport was the former Chairman/ Chief Executive of the Sri Lanka Ports Authority and Jaya Container Terminal Ltd. Dr. Dissanayake who serves on the UN/ UNCTAD Panel as a Shipping Expert holds a Ph.D in Management, a MBA and is a Chartered Marketer (FCIM), Chartered Shipbroker (FCIS) and Chartered Fellow of Logistics & Transport (FCILT). He is a graduate of the Norwegian Shipping Academy and is a past Chairman of the Institute of Chartered Shipbrokers and Chartered Institute of Logistics and Transport (Sri Lanka).

11. Mr. S. Malin Hapugoda

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

12. Ms. Nimmi Guneratne

Ms. Nimmi Guneratne is the Managing Director of Aitken Spence Insurance (Pvt) Ltd., and is the General Manager of the Lloyds Agency in Colombo and the Maldives. She is a Fellow of the Chartered Insurance

Institute of UK, and holds a Bachelor's degree in Law and is also an Attorney-at-Law. She is also a visiting lecturer and examiner in Insurance Law at the Sri Lanka Law College, and is also a lecturer and examiner of the Sri Lanka Insurance Institute. She is the current Vice President of the Sri Lanka Insurance Institute.

13. Mr. Sasi Ganeshan

Mr. Sasi Ganeshan is the Managing Director of the General Sales Agency of Singapore Airlines in Colombo, as well as the Company's Outbound Travels division. He is a Member of the Chartered Institute of Management, UK, and counts many years of experience in and possesses a wide knowledge of the travel industry.

14. Mr. Susith Jayawickrema

Mr. Susith Jayawickrema an Associate Member of the Chartered Institute of Management Accountants, UK, was promoted to the Aitken Spence Group Board, with effect from 1st April 2005. He has been with the Company for the past 15 years and has wide experience and exposure in the tourism industry. He is presently the Director/General Manager of Aitken Spence Hotels and serves as a Member of the Sri Lanka Hotels Association's executive committee and the sub committee for fiscal and monetary policy.



Subsidiary Directorate

Tourism Sector



U.C. Jayasinghe



R. Subramaniam



D.D.A. Soza



S.K.R.B. Jayaweera



G.P.J. Goonewardene



S. Senanayake



K.A.A.C. Perera



H.P.N. Rodrigo



S.T.B. Ellepola



N.A.N. Jayasundera



P.L. Perera



N. Ratwatte



R. Fernando

Logistics Sector



N.D.F. Perera



A. Jayasekera



M.A.J. Perera



H.B. Kelly



F.P. Paiva



I.S. Cuttilan



Mrs. D.K. Senaratne



Mrs. T.D.M.N. Anthony



A.M.M. Amir



K. Aluwihare

Strategic Investments Sector



Mrs. N.J. Perera



C.R.F. de Costa



S.C. Ratwatte



R.G. Pandithakoralage



R.G. Salgado



J.S.A. Fernando



D.S. Mendis



M.H.A. Barrie



M.V. Perera

Group Companies

Aitken Spence & Company Ltd., is a Company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. It is the Holding Company of the Group which provides management and other related services to the entire Group.

	SUB SECTOR	COMPANY	ACTIVITY
TOURISM	Destination Management	Aitken Spence Travels Ltd.	Represents world renowned tour operators including TUI the largest in Europe.
	Outbound Travel	Aset Airways Ltd.	General Sales Agents for Singapore Airlines and Silkair.
		Aitken Spence Overseas Travel Services (Pvt) Ltd.	An IATA agent and General Sales Agent for Tradewinds, Eurail, London Transport and British Railways. Organises outbound Holiday packages.
		Aitken Spence Moscow (Pvt) Ltd.	General Sales Agents for Aeroflot Russian Airlines.
	Convention & Event Management	Ace Travels & Conventions (Pvt) Ltd.	Organisers and managers of conferences, conventions exhibitions and events. Also offers Destination Management Services.
	Hotels	Aitken Spence Hotel Holdings Ltd.	The holding company of the Group's hotel interests. Owns and operates Triton Hotel.
		Aitken Spence Hotels Ltd.	Owns and operates Neptune Hotel.
		Pearl Beach Hotels Ltd.	Leases the Company owned land to Aitken Spence Hotels Ltd.
		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.
		Ahungalla 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.
		Ace Ayurvedic (Pvt) Ltd.	Operates the Ayurvedic centre in Meedhupparu Island Resorts - Maldives.
		Aitken Spence Hotel Managements (Pvt) Ltd.	Manages resorts in Sri Lanka.
		Aitken Spence Hotel (International) Ltd.	Manages resorts in the Maldives.
LOGISTICS	Freight Forwarding	Ace Cargo (Pvt) Ltd.	Provides international freight forwarding services, domestic express delivery services, mail room solutions, customs, brokerage, handling of projects and exhibition cargo, household packing and moving services.
		Ace Bangladesh Ltd.	Provides international freight forwarding services in Bangladesh.
		Ace International Express (Pvt) Ltd.	Provides air express and mailing services.
		Aset Ltd.	Operates as General Sales Agents for Airline Cargo.
		Ace Global Aviation Services (Pvt) Ltd.	Operates as General Sales Agents for Airline Cargo.
	Integrated Logistics	Ace Containers (Pvt) Ltd.	Operates an inland container depot and a freight station.
		Ace Container Terminals (Pvt) Ltd.	Provides container storage, customs brokerage and warehousing services.
		Ace Haulage (Pvt) Ltd.	Transporters of laden and empty containers.
		Ace Container Repair (Pvt) Ltd.	Provides Container repairing and refurbishment services.
		Ace Distriparks (Pvt) Ltd.	Provides total logistic support and warehousing with multi country cargo Consolidation
		Ace Freight Management (Pvt) Ltd.	Provides clearing, forwarding and consolidation of cargo and operates an inland container depot and freight station.
	Maritime Transport	Spence Mac Holdings (Pvt) Ltd.	Holding Company of the Shipping Sector of the group.
		Aitken Spence Shipping Ltd.	Represents Ethiopian Shipping Lines, Maruba and several NVOCC principals charterers and bunkering agents.
		Clark Spence & Company Ltd.	Shipping and bunkering agents in the ports of Colombo, Galle and Trincomalee. Represents Hamburgsued of Germany.

	SUB SECTOR	COMPANY	ACTIVITY
LOGISTICS	Maritime Transport	Shipping & Cargo Logistics (Pvt) Ltd.	Represent Hyundai Merchant Marine Co. Ltd of South Korea.
		Vauxhall Shipping (Pvt) Ltd.	Represents HRC feeder service.
		Ultimate Freight Services (Pvt) Ltd.	Represents ECU Shipping Lines.
		Mcship Agencies (Colombo) Ltd.	Represents CP Ships (UK) Ltd, provides shipping agency services.
		GAC Shipping Ltd.	Provides Shipping agency services in Colombo and Galle ports, P & I Club Services, Overseas recruitment of employees.
		GAC Marine Services Ltd	Provides off-shore ship supply services, marine contracting, managers of fleet of supply vessels.
		GAC Logistics Ltd.	Providers of logistic warehouse management & freight forwarding Services.
		Delta Shipping (Pvt) Ltd.	Represents Red Eagle Maritime Line.
STRATEGIC INVESTMENTS	Printing and Packaging	Aitken Spence Printing (Pvt) Ltd.	Provides printing and packaging services to the local market.
	Garment Manufacture	Ace Exports (Pvt) Ltd.	Provides printing and packaging services to the export market.
		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 and organisations worldwide, including Lloyds, Cesam, Groupama, PICC and Tokyo Marine and Fire Insurance Company 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.	Operates a 100MW power plant in Embilipitiya to supply power to the national grid.
		Aitken Spence GTECH (Pvt) Ltd.	Provider of high performance transaction processing solutions to the lottery industry.
	Management Services	Aitken Spence Corporate Finance (Pvt) Ltd.	Agents and Secretaries to the companies of the Aitken Spence Group.
		Aitken Spence Group Ltd.	Overall management of the Aitken Spence Group Companies.
		Aitken Spence Exports Ltd.	Exports dry rations and perishables to the Group's resorts in the Maldives. Also bottles and markets "Hethersett bottle water".
	Associate Companies		
	Plantations	Aitken Spence Plantation Managements (Pvt) Ltd.	Managing agents for Elpitiya Plantations Ltd.
		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.
		Talawakelle Plantations Ltd.	Owns 18 estates with total land extent of 6,500 hectares. The Company produces a mix of high and low grown teas.
		Hayleys Plantation Services Ltd.	Managing agents for Talawakelle Plantations Ltd., and owns majority share of Talawakelle Plantation Ltd.
	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.
	Ship Owners	Ceyfirst Shipping (Pvt) Ltd.	Owners and operators of M.V Cey Pioneer, a multi purpose container vessel.
		Ceyspence (Pvt) Ltd.	Owners and operators of M.V X Press Resolve, a fully cellular 500 TEU Container Vessel.
		Ceyserv Lines (Pvt) Ltd.	Owners and operators of M.V Indonesia Star, a 1300 TEU Container Vessel.

A Brief Historical Outlook

Scotsmen Thomas Clark and Patrick Gordon Spence first laid the foundation of the Aitken Spence Group in 1868. The Company by the name of "Clark Spence & Company" originated in the southern port city of Galle. Brothers Edward and S.R. Aitken joined the partnership in 1870 and lent their name to the Company which then became Aitken Spence and Company Ltd., and has remained so to date.

Being a primarily trading company, their signboard read, "Exporters of gems, plumbago, hides, sapanwood, ebony, coffee, coconut oil, coir yarn, arrack, British fibre and citronella oil; importers of Burmese rice, coal for steamer bunkers". As a typical colonial enterprise, the Company prospered and diverted to other fields such as insurance and shipping. It represented major insurance firms and in 1876 was appointed as agents for Lloyds of London-the most renowned insurers in the world.

The move to the commercial capital of the country was inevitable and in 1900 the Company acquired the Freudenberg Building in the heart of Colombo Fort and renamed it the "Lloyd's Building". This continued to be the Group's head-quarters until 1995 when it moved to its own modern building in Vauxhall Street.

In the 1920's the Company ventured into the plantations industry, which then played a key role in the nation's economy. During the great depression of the 1930's the Company moved away from trading and found stability in shipping, insurance and plantation management. By the outbreak of the Second World War, Aitken Spence led the Ceylonese companies in these fields.

Independence from British rule in 1948 and the end of the Second World War had their own impact on the Company. In 1950 it was converted into a private limited company, without changing ownership.

This year also marked the Company's interest in industrial printing, light engineering and securing of the IATA Travel Agency. After the retirement of the last Chairman from the founding families P.W.G. Spence in 1952, E.L. Van Langenberg took his place and was the first Sri Lankan Chairman of Aitken Spence. The Company commemorated its centenary year in 1968 with the change of ownership from its British managers to a wholly Sri Lankan-owned enterprise.

As a result of the nationalization of many industries in the 1970's Aitken Spence ventured into newer areas such as freight forwarding, marine container allied services, courier services, property development, garment manufacture, and tourism, which was to soon become the Company's core business.

In 1974 the Company entered the hotel industry with the opening of the Neptune Hotel. Sri Lanka's first five star hotel, The Triton Hotel commenced operations in 1981. Among the others Kandalama Hotel (1994) and the Tea Factory (1996) are two of the most talked about. The former being a uniquely designed, environment friendly hotel and the latter a theme hotel, transformed from an abandoned tea processing facility. In 1999 Kandalama became the first hotel in Asia to be awarded the prestigious Green Globe 21 Certificate at the World Travel Mart held in London. The Ultimate Service Award 2001 for the Indian Ocean Region presented by CNN was awarded to Kandalama Hotel. The Tea Factory was awarded the Building Conservation Award presented by the Royal Institute of Chartered Surveyors of London in 2000.

The Company investments in hotels and tourism transcended the geographical boundaries of Sri Lanka in 1993 with their entrance into the Maldivian tourism sector with the acquisition of Bathala Island resort, once again being the

pioneers in this field. The Company currently owns and operates three Island Resorts in the Maldives.

In 1983 the Company's shares were quoted for the first time on the Colombo Stock Exchange, with an issued share capital of Rs. 51 million.

Furthering its interest in the international frontier the Company successfully raised Rs. 730 million with the placement of shares in 1998 among major foreign and local investors including International Finance Corporation and the Commonwealth Development Corporation.

Following the power crisis in the late 1990's and the Government's decision to rely on the private sector for the generation of power, Aitken Spence seized the opportunity by once again diversifying further into power generation. In 2000 two 20MW power plants were commissioned generating power for the nation. The third, a 100MW power plant in Embilipitiya commenced commercial operation in 2005.

In 2001 Aitken Spence obtained an 'AA' rating by Fitch Rating Lanka Ltd., for Rs. 400 million debentures issued by the Company. This rating was maintained for the successful placement of Rs. 1 billion debentures in June 2004.

The Company was rated among the 'Best Under a Billion' in US dollar revenues among companies outside United States by Forbes Global in 2003 and 2004.

Thus the ambitious venture started 135 years ago continues from strength to strength in all aspects of its business operations. The Company owes its success to the pioneering spirit, dedication and commitment of those who direct the Company's future and the employees whose concentrated efforts have made Aitken Spence what it is today.

Glossary of Financial Terms

Assets Turnover

Total turnover (including share of Associate Companies turnover) divided by average total assets.

Bond

A long-term debt instrument carrying an interest coupon.

Capital Expenditure

The total of additions to property, plant & equipment and the purchase of outside investments.

Capital Reserves

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

Commercial Paper

Short-term promissory note issued in the open market that represents obligations of the issuing entity, guaranteed by a standby credit line with a commercial bank.

Compound Shareholder Return

Total Shareholder Return (TSR) for the time length of three years.

Current Ratio

Current assets divided by current liabilities.

Debenture

A long-term debt instrument issued by a corporate.

Debt/Equity Ratio

Non-current interest bearing borrowing divided by the total equity and minority interest. It shows the extent to which the firm is financed by debt.

Diluted EPS

Net profit for the period attributable to ordinary shareholders divided by the weighted average of ordinary shares in issue during the period, adjusted for the effects of all dilutive potential ordinary shares.

Dividend Cover

Net profit attributable to the ordinary shareholders divided by the total dividend.

Dividend - Payout Ratio

Dividends per share divided by earnings per share. This indicates the percentage of the Company's earnings that is paid out to shareholders in cash.

Dividend Yield

Dividend per share divided by the market value of a share.

Dividend per Share

Dividends paid and proposed divided by the number of issued shares, which ranked for those dividends.

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 Assets

An identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services for rental to others or for administrative purposes.

Interest Cover

Operating profit before interest divided by the total interest.

Interest Rate Cap

An agreement where the lender agrees to compensate the borrower when the floating reference rate exceeds a pre-determined level.

Interest Rate Floor

An agreement where the borrower agrees to compensate the lender when the floating reference rate falls below a pre-determined level.

Interest Rate Swap

An arrangement whereby two parties swap interest rate commitments with each other to reduce interest rate risks on fixed or floating rate loans.

LIBOR

London Inter Bank offered rate.

Market Capitalisation

The number of ordinary shares in issue multiplied by the market price per share.

Minority Interest

Part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.

Net Assets per Share

Total assets less total liabilities (including minority interest) divided by the number of shares in issue as at 31st March.

Net Treasury Bill Rate

Weighted average Treasury Bill Rate net of with holding tax published by the Central Bank of Sri Lanka at the auction immediately preceding an interest determination date.

Negative Goodwill

The excess of the fair value of net assets acquired over the cost of acquisition of a company.

Price Earnings Ratio

Market value per share divided by the earnings per share.

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.

Share Option Scheme

The right but not the obligation to purchase an agreed number of shares at a fixed price within a pre-determined time period.

SIBOR

Singapore Inter Bank offered rate

Total Equity

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

Total Shareholder Return (TSR)

Change in market price of the share between end and beginning of the financial year, plus dividend for the year, divided by the market price of the share at the beginning of the financial year.

Unquoted Shares

Shares which are not listed in 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 Third Annual General Meeting of Aitken Spence & Company Ltd. will be held at the “Sapphire Ballroom”, Ceylon Continental Hotel, Colombo at 10.00 a.m. on Friday, 8th July 2005, for the following purposes:

- To receive and consider the Statement of Accounts for the year ended 31st March 2005 with the Reports of the Directors and Auditors thereon.
- To declare a dividend as recommended by the Directors.
- To re-elect Dr. R.M. Fernando who retires in terms of Article 91 of the Articles of Association, as a Director.
- 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

7th June 2005

Notes:

- (i) *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.*
- (ii) *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.*
- (iii) *Any member or proxy attending the meeting is kindly requested to bring this report.*
- (iv) *It is proposed to post the dividend warrants on 8th July 2005, 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 28th June 2005.*

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 (whom failing)

Rohan Marshall Fernando of Colombo

as my/our Proxy to represent me/us and to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on the 8th July 2005, and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of Two Thousand and Five.

.....

Signature

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

Form of Proxy

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 6th July 2005 being 48 hours before the time appointed for the holding of the meeting.

Name

Aitken Spence & Company Ltd.

Legal Form

A Public quoted Company with limited liability,
incorporated in Sri Lanka in 1952.

Company Registration Number

PVS/1120 PBS

Registered Office

No. 305, Vauxhall Street, Colombo 2, Sri Lanka.

Directors

D.H.S. Jayawardena - *Chairman*

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

Deputy Chairman and Managing Director

R.M Fernando - Ph.D., MBA, MCIM (UK) -

(Appointed w.e.f 1.04.2005)

G.C. Wickremasinghe

R. Sivaratnam

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

C.H. Gomez

Audit Committee

G.C. Wickremasinghe - *Chairman*

R. Sivaratnam

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