| inherent strength | | unmatched excellence |

Aitken Spence is one of the nation's oldest establishments, with an untarnished reputation for quality that has continued since 1868 to this day.

Today we launch our new brand and redesigned logo, which embrace both the strength of our long heritage and the influence of our presence in contemporary Sri Lanka.

The diamond icon represents the multi-faceted nature of our business interests and the guarantee of quality that is inherent in all we do. Together with the new corporate signature, it signifies the promise of Aitken Spence excellence and the lasting values that have remained consistent from the previous century to the present day.

| The strength of our history and the influence of our presence |

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.

Contents

Financial Reports

Highlights

GROUP

Commences development of a new corporate brand.

Records the highest ever revenue of Rs. 13.6 billion, and Net Profit of Rs. 1.2 billion.

Forbes Magazine recognises Aitken Spence as one of the Most Successful Companies (outside USA, with annual sales below US $ 1 billion), for the third consecutive year.

SECTOR

Tourism:

Rs. 1.8 billion invested on refurbishing and re-positioning of two premier hotels.

Cargo Logistics:

Maritime Transport acquires two more container vessels.

Strategic Investments:

The 100MW thermal power plant at Embilipitiya commences commercial operations.

Financial Highlights

Our ambitious vision is to continue being the best Company in the Services Sector and our primary goal is to deliver superior stakeholder returns.

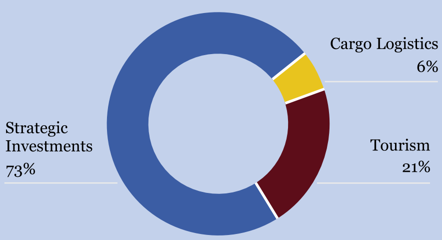
For the year	2005/2006 Rs. '000	2004/2005 Rs. '000	% Change
Results			
Revenue	13,593,263	10,063,989	35
Profit from operations	2,223,332	1,876,818	18
Profit after taxation	1,709,452	1,558,524	10
Net profit for the year	1,211,284	1,116,776	8
Dividend			
Interim 30% (2004/2005- 25%) paid on 21st April 2006	81,199	67,642	
Final 35% (2004/2005 - 35%) proposed and payable on 29th July 2006	94,732	94,711	
At year end			
Total equity	8,588,047	7,566,918	13
Total assets	23,206,694	17,106,725	36
Non - current liabilities	5,737,780	4,476,808	28
Economic value added	964,723	951,305	1
Per Ordinary Share - (Rs.)			
Earnings per share	44.76	41.32	8
Dividends per share	6.50	6.00	8
Net assets per share - as at 31st March	317.30	279.67	13
Market value per share - as at 31st March	339.00	380.00	(11)
Ratios			
Price earnings ratio	7.57	9.20	(18)
Interest cover (times)	6.38	9.66	(34)
Debt:Equity ratio	0.48	0.45	7
ROE (%)	14.99	15.79	(5)

Our outstanding record of wealth creation and returns to stakeholder was featured in Forbes Magazine for the third consecutive year ...

Earnings per share

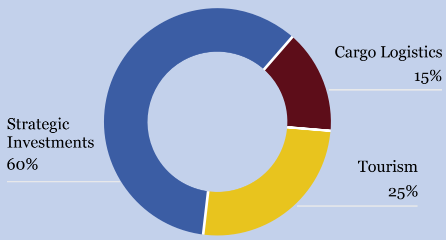
Capital Employed

2006

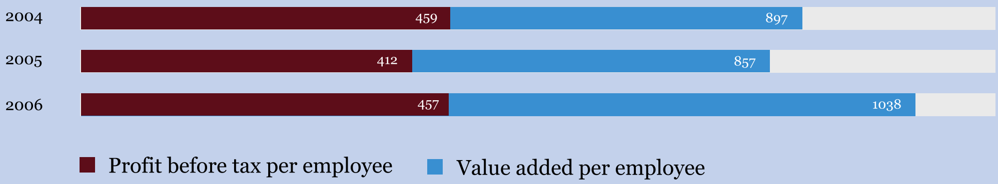


Sectoral Revenue

2006



Wealth Creation per Employee (Rs. '000)



Net Profit Attributable (Rs Mn)

Chairman's Message

"Our new corporate brand is aimed at projecting the company as a diversified regional conglomerate whose vision is ambitious, but ethical and responsible."

D. H. S. Jayawardena
Chairman

Colombo
29th May 2006

The aftermath of the tsunami and its impact on the macro economic environment made the year a challenging one for us. The Group achieved creditable results under the circumstances in which it operated. Throughout the year the corporate sector had to contend with considerable setbacks including elections, spiraling fuel prices and sporadic violations of the Cease Fire Agreement which created an unstable business climate. However, the Geneva talks during the early part of 2006 brought about a shaky stability keeping Sri Lanka on course for the envisaged 6% growth expected this year. With the rupee stabilising, the cost of living has been maintained at a reasonable degree, although the effects of the stabilisation did adversely affect the export industry.

Your company posted a profit before tax of Rs.1.9 billion, a 11% growth over last year's Rs. 1.6 billion and a net attributed profit of Rs.1.2 billion, 8.5% growth over last year's Rs.1.1 billion. Consistently prudent policies have enabled us to maintain a positive Economic Value Added of Rs. 964.7 million. This augurs well for our primary goal of creating wealth for you, our shareholders. Earnings Per Share stood at Rs.44.76 while the return on equity was 15%. Our strategy has always been to enhance shareholder value and increase shareholder returns.

We have the distinction of being rated in Forbes magazine, making us the only Sri Lankan company to be featured in the top 100 small companies outside the United States with annual sales below US $ 1 billion, for three years consecutively. Profit is deemed not only in numbers but in perceived reputation and respect among peers in the region. Hence, this is an intangible benefit in value to you, our shareholders. Shareholders will be pleased to note that although the company had a difficult year the Board recommends a final dividend of 35%. This is a total dividend of 65% for the year, a distribution of 8% more than the dividend paid last year.

Our new corporate brand is aimed at projecting the company as a diversified regional conglomerate whose vision is ambitious, but ethical and responsible. The new logo has been conceptualised using the ethos of 'the diamond of the service industry', with a contemporary version of the former Aitken Spence logo. The many facets of the diamond is representative of the different sectors the Group operates in and is a metaphor for excellence and endurance, a solidity and brilliance of cut that dates back to 1868, but will endure into the future.

Unfortunately Sri Lanka seems to sink into the quagmire of bureaucracy year on year. Our neighbours India, Bangladesh, Pakistan and the Maldives are reacting positively towards the spurt of growth seen within the region. However, Sri Lanka has tended to not take note of these developments and remains complacent. There is a vital necessity to push tourism into the global macro picture of development. Sri Lanka Tourism now has within its control a substantial amount of funds that can be utilised for a comprehensive destination marketing campaign.

Your company is continuing with its marketing strategy however. We have used this year of consolidation to reposition our resorts and create a new platform for products and services. A strategic alliance with Six Senses Spas, will through our existing resorts and new expansion projects, position us among some of the best in the world. We also have as a partner TUI, the largest integrated tour operating company in the world that services a global tourist traffic segment of over 21 million across the continents. We welcome DEG Germany as our partner in our Embilipitiya Power Project. Maldives has showcased an excellent recovery post tsunami and our operations there have been outstanding this year. We are also in the process of acquiring another resort in the Maldives which will come into operation at the end of the year.

Some further areas of concern at present is the regressive taxation environment that corporate Sri Lanka is forced to contend with. We are also hampered by delays in receiving substantial VAT refunds due to us which have been paid on capital expenditure projects undertaken this year. These delays place a strain on cashflows and also profits.

Uncertainty prevailing in employment termination, political instability and a migration of skills to the Middle East and Africa especially among professionals and hoteliers, due to the prevailing situation are also factors that hinder investment and growth. Stability and consistency in Government policy is the panacea for business and instability can be a disadvantage to attracting significant foreign investment into the country. It is vital that the Government vigorously pursues with the peace process to prevent the country from being dragged back into another unnecessary and costly war.

The tsunami, while creating an immense degradation of the economic and social fabric of the country, also proved to have a positive side. The humanness and kindness of people to their fellow beings was seen in abundance. We are very proud to have worked on projects at four locations where around 100 houses have been built for those affected. The funds were contributed by some of our international and local partners as well as the Group and its employees.

Although the tourism sector had its share of problems the Group's logistic sector fared well. Increased activity in the import and export volumes at the port of Colombo enabled us to improve our performance significantly. We have now diversified into various activities within the sector including ship ownership and will soon be expanding internationally in new areas of business in the sector.

Our strategic investments continue to grow. Power generation posted a noteworthy year. Investment was infused into printing via infrastructure and equipment. The proposed printing complex near Biyagama and a modern warehousing complex in Welisara will provide the required infrastructure to further augment our growth plans. In line with the new development plans of the government, the company is seriously looking at prospects available outside the Colombo and Gampaha districts. Your company would like to take advantage of the concessions, including tax benefits being offered to industrialists who set up operations in all other districts. Expansion will continue into the next year and encompass identified growth areas of health care and property development. Our growth plans have always been in line with creating shareholder value in the medium to long term, rather than in the short term. This incisiveness has enabled us to maintain shareholder returns at a consistent level even in the face of external challenges and with major investments being undertaken by the Group.

We are committed to the principles of United Nations Global Compact and honoured to be a signatory. This is the UN Secretary General's corporate responsibility initiative that brings together UN agencies, labour, civil societies and companies to support universal environmental and social principles. The Global Compact is a purely voluntary process for corporates, governments or civil society. The embedded principles include the promotion of human rights, advancement of labour standards, protection of the environment and corporate integrity. We espouse these principles that herald a more sustainable and inclusive global economy as they echo the values and ethics of the Aitken Spence business strategy.

In this year of transformation for our Company, I would like to thank the Board of Directors, Management and the entire team who have taken on challenges valiantly, while always striving to ensure that Aitken Spence remains true to its vision.

D. H. S. Jayawardena
Chairman

29th May 2006

We have an ambitious vision of becoming a globally competitive market leader in the region. This year, we took that vision much further...

J. M. S. Brito
Managing Director

Colombo
29th May 2006

We have an ambitious vision of becoming a globally competitive market leader in the region. This year, we took that vision much further and cemented some of the plans in the pipeline. We are drawing up further expansion plans to make this vision a reality. We are also harnessing the true potential of our entire team to deliver beyond expectations in an ethical, transparent and accountable manner. The trusses that the Company has built its reputation upon have been one of tradition and astute decisions. Both have held us in good stead to meet challenges in the past and those of the future. While we continue to build on these, our mindset has turned towards more globally oriented opportunities. These require more innovative and transformational attitudinal changes, which we have now taken on board to create a competitive thrust to take the company forward.

With this in mind we embarked on a corporate re-branding programme that was given high priority this year. Being in extremely diverse industries, holistic identification with Aitken Spence as a brand was lacking. The common link among sectors was weak. To strengthen this situation, we appointed a local branding consultancy firm Sting Consultants who were entrusted with creating a brand identity that epitomised us - what we stand for, our strengths and our focus. This will be the future drive we aim to pursue, by living the change and the brand. A contemporary representation of the original diamond logo to position the Group as 'the diamond of the service industry' has been used. The new branding elements aim to signify the key branding attributes of corporate reputation, financial stability, wealth of experience, professional management, extensive business portfolio and best talent in service. We have also infused various components of our founding fathers' signatures as the official logotype, which presents a two pronged concept; a highly distinctive forward looking and progressive mnemonic that also reflects the characteristic cursive features that are over 150 years old. We hope to complete the corporate re-branding roll-out by the end of 2006.

In line with our re-branding concept and the expansion we envisage within the Group, we are currently in the process of building a new office complex at Vauxhall Street, Colombo. This should be completed and ready for occupation next year.

Our growth plans have evolved to seeking and implementing opportunities in both South India and Delhi, Dubai and further expansion in the Maldives and Bangladesh. We work with local partners to add to our dimension of being a regional player. Opportunities and adequate return on capital has always been the underlying factor in all our expansion endeavours. We have also pursued stringent goals of enhancing productivity and performance skills, instilling a performance based system of rewards into our entire HR process. This holistic goal driven culture has seen a systematic and dynamic change within the mindset of our entire team. Even through challenging times, our team has continued their forward thrust to maintain and surpass the set targets.

We embarked on our largest and most comprehensive Corporate Social Responsibility project last year to construct around 100 houses for tsunami victims. With assistance from our principals, strategic and joint venture partners, employees, well wishers and friends, to whom we are extremely grateful for their generosity, the Spence Evoluzione Charitable Trust raised almost 100 million rupees towards the project. TUI became the largest donor towards this initiative. Our appreciation is also expressed to the Government of Sri Lanka for the donation of land in Ahungalla and Trincomalee to build three of the four villages. In addition to houses, each scheme will have medical facilities, a pre-school, a playground and a community centre.

Tourism

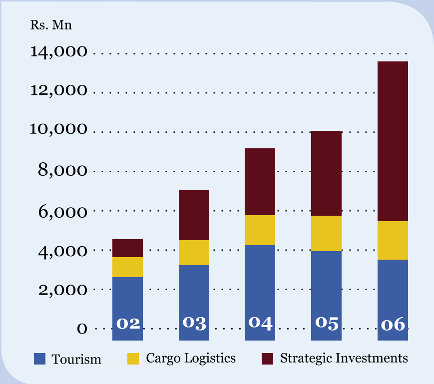
The aftermath of the tsunami took its toll on the Sri Lankan economy and tourism in particular. As a result the Company took a prudent decision to consider 2005/06 a year of consolidation. The number of tourist arrivals to the country this year has been disappointing. Sri Lanka itself has not been able to bounce back from the tsunami in similar manner to both Thailand and the Maldives. Adding to the woes of the industry was continued political instability, a re-emergence of skirmishes in the north and east of the country speculated by the international media as a possible return to war and elections. The uncertainty of the 100 meter buffer zone which fortunately seems to have abated, also affected the stable environment which is absolutely vital as a confidence building measure for tourists. With other destinations promising similar products and services through concerted and cohesive destination advertising, the industry saw a quick shift by holidaymakers to more stable destinations.

Another area of concern is the lethargy observed in implementing the Tourism Promotion Act, a vital component for the furtherance of the industry. If these elements were in place, Sri Lanka would have bounced back much faster after the tsunami. Nevertheless, ITB Berlin in February 2006 seems to have had a positive effect on the country's image and we were expecting a better winter 2006. However the deteriorating security situation has resulted in a dismal outlook.

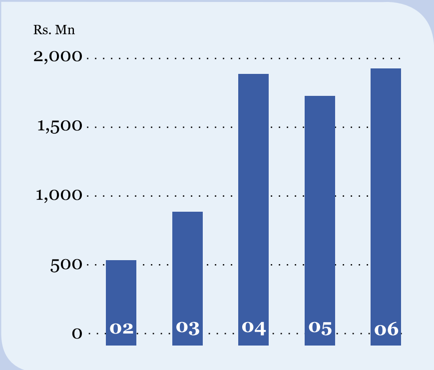
The development of infrastructure within the country too is vital and we are happy to note that the BIA development project is underway. We firmly believe access ways via road, water and air must be developed quickly if we are to attract the high-end more sophisticated clientele we are hoping will make up the bigger segments of visitors to the country.

We have observed discrepancies in accounting for tourism arrivals into Sri Lanka and urge the authorities to institute a more credible methodology to enumerate the tourism industry statistics. Conflicting numbers can be assuaged or eliminated if a tourist satellite accounting system is implemented. Though deemed a relatively high investment, it will add value to the entire industry, assisting in mapping and planning the course of the industry for the future.

Sector Revenue



Profit Before Taxation



A robust open skies policy is absolutely critical for the growth of the Sri Lankan aviation industry to take advantage of European carriers into the country. India has once again taken advantage of the lack of foresight on the part of Sri Lanka and is benefiting from a very hearty open skies policy being implemented in that country.

While some of our main resorts were closed for refurbishment or total revamping, we managed to reap in some benefits from our resorts in the Maldives, while also seeking opportunities in the region towards long term expansion.

Using the architectural and locale uniqueness of our properties, we decided to re-brand Triton, Kandalama, and Tea Factory. Triton will henceforth be known as Heritance Ahungalla and the branding cascade will follow to the other two properties as well. The investment expended on the refurbishing and repositioning of both Kandalama and Triton has been Rs 1.8 billion. The tie up with globally renowned spa operators, Six Senses also augurs well for our future development plans.

We value the strategic alliance forged last year with TUI, the largest tour operator in the world dealing with about 21 million tourists annually worldwide. TUI was extremely helpful during and after the tsunami and undertook to join us in two housing projects in Sri Lanka, while also contributing handsomely towards immediate relief efforts.

However, it is vital that macro stability within the country is maintained. This becomes a crucial factor for overseas investors. Even though our investing partners have always been very supportive and have confidence in the Company as a whole, they do weigh the merits of the country situation, which may be a deterrent.

Despite the immediate dismal outlook for tourism in Sri Lanka, we are confident that conditions will improve and hence are in the process of purchasing another resort in the south coast to add to our portfolio. Plans are also underway to acquire a fourth resort in the Maldives. There are also global prospects we aim to exploit in medical tourism. However, the pace of this project has been rather languid as obtaining land has again become embroiled in bureaucracy. However, we remain positive that the land issue will be sorted out in the coming year and we will be able to lay the foundation for this area of speciality tourism.

The outbound travel division had a reasonably good year and opened more branches in Colombo and in the outstations. Plans are underway for further expansion in the coming year. The Colombo-Singapore sector had to contend with increasing competition and fuel surcharges. However, our Singapore Airlines Agency posted a growth of 20% on the airlines daily operations to Singapore. Additional capacity introduced by the cargo operations though did not see the desired results. The thrice weekly freighter service operated by SIA was discontinued with cargo having to revert to belly-hold space on the passenger flights.

Cargo Logistics

It has been a good year for this sector, a result of the strategic decisions and new alliances forged over the last few years. Sri Lanka also took advantage of the growth in international trade. The GSP plus scheme offered to Sri Lanka by the EU has also helped cushion the impact of competition from China.

The air freight division posted an excellent year with a growth of over 50% year on year. The air freight division performed 27% above forecasted levels, despite the loss of Menlo Worldwide and Air Cargo Wales affecting performance. Intense competition in the courier division posed some challenges although innovative decisions paved the way for results above expectations.

During the year we acquired two more container vessels and increased the fleet to five. Although we observe a consistent decrease in sea trade, the levels of business at present are acceptable. We also expanded into India and in freight forwarding are currently opening an office in Dubai. There will be a gradual expansion into the region with more strategic locations identified for next year.

Construction of the new ultra modern warehousing complex in Welisara which is planned for the ensuing year will further augment our strengths as a total logistics solutions provider.

We believe that the Colombo South Harbour project is a crucial factor for the survival of the industry. There has to be commitment and the will to implement and see the project through. Next year, the Colombo Port will experience a capacity crunch which will in effect be a sign of things to come. With shipping lines making plans 5 to 6 years ahead, Sri Lanka's lack of infrastructure and capacity will see a shift to other ports, which will adversely affect the entire industry. We cannot forget that other ports in the region are expanding at a faster pace than Sri Lanka and with our local export traffic being marginal, our entire trans-shipment business which is the major contributor will see a massive decline. In the same vein, if capacity shrinks, that will affect our largest non-traditional export earner which is the apparel industry and the cascading effect will be all encompassing.

Strategic Investments

Power generation, being one of our core activities continued to display the upward trend it posted last year. We purchased additional shares in Ace Power Embilipitiya which operates the 100mw power plant to increase our stake to 74%. The balance was acquired by DEG Germany. Having taken over the operations and maintenance of the Matara plant last year, we propose to do the same in Horana this year. The projects have all done exceptionally well and we see prospects in other areas of alternative energy sources, projects we aim to pursue this year.

Plantations posted an extremely disappointing year as we have been faced with numerous wage increases and taxation issues. Volatility of tea prices and having to deal with constantly rising wage costs does not make this investment feasible. We employ over 10,000 directly with the responsibility of looking after nearly 50,000 people who make up the larger plantation family. We continue to keep the plantations sector within the Group, while performing as efficiently as possible within the numerous constraints the sector faces. We aim to continue our relationship with the plantation workers in the context of corporate social responsibility. We will work towards empowerment, dignity of labour and create an environment that is sustainable and enabling.

The fall out from the phasing out of the MFA did not materialise in the apparel sector. In fact, our garments sector, which was turned around last year, posted significant growth this year too.

The joint venture agreement entered into two years ago with GTECH Corporation of USA for the provision of infrastructure for Sri Lanka's first on-line lottery project, has not had the desired results. The contribution from this project has been disappointing due to inexplicable lack of support and numerous obstacles posed by the regulatory authorities. We also observed a lack of marketing efforts to create the right mindset among Sri Lankans who are unfamiliar with the concept of on-line lotteries and the benefits that accrue from them.

Our printing sector had a lackluster year ploughing through increased competition and sluggish trading conditions. To keep abreast of consumer demands the sector invested Rs.170 million on a state-of-the-art 6 colour printing press. We have now embarked on the construction of a bigger printing complex in Mawaramandiya near Biyagama to meet the expected increase in demand. The complex should be completed by the end of this year.

The Future

We have repositioned ourselves in the Tourism sector and invested in growth opportunities in the Cargo Logistics and Strategic Investments sectors. Together with our new branding, the company is now poised on a fresh threshold. The year of consolidation has helped us take stock of our strengths and enhance on them. We have worked on our weaknesses, sought the relevant opportunities and chartered the necessary course to challenge any threats. We firmly believe that this period has helped us realign ourselves more stridently towards our vision.

I wish to record my sincere appreciation to our highly dynamic and motivated team of Directors and employees, who have continued to support and innovate the path of this exciting but challenging journey. We have been able to use the human synergy within the group to look outward and beyond our dreams.

JMS Brito.

J. M. S. Brito
Managing Director

29th May 2006
Colombo

Board of Directors

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, Lanka Bell (Pvt) Ltd., and a Director of Hatton National Bank, the largest listed bank in Sri Lanka. He is presently Chairman of SriLankan Airlines and the Honorary Consul for Denmark.

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

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

03 | Dr. R. 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 was the past 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 was also a director of the Rubber Research Institute of Sri Lanka.

04 | 05 | 06 |

04 | Mr. G. C. Wickremasinghe

Mr. G.C. Wickremasinghe started his career 52 years ago on an Aitken Spence managed plantation. After over a decade as a professional planter he moved to the Company's Head Office in 1965 to take over the Estate Agency Department. In the early 70's he also took charge of the Insurance Division and the Singapore Airlines Agency. When the Insurance industry was 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 Aluminum. He is a past Chairman of the Export Development Board and the Sri Lanka Conventions Bureau.

06 | 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 | Mr. J. M. S. Brito

Mr. Rajan Brito is the Chairman of the Board of Management (Profile appears on page 12).

02 | Dr. R. M. Fernando

(Profile appears on page 12)

03 | Mr. R. E. V. Casie Chetty

Mr. Ranjan Casie Chetty is the 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 has been actively involved in numerous committees of Professional Institutes and Chambers of Commerce. He is currently a Member of the Council of the Employers Federation of Ceylon and an Executive Committee Member of the Chartered Management Institute- Sri Lanka Branch. He was the former Chairman of Sri Lanka Apparel Exporters Association.

04 | Mr. K. T. R. Peiris

Mr. Rohantha Peiris heads the Freight Forwarding and Express 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. He also represents the company at the American Chamber of Commerce.

05 | Mr. N. 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. D. I. Abeywardene

Mr. Indrajit Abeywardene heads the Printing Sector of the Group. He holds a Diploma from the London College of Printing, (UK) and counts many years experience and knowledge in the industry.

07 | Ms. N. Sivapragasam

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

Board of Management

08 | Mr. G. 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). He also serves in the committee of the Ceylon Chamber of Commerce and is a member of the Tourism Cluster facilitated by USAID. He is a Fellow of the Australian Institute of Management.

09 | Mr. D. V. H. de Mel

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

10 | Dr. P. Dissanayake

Dr. Parakrama Dissanayake who heads Maritime Transport was the former Chairman/Chief Executive of the Sri Lanka Ports Authority and Jaya Container Terminals Ltd. Dr. Dissanayake who serves on the UN/UNCTAD Panel as a Shipping and Ports Expert is the Chairman of Experts Group on Trade in Services of the Ceylon Chamber of Commerce. He holds a Ph.D in Management, a MBA and is a Chartered Marketer (FCIM), Chartered Shipbroker (FICS) and Chartered Fellow of Logistics & Transport (FCILT). He is a graduate of the Norwegian Shipping Academy, Oslo and is a past Chairman of the Institute of Chartered Shipbrokers and Past Chairman –Chartered Institute of Logistics and Transport – Sri Lanka Branch.

11 | Mr. S. M. Hapugoda

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

12 | Ms. N. W. de A. Guneratne

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

13 | Mr. S. 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. A Member of the Chartered Institute of Management UK, he counts many years of experience in and possesses a wide knowledge of the Travels industry.

14 | Mr. C. M. S. Jayawickrema

Mr. Susith Jayawickrama an Associate Member of the Chartered Institute of Management Accountants UK, was promoted to the Aitken Spence Group Board, in April 2005. He is presently the Director General Manager of Aitken Spence Hotels and serves on the Boards of several hotel companies in the Group. He has been with the company for the past sixteen years and has wide experience and exposure in the tourism industry and in the field of finance.He also serves as a member of the SriLanka Hotels Association's executive committee and the sub committee for fiscal and monetary policy.

Subsidiary Directorate

Tourism Sector

Left to Right: Mr. R. Subramaniam | Mr. D. D. A. Soza | Mr. S. K. R. B. Jayaweera | Mr. G. P. J. Goonewardene | Mr. K. A. A. C. Perera | Mr. H. P. N. Rodrigo

Logistics Sector

Left to Right: Mr. N. D. F. Perera | Mr. A. Jayasekera | Mr. M. A. J. Perera | Mr. H. B. Kelly | Mr. F. P. Paiva

Strategic Investments

Left to Right: Mr. C. R. F. de Costa | Mr. S. C. Ratwatte | Mr. R. G. Pandithakoralage | Mr. R. G. Salgado | Mr. J. S. A. Fernando

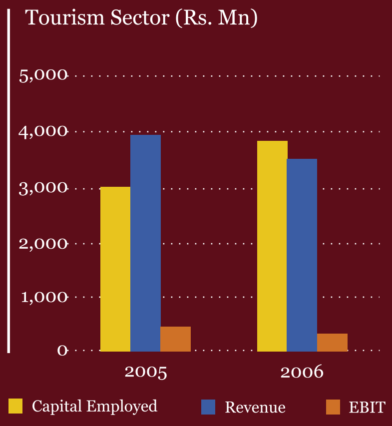
Mr. S. T. B. Ellepola | Mr. N. A. N. Jayasundera | Mr. P. L. Perera | Mrs. N. J. Perera | Mr. N. Ratwatte | Mr. R. Fernando | Mr. A. Udawatte

Mr. I. S. Cuttilan | Mrs. D. K. Senaratne | Mrs. T. D. M. N. Anthony | Mr. A. M. M. Amir | Mr. K . Aluwihare | Mr. A. G. Ekanayake

Mr. D. S. Mendis | Mr. M. H. A. Barrie | Mr. M. V. Perera

| Operational Review

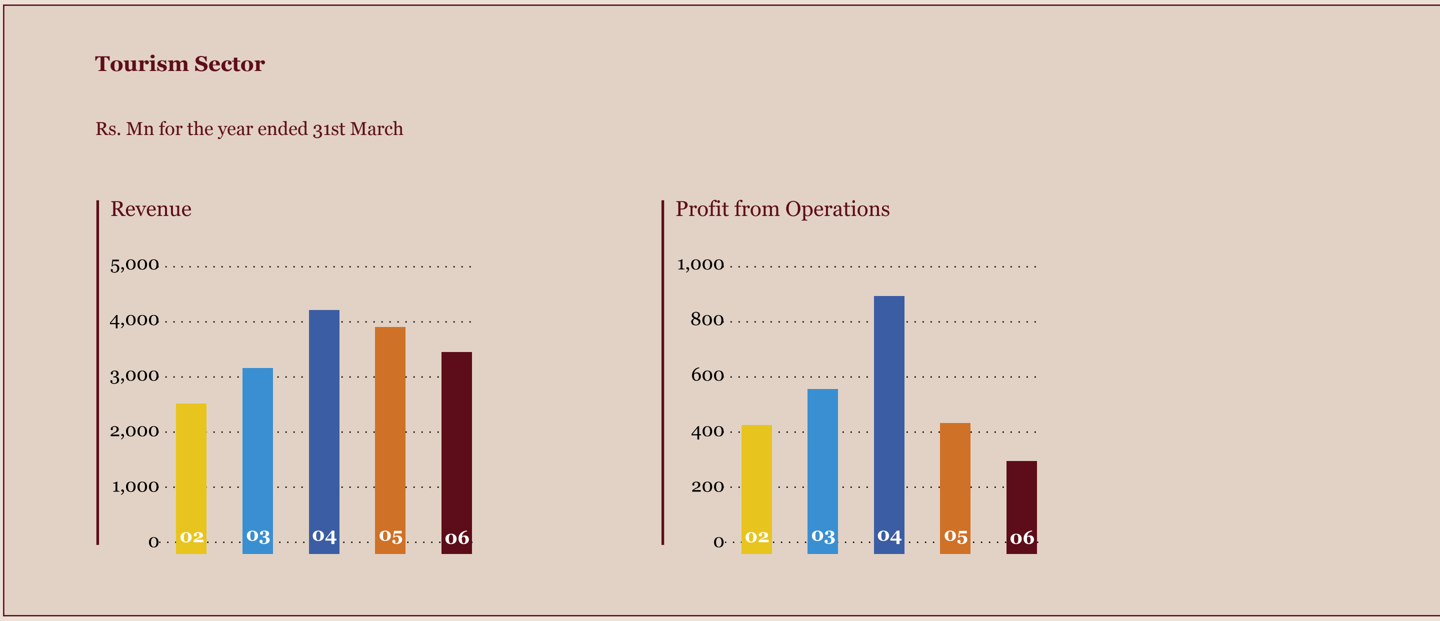
Tourism sector



The Group launched ‘The Water Villas’ in Meedhupparu Island, comprising of 20 luxury water bungalows, catering to an up-market clientele.

SUB SECTOR	-	COMPANY
Inbound Travel	-	Aitken Spence Travels Ltd.
	-	Ace Travels & Conventions (Pvt) Ltd.
Outbound Travel	-	Aset Airways Ltd.
	-	Aitken Spence Overseas Travel Services (Pvt) Ltd.
	-	Aitken Spence Moscow (Pvt) Ltd.
Hotels	-	Aitken Spence Hotel Holdings Ltd.
	-	Aitken Spence Hotels Ltd.
	-	Pearl Beach Hotels Ltd.
	-	Kandalama Hotels Ltd.
	-	Hethersett Hotels Ltd.
	-	Neptune Ayurvedic Village (Pvt) Ltd.
	-	Ahungalla Resorts Ltd.
	-	Crest Star (B.V.I.) Ltd.
	-	BIR Hotel Management (Pvt) Ltd.
	-	Jetan Travel Services Co. (Pvt) Ltd.
	-	Cowrie Investments (Pvt) Ltd.
	-	Ace Ayurvedic (Pvt) Ltd.
	-	Aitken Spence Hotel Managements (Pvt) Ltd.
	-	Aitken Spence Hotels (International) Ltd.
Associate Companies	-	M. P. S. Hotels Ltd.
	-	Browns Beach Hotels Ltd.

“The branding strategy has been carefully planned by recognising the unique nature of the Group’s signature properties”



Tourism Sector

The year under review was essentially one of consolidation with two of the Group's prime properties in Sri Lanka closed for refurbishment. The setbacks faced by the tourism industry in the post tsunami period pervaded all areas of the sector. However the Group used this as an opportunity to embark on an exercise of strategic repositioning and branding, focusing on emerging trends in the global tourism industry in order to fall in line with those trends in the future. The branding strategy has been carefully planned by recognising the unique nature of the Group's signature properties.

Occupancy rates of the resort hotels during the year were around 40% - 50% below the previous year. While the Indian tourist market showed an increase, this particular segment of tourists are not resort-oriented and are mainly Colombo based. The Group saw a decline of 21% in tourist arrivals handled during the year. Our main European market saw a decrease of 29% and this affected the resort occupancy levels to a great extent. Despite a slow down experienced during the initial post tsunami months, the Maldives resorts contributed 16% and 23% to the Group's revenue and profits respectively. The overall sector profits declined 28% to Rs. 323 million compared to Rs. 453.2 million posted last year.

Substantial investments were made in the tourism sector amounting to a total of Rs. 1.8 billion mainly for refurbishment of two of the flagship hotels and the construction of new water villas in the Maldives. During the slack period the Group emphasised on staff training and development to cater to the high standards required of the new brand.

The flagship Kandalama Hotel added more accolades to its long list of awards won since inception by winning the prestigious SAGA award in 2005, the CIMA Community Leader Award and the Presidential Award for Environment. However, having remained closed for refurbishment for most part of last year, the hotel re-emerged towards the latter part of the year with 40 upgraded luxury rooms added to its existing 120 standard rooms and most of the infrastructure, furnishing and equipment, upgraded and revamped. The Spa in conjunction with world renowned spa specialists, Six Senses has been located on the rooftop, while a fine dining restaurant is also now part of the gourmet specialties incumbent at Kandalama. With the addition of the spa it is hoped that the hotel would encourage guests for longer stays of 6-7 nights. The addition of an international conference centre next year will also complement the upgrading efforts that have already been put into place.

Triton in Ahungalla is now known as Heritance Ahungalla. While the architectural layout has been maintained, the entirety of the interior infrastructure is now brand new. With the ground floor completely destroyed by the tsunami, the Group felt it was the appropriate time to rethink the hotel's positioning and branding to create a brand new property, which after twenty five years in operation required extensive refurbishment. Conceptualising and creating a completely new look with an investment of Rs.1.2 billion is a strategy that the Group feels will reap the required benefits through the new and emerging global tourist trends. With the strong relationship that has been forged with the Six Senses Group, introduction of the spa concept to this new property will create a completely new luxury spa resort complex positioned as one of the best in Asia.

The Maldives sector continued its upward momentum with the tsunami having hardly any impact on arrivals other than in the first few months. In December 2005 the Group launched The Water Villas, in Meedhupparu Island, a cluster of 20 exclusive luxury suite villas.

The inbound tourism sector posted creditable results in a very difficult year. The innovative marketing strategies have held the Group in good stead in challenging times and enabled the sector to fare better than the competition. There has been a significant shift from traditional markets to non-traditional markets in the last few years though it is firmly believed that the traditional European markets cannot and should not be neglected as this makes up a substantial segment of the country's tourism market.

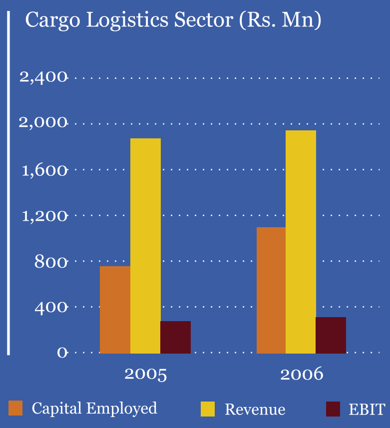
Singapore Airlines, continued to operate a daily B777 aircraft to Colombo though competition on the Colombo Singapore route increased due to the added capacity introduced by competing airlines, numbering to 26 flights weekly and one of the most heavily operated routes out of Colombo. Increasing fuel prices in the world market contributed to the increase in the fuel surcharge which compelled the company to reduce fares as a compensatory measure. Although passenger numbers saw a growth of 20% this year, due to the lower airfares, the revenues did not increase. It is expected that although numbers would increase the trend of lower airfares within this sector will continue.

Singapore Airlines Cargo, which had in the last few years displayed good performance saw an introduction of a one way thrice weekly freighter service arriving from Europe and Middle East to Colombo and onto Singapore. However, the additional capacity generated did not produce the desired results as the rates charged in Colombo did not meet the expected yield requirements since the company was unable to obtain space on flights out of Singapore to third countries and beyond. Hence, due to these negatives, the freighter service will be discontinued in the coming year and cargo will be marketed on the daily passenger flights.

Meanwhile, the outbound travel division posted a good year. The improved performance is attributed to an aggressive campaign targeting new clientele, identifying and soliciting corporate clients and selective selling on carriers that give a return to the company through lower fares, incentives etc. A marketing campaign to improve the performance of Tradewinds and Eurail also reaped the desired results. The branch network was expanded with two more branches being opened this year.

The company was one of the travel agencies selected to participate in the pilot project of the Billing and Settlement Plan (BSP), which streamlines and simplifies a number of operational and accounting processes. However, the timely settlement of invoices to BSP is of concern given that the time taken for the settlement of invoices by clients far outweighs the credit period granted to the company by BSP. With BSP tending to favour the bigger and more stable companies over smaller travel agencies, we believe that Aitken Spence has the potential to take advantage of the benefits offered and improve on the performance posted this year.

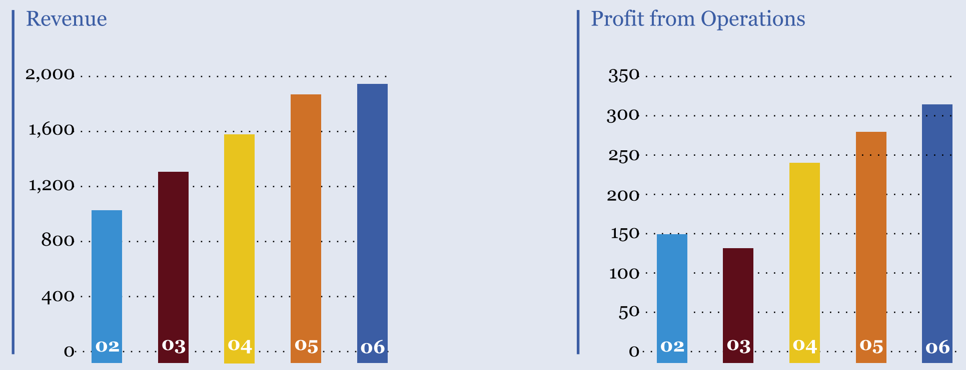
Logistics sector



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.

SUB SECTOR	-	COMPANY
Freight Forwarding	-	Ace Cargo (Pvt) Ltd.
	-	Ace Bangladesh Ltd.
	-	Ace International Express (Pvt) Ltd.
	-	Aset Ltd.
	-	Ace Global Aviation Services (Pvt) Ltd.
	-	Ace Freight Logistics (Pvt) Ltd.
Integrated Logistics	-	Ace Containers (Pvt) Ltd.
	-	Ace Container Terminals (Pvt) Ltd.
	-	Ace Haulage (Pvt) Ltd.
	-	Ace Container Repair (Pvt) Ltd.
	-	Ace Distriparks (Pvt) Ltd.
	-	Ace Freight Management (Pvt) Ltd.
Maritime Transport	-	Spence Mac Holdings (Pvt) Ltd.
	-	Aitken Spence Shipping Ltd.
	-	Clark Spence & Co. Ltd.
	-	Shipping & Cargo Logistics (Pvt) Ltd.
	-	Spence Logistics (Pvt) Ltd.
	-	Mcship Agencies (Colombo) Ltd.
	-	Spence Mac Bangladesh
	-	GAC Shipping Ltd.
	-	GAC Marine Services Ltd.
	-	GAC Logistics Ltd.
	-	Ceyaki Shipping (Pvt) Ltd.
	-	Ceycapital Shipping (Pvt) Ltd.
Associate Companies	-	Ceyspence (Pvt) Ltd.
	-	Ceyfirst Shipping (Pvt) Ltd.
	-	Ceyserv Lines (Pvt) Ltd.

"The Group acquires two more container vessels"



Logistics Sector

The cargo logistics sector fared well recording a profit growth of 14% over last year. The main contribution to the growth was the maritime transport division which posted one of the best years ever with the strategic investments made last year contributing significantly, while freight forwarding and integrated logistics also posted growth of 11% and 25% respectively.

The maritime transport division, which was in the past focusing on shipping agency business has now evolved into ship owning and managing. The fleet has expanded to ten with five being container vessels, all contributing significantly to profits. Ship owning is a key focus area that will see more drive in the coming year with the sector pursuing fleet management and marketing activities as well.

Supply chain management, international freight forwarding, holistic marine services and third party logistics have all evolved and grown into considerable contributors to the bottom line of the division.
A cohesive marketing plan coupled with excellent marketing efforts has been the cornerstone to the growth achieved this year.

The freight forwarding division posted good results despite the volatility of both internal and external environments, although overall growth was less than expected. However, even this performance maybe hindered next year as a general slump in industry, is forecasted specifically due to skyrocketing fuel prices and instability prevalent in most countries, including Sri Lanka. With the apparel industry having successfully overcome the restrictions imposed in a post MFA environment, taking advantage of the direct links developed with buyers, the division as an international freight forwarder, is poised favourably to grow in this segment. Other export industries too, namely fishing, foliage and fresh food have also contributed significantly to the division's performance.

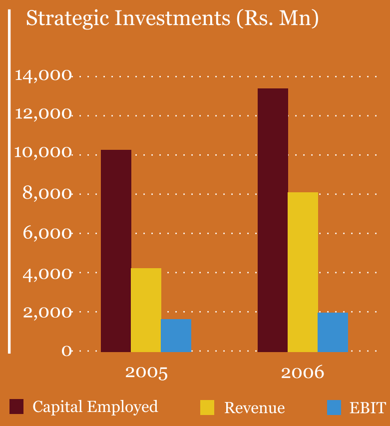
The airline agency division has been pursuing new opportunities for growth in the region and has focused on Bangladesh, India and the Middle East. Networking the connected airlines with the company's regional activities is a strategy that has been pursued. The associated investments are likely to generate returns in the short to medium term.

The air freight division, though exceeding profitability forecasts was forced to operate under fierce competition. The courier division performed significantly well and exceeded budgeted forecasts, despite heavy competition. 'Receiver Pays' a new product launched this year has seen growing popularity and has been a complement to the expansion of the branch network to 15 branches

around the country. The next year will see the division working on franchising arrangements in order to penetrate further into areas around the country.

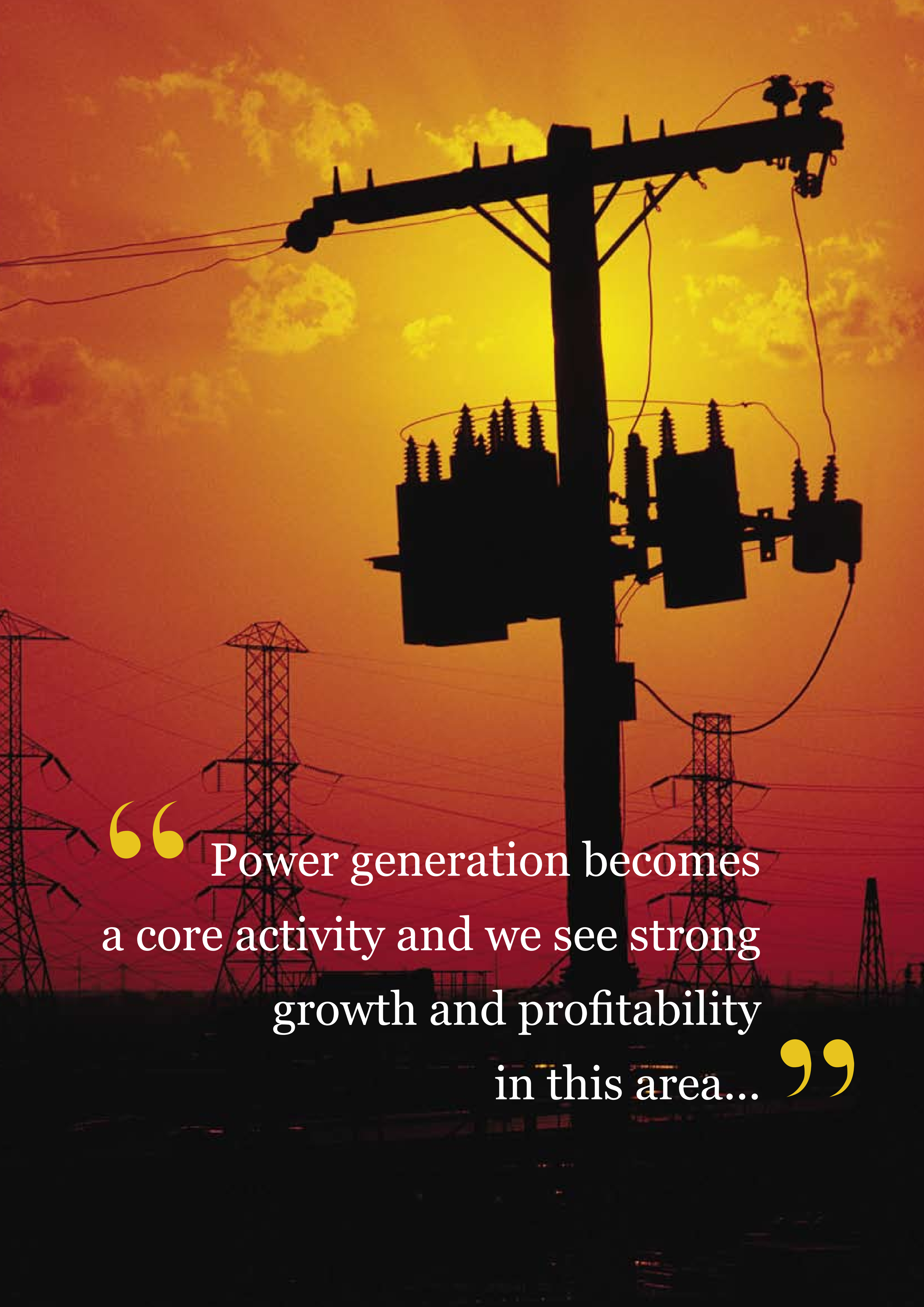
Several factors influenced the consistent growth observed in the area of integrated logistics, which is a 5S practicing ISO certified sector. Increased container depot activity and warehousing due to the logistics services provided to NGOs and other international donors during and after the tsunami contributed to the noteworthy performance. The commencement of fuel transport activities to the Group's new power plant at Embilipitiya also boosted profits. The Group now owns the largest fleet of bowsers in the country transporting nearly one million liters of furnace oil per day. This sector which also pioneered the concept of multi-country consolidation has taken on the mantle of providing a one stop shop for all logistics requirements. During the year the transport fleet too was upgraded and the container yard and the surroundings were refurbished. The property at Welisara will be developed over the coming year to house a 75,000 sq.ft warehouse which will service the higher end market through value addition.

Strategic Investments



"The significant initiative this year was the successful take over of the operations and maintenance of Matara power plant."

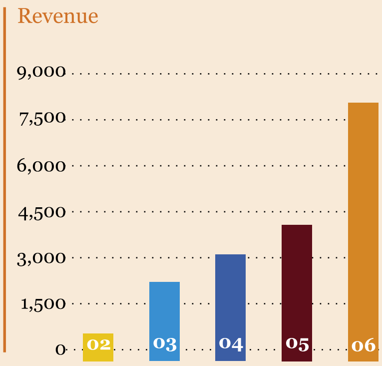
SUB SECTOR	-	COMPANY
Printing & Packaging	- -	Aitken Spence Printing (Pvt) Ltd. Ace Exports (Pvt) Ltd.
Property Development	- - -	Aitken Spence Property Developments (Pvt) Ltd. Vauxhall Property Developments Ltd. Vauxhall Investments Ltd.
Garment Manufacture	- -	Aitken Spence (Garments) Ltd. Clark Spence Garments Ltd.
Insurance Survey and claim settling agency.	-	Aitken Spence Insurance (Pvt) Ltd.
Elevator Agency	-	Elevators (Pvt) Ltd.
Infrastructure	- - - -	Ace Power Generation Matara Ltd. Ace Power Generation Horana (Pvt) Ltd. Ace Power Embilipitiya (Pvt) Ltd. Aitken Spence GTECH (Pvt) Ltd.
Management Services	- - -	Aitken Spence Corporate Finance (Pvt) Ltd. Aitken Spence Group Ltd. Aitken Spence Exports Ltd.
Associate Companies	- - - - -	Aitken Spence Plantation Managements (Pvt) Ltd. Hayleys Plantation Services Ltd. Elpitiya Plantations Ltd. Talawakelle Plantations Ltd. Aventis Pharma Ltd.

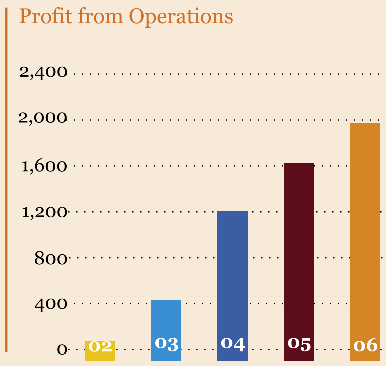


"Power generation becomes a core activity and we see strong growth and profitability in this area..."

Strategic Investments sector

Rs. Mn for the year ended 31st March





Strategic Investments

The construction of the 100MW Embilipitiya Power Plant was completed and commercial operations commenced in April 2005. The plant is now fully operational and generating at full capacity. Ever mindful of the community within which it operates, the company has been working with the residents in Embilipitiya to develop the environs and the livelihood of the farmers residing in the area.

A significant initiative this year was the successful take over of the operations and maintenance of the power plant in Matara from the plant operator Wartsila which has resulted in significant cost savings. Encouraged by the initiative at Matara the company will also be taking over the operation and maintenance of the second plant in Horana in the next financial year.

The Group's printing arm had a disappointing year mainly due to stiff competition arising within the industry and the financing cost of the new investment made in a state-of-the-art printing press. However, the sector proved its mettle by once again winning accolades at the Annual Printers' Awards with two distinctions and one merit award. Aitken Spence Printing is now working towards regaining the leadership position it once held in the industry, with investment into new hi-tech equipment and the construction of a new complex to house the printing division in Mawaramandiya in Biyagama, scheduled to begin construction soon. The returns from this investment will be evident in the medium term.

Despite the abolition of the Multi-fibre agreement, the recovery that took place last year in the Group's Garments sector continued in the current year as well, with healthy profits being recorded.

The insurance sector saw a good year with increased business due to post tsunami reconstruction work. However, it must be noted that this sector's performance is inextricably linked to the economic conditions and stability of the country and while the first part of the year brought in excellent results, the subsequent external environment did not yield similar benefits. Nevertheless the long standing agency with Lloyds of London and the partnership with World Food Programme held the division in good stead with significant contributions to profitability from these activities.

Meanwhile the OTIS Elevator Agency recorded its highest ever profits during the financial year under review with an increase in its portfolio of installations.

In the plantations sector, for the first time since the Group took over the management of Elpitiya Plantations the company posted a loss due to a combination of various factors. The loss, mainly from tea production is due to lower prices observed from mid-2005, spiraling cost increases including rising fuel and power costs and the cost of VAT on inputs due to the company being exempted rather than zero rated, despite repeated representations to the Government. The volatility of the weather has resulted in high and mid-grown production being affected. Rising interest cost has also contributed to the negative growth.

However, rubber production has done extremely well and the trend is expected to continue in the next year. The company's diversification strategy into oil palm shows much potential for the future and will increase earnings, once fields mature and the factory becomes operational by June 2006/2007. The rubberwood furniture factory which commenced operations in July 2005 will also add to earning streams. Work has also commenced on a hydropower project with the objective of reducing energy costs in the up country estates. Completion is planned for next year. Diversification into cinnamon in the low country estates continues as a revenue earning measure for the future.

The company's own brand of tea, Harrow Ceylon Choice continues to show promise and saw an intensified distribution in several parts of the country. A project incorporating eco friendly cottages and chalets located on the unique locations will be launched next year, positioned for nature lovers both in Sri Lanka and abroad.

Financial Review

Profit

The diversified nature and the resilience of the Group's businesses were confirmed during the financial year 2005-06. The Group was able to record a net profit attributable of Rs. 1.2 billion despite many hardships faced during the year. The lack luster performance of the tourism industry in Sri Lanka due to the spill-over effects of the December 2004 tsunami, and the closure of two of the flagship hotels of the Group for refurbishment did not prevent overall profit growth. The Group recorded an 8.5% increase in its net profit attributable to record the one of the highest profits achieved in its history.

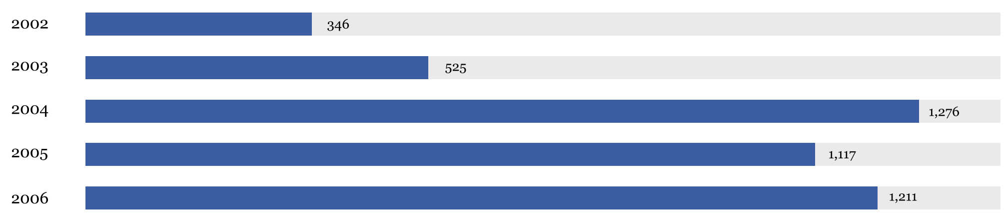
The profit on operations (Earnings before interest and taxation) was 16.6% of net revenue compared to 18.9% achieved the previous year. This decrease was due to part of the hotel refurbishment cost being written off from the profits. The Group witnessed an increase in the other operating income during the financial year under review, to record Rs. 493 million compared to that of Rs. 301 million the previous year. The major components in the other operating income for the year under review was the profit on the sale of the Group's investment in Sri Lanka Insurance Corporation and the remainder of the insurance claim received in lieu of the damaged caused by the tsunami. The profit on the sale of a stake in the Group's Destination Management division to TUI AG of Germany constitutes the major portion of the other operating income for the previous year.

The profit before taxation and minority interest achieved a 10.8% growth over the previous year to reach Rs. 1.9 billion despite a 27.8% drop in the contribution by the tourism sector. The increase in contribution from the strategic investments sector from 67.2% to 71.8% was lead by the commencement of operations of the third power plant of the Group. The Cargo Logistics sector also had a good year of operations with all three divisions performing better than expected.

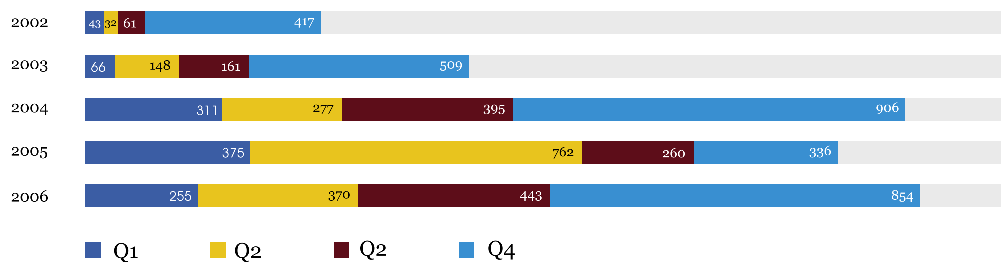
Revenue

The Group recorded a revenue of Rs. 13.6 billion, which was a 35.1% increase over the previous financial year. This increase came despite a 10.8% decline in the revenue from the tourism sector. The main decline in the tourism sector came from the Sri Lankan hotels as a result of the closure of Heritance Ahungalla and Kandalama for refurbishment. The revenue from the Maldivian leisure sector continued to show progress

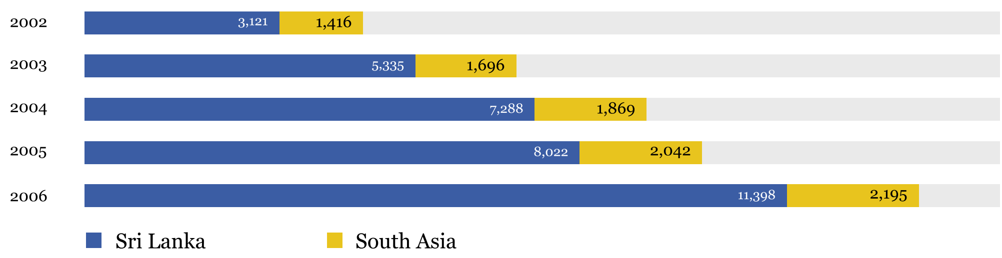
Net Profit Attributable (Rs Mn)



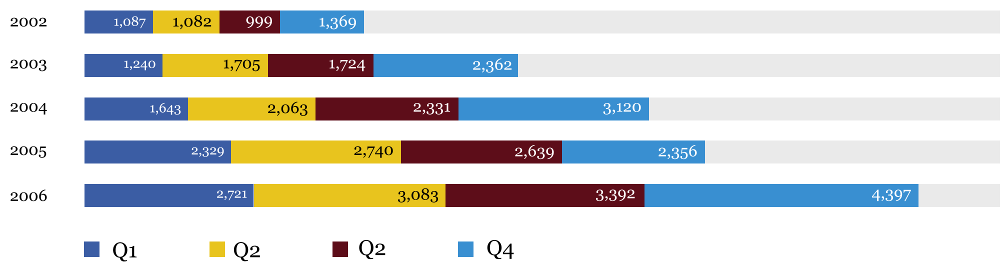
Quarterly Analysis of Group Profit Before Taxation (Rs Mn)



Geographical Analysis of Revenue (Rs Mn)



Quarterly Analysis of Group Revenue (Rs Mn)



despite the post tsunami recovery period. 16.1% of the revenue was generated through overseas operations for which the main contributors were the resorts in the Maldives.

The contribution from the Cargo Logistics Sector to revenue was 14.7% for the financial year under review. However it should be noted that the revenue from the Group's investment in three of the fleet ownership companies is not considered here as these investments have been accounted for only under associated companies. The revenue generation from the Strategic Investments increased to Rs. 8.1 billion from Rs. 4.3 billion achieved in the previous year. The main reasons for this increase are the commencement of operations of the third power plant at Embilipitiya and the increase of the Group's stake in the company from February 2006. Consequent to this increase in holding the Group has consolidated the entire revenue of the power plant as opposed to the joint venture method of accounting used prior to February 2006.

The seasonal nature of the tourism industry has made the fourth quarter of any year the most profitable for the Group. However due to the broadbasing of investments in the recent past, the impact of this seasonality has been reduced to a greater extent. This movement however is not clearly seen in the quarterly variations in the previous financial year of 2004-05, due to the impact of the tsunami on its third and fourth quarters.

Earnings Per Share

The Company maintains its accreditation of providing one of the highest returns to its investors, recording an Earnings Per Share of Rs. 44.76 for the year under review. This was a 8.3% growth from the Earnings Per Share recorded for the previous financial year.

The market value of the Company's share declined during the year to close the year at Rs. 339.00 compared to Rs. 380.00 at the beginning of the year. This was a decline of 10.8%. The lowest price at which the share traded during the period under review was Rs. 286.00, whilst the highest that was recorded on 20th May 2005 was Rs. 410.00. The main reason for this decline was the negative market sentiment.

The Price Earnings Ratio (PER) stood at 7.6 at the end of the financial year compared to that of 18.98 for the diversified sector. This reflectes the growth potential of the market price of the Company's shares. This is evident when comparing the market price per share of

Rs. 339.00 as against the net assets per share of Rs. 317.37 at the end of the financial year under review. This provides a price to book ratio of 1.07 compared to the price to book ratio of 1.36 for the previous year.

Dividends per Share

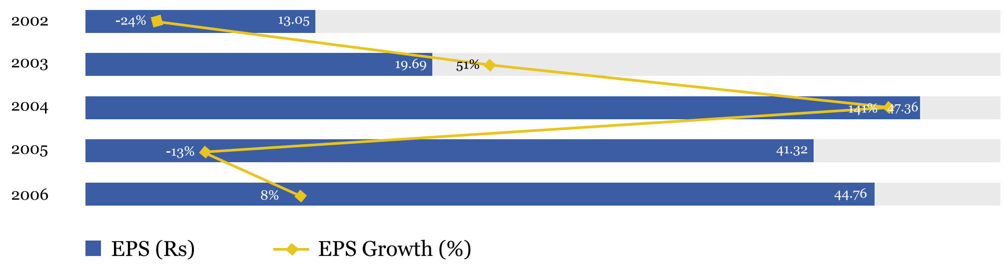
During the financial year under review the company declared an interim dividend of 30% to be paid in April 2006 and the Board is recommending a final dividend payment of 35%. This amounts to a total dividend payment of 65% compared to the dividend payment of 60% for the financial year 2004-05. The total dividend payout amounts to Rs. 175.9 million, with the dividend payout ratio being 0.15, which is the same as last year. The dividend cover ratio of the company improved marginally to 6.90 times compared to 6.88 times as that recorded for the previous financial year.

Net Assets per Share and Asset Utilization

The Net Assets per Share increased by 13.5% to reach Rs. 317.30 at the end of the financial year under review compared to Rs. 279.67 in the previous financial year.

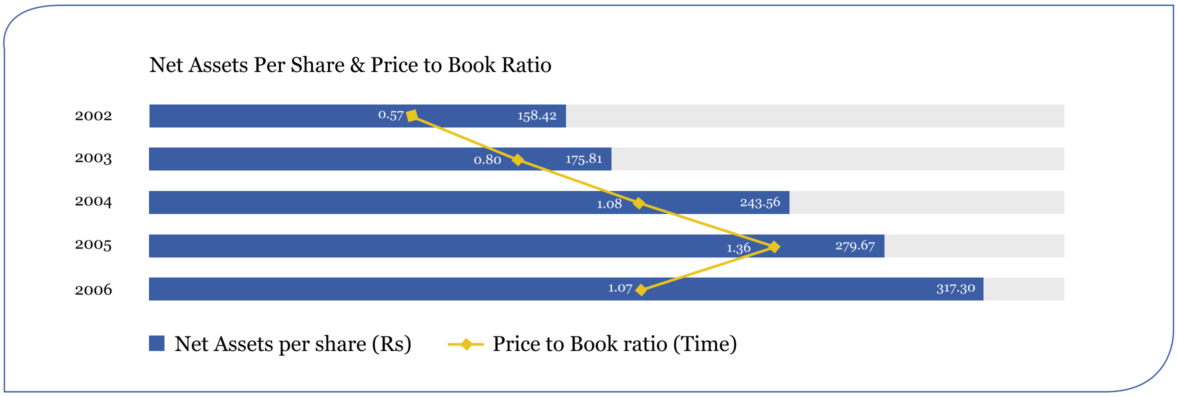
The non current assets of the Group increased to Rs. 16.6 billion from Rs. 12.4 billion during the financial year 2005-06. The consolidation of a further 24% of the investment in Ace Power Embilipitiya brought in Rs. 2.5 billion to this increase. The Group incurred Rs. 4.6 billion on new investments and purchase of

EPS & EPS Growth



Price Earnings Ratio (Time)

Dividends Per Share (Rs)



property, plant and equipment during the year. The refurbishment cost of the two Sri Lankan hotels, construction of new water villas in the Meedhupparu island resort, the equity investment in two vessels, the purchase of a six-colour machine by the Printing division, the increased stake in the Embilipitiya Power project and the initial investment on the construction of the new office complex at Vauxhall Street, Colombo were the main components of this expenditure.

The net working capital of the Group as at 31st March 2006 was Rs. 449 million, compared to Rs. 1,411 million at the end of the previous year. This decline was due to the increase in short term borrowings and the increase in interest bearing liabilities repayable within one year. The current ratio dropped from 1.43 times in 2004-05 to end the financial year at 1.07 times.

A significant increase was also witnessed in both trade and other receivables and trade payables. This was due to the financial year 2005-06 being the first year in which the operations of Ace Power Embilipitiya, which commenced on 4th April 2005, were consolidated.

The total turnover to assets ratio increased to 0.72 times for the year under review compared to 0.69 times for the previous year, indicating a more efficient utilisation of the Group's assets.

Capital Employed

The total Capital Employed by the Group stood at Rs. 16.7 billion at the end of the financial year with 21% of it being utilised by the tourism sector. The Strategic Investments sector accounted for 73% of the capital employed with 6% being used by the Cargo Logistics sector. This composition of the Capital employed remained relatively the same as in the previous year.

Return on Equity (ROE)

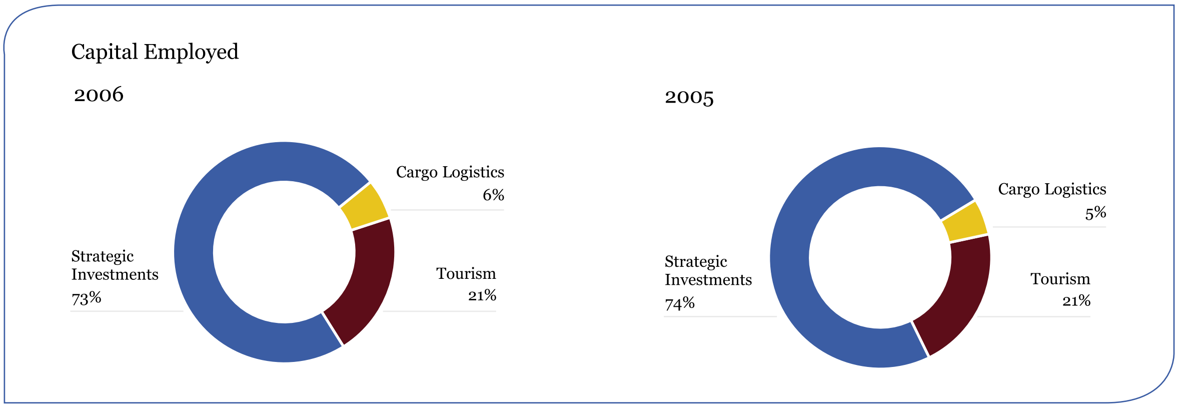
The Group recorded a healthy Return on Equity of 14.99% for the year under review. However this was a marginal drop from the ROE recorded for the financial year 2004-05 of 15.8%. This was mainly due to the poor performance of the Sri Lanka Tourism sector and write off of some of the hotel expenses from the Group profits.

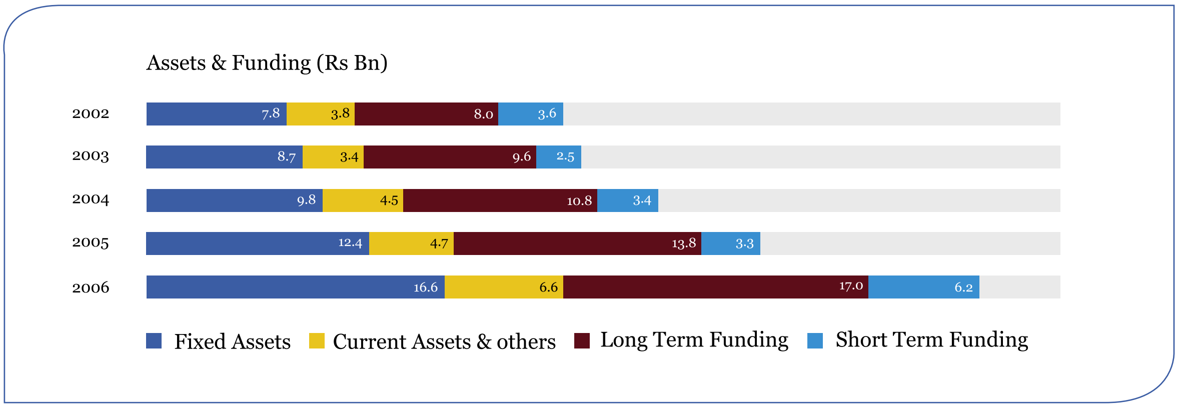
Funding and Liquidity

The additional water villas and working capital requirements in the two main Maldivian Resorts of Meedhupparu & Rannalhi and the purchase of ships by subsidiaries in the Shipping Sector were funded by US $ 7.7 million of long term bank loans.

The part funding of new printing machinery of Rs. 145 million was through a special 8 year concessionary financing package disbursed by DFCC Bank under a facility backed by Kfw Bank, Germany.

Part of the major refurbishment programme in Sri Lankan hotels of Kandalama & Heritance Ahungalla amounting to Rs 1.8 billion was funded by a long term loan from DFCC under a concessionary Kfw facility for internally generated Group funds, insurance proceeds from tsunami claims, dividends received from the overseas investments and from short term borrowings which will be refinanced through long term loans.





The Company's acquisition of an increased stake in the Embilipitiya Power Project was funded through utilisation of the company's working capital borrowing facilities.

Due to the increase in the Group's stake in the Embilipitiya power project from 50% to 74%, an increase of Rs. 1.8 billion in long term liabilities and Rs.708 million in short term borrowings was seen in the consolidated balance sheet. However these borrowings would have no recourse on Aitken Spence & Co. Ltd.

The main loan repayments during the year were by Aitken Spence & Co. Ltd., which redeemed Rs. 200 million of its privately placed debentures and the Matara and Horana power projects which settled Rs. 373 million of their long term loans with a further Rs. 120 million of long debt being settled by the Maldivian Hotel sector.

The net impact of the above activities was an increase in the Group's long term borrowings from Rs.4.2 billion to Rs.5.4 billion. The long-term debt to equity ratio increased from 0.45 to 0.48.

As at 31st March 2006 the Group held borrowing facilities amounting to Rs.1.9 billion that is available for short term funding of investments and working capital of which Rs 360 million had been utilised.

Interest and Foreign Exchange Management

The Group's interest costs increased during this year by 48.4% from Rs. 280 million to Rs. 416 million. This increase was mainly due to the impact of the borrowings made last year of almost Rs 4 billion for the Embilipitiya Power Project. Interest on other borrowings made by group companies during the year which were offset partly by the reduction in interest costs due to debt repayments.

In spite of the growth in the Power and Cargo Logistics Sectors, there was only an 18.5% increase in overall Group profit from operations this year, due to slow post tsunami recovery of the Sri Lankan tourism industry and the closure of the two main hotels in

Kandalama & Ahungalla for refurbishments during the year. This resulted in the Group interest cover decreasing from 9.7 to 6.4 during this year.

The Group interest income showed a reduction this year from Rs 88 million to Rs 71 million this was due to internally generated funds being used for part of the substantial capital expenditures which took place during this year, though interest income benefited somewhat from the increase in Government Treasury Bills interest rates.

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 devaluation of the Rupee.

Economic Value Added

The Group continued to create positive economic value addition during the year under review as well. A positive economic value of Rs. 964.7 million was created by the Group's activities during the year and thereby contributing a total of Rs. 3.3 billion in economic value to the country for the past four years.

Taxation

The Group's provision for taxation increased to Rs. 212 million from Rs. 175.1 million last year which included a deferred tax provision of Rs.18.2 million. The effective tax rate of the Group increased this year due to the restrictions introduced with respect to claiming of expenses such as foreign travel and advertisements.

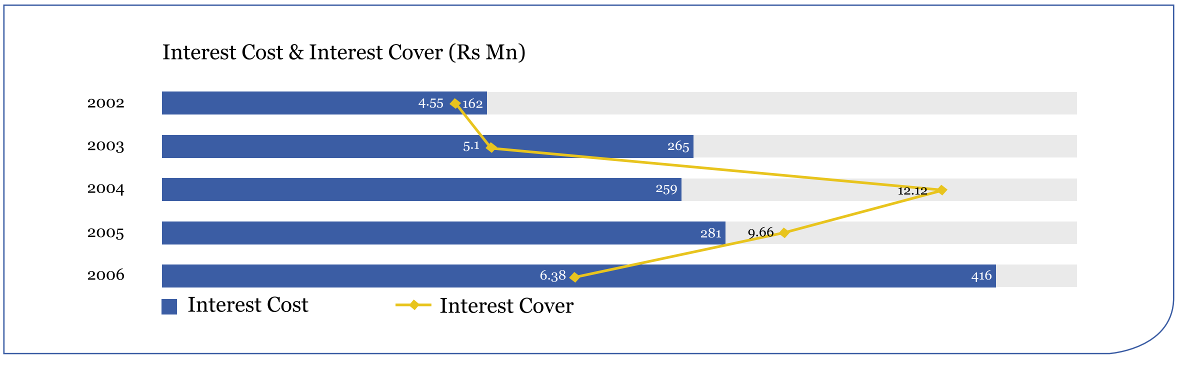
The Group still enjoys a low effective tax rate due to the investments being made in priority sectors such as tourism, exports, infrastructure development and ship owning that are entitled to tax exemptions or concessionary tax rates.

Debit tax that was introduced a few years back in place of stamp duty and which was to be a temporary revenue generation method, has placed an additional burden on the company. In the next financial year in addition to debit tax, companies would be liable for stamp duty, effectively increasing the taxes paid to the Government.

Although taxes paid to Government have continued to increase it should be noted that amounts due to the group on VAT Refunds have been inordinately delayed in some instances as much as two years causing cash flow difficulties for the operational running of the business.

Cash Generation

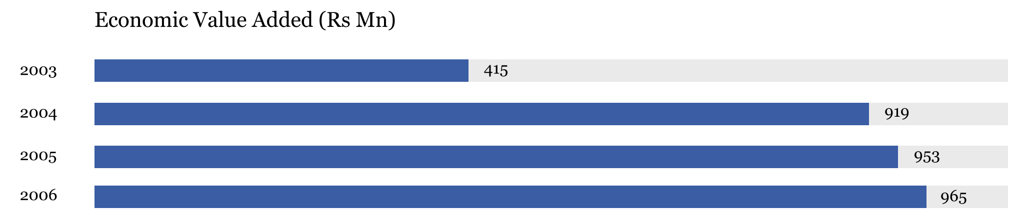
The net cash flow from operating activities showed a negative Rs.1.7 billion, although the Group recorded a profit before tax of Rs. 1.9 billion, due to the accounting impact of the increased shareholding in the Embilipitiya Power Project presented under 'effect of subsidiaries acquired during the year', as well as the impact of the increase in trade receivables arising from the Embilipitiya project, that commenced commercial production this year. Total proceeds from interest-bearing borrowings was Rs. 3.0 billion whilst an amount of Rs. 829 million of interest-bearing borrowings were repaid during the year, giving an amount of Rs. 2.1 billion as net cash received from financing activities. The net cash used in investing activities for the year was Rs. 2.7 billion. Due to the above reasons the Group had a negative cash flow of Rs. 2.3 billion during this year.



Economic Value Added	2005/06 Rs. '000	2004/2005 Rs. '000	2003/2004 Rs. '000	2002/2003 Rs. '000
Earnings				
Net Profit Attibutable to share holders including				
Minority Interest	1,709,452	1,558,524	1,699,496	732,416
Add:				
Total Interest on Debt	416,386	280,650	259,187	264,599
Depreciation	643,641	459,915	444,833	414,064
Provisions to other intangible reserves	93,008	36,983	63,794	99,943
Adjusted Earnings	2,862,487	2,336,072	2,467,310	1,511,022
Total Invested Capital				
Capital Employed	11,285,957	9,341,280	8,372,143	6,181,981
Add:				
Total Debt	8,939,157	5,337,357	3,703,633	3,934,274
Cumulative Depreciation	3,065,197	2,390,909	2,216,463	1,844,639
Other intangible reserves	276,518	239,361	237,405	209,971
Adjusted Total Investment	23,566,829	17,308,907	14,529,644	12,170,865
WACC	9.3%	8.7%	11.6%	9.7%
(based on Cost of Debt and Cost of Equity. Cost of Equity calculated based on the dividend growth model)				
Cost of Average Investment	1,897,764	1,382,750	1,548,634	1,095,856
Economic Value Added	964,723	953,322	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 recorded a positive EVA of Rs. 964.7 million for 2005/2006. This is a Rs. 11.4 million increase over the last financial year.



Foreign Currency Generation	**2005/06 Rs. '000**	**2004/05 Rs. '000**	**2003/04 Rs. '000**	**2002/03 Rs. '000**	**2001/02 Rs. '000**
Travel & Tourism Sector	3,574,547	4,348,118	4,020,576	3,045,786	2,318,737
Cargo Logistics Sector	720,045	562,716	500,227	458,535	550,945
Strategic Investments	1,336,847	1,364,086	1,153,884	1,061,357	1,001,052
Total	5,631,439	6,274,921	5,674,687	4,565,678	3,870,734

Through the wide spectrum of the Group's direct and indirect operations, it generates a flow of foreign currency in to Sri Lanka. This statement presents such foreign currency revenue generated for the period from 2001/02 to 2005/06.

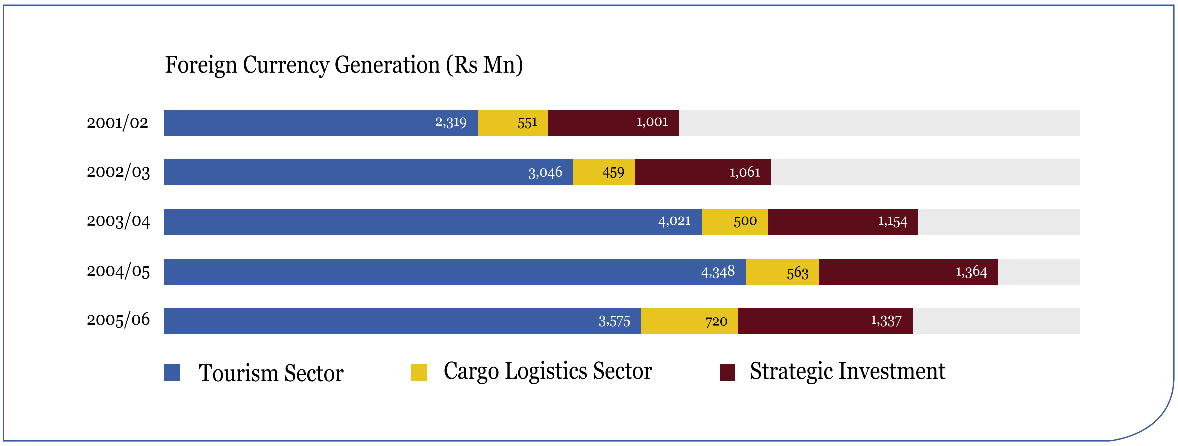
The Group's total foreign currency generation decreased by 10.25% over last year to approximately Rs. 5.6 billion in 2005/06.

The Tourism sector has remained the main contributor to this generation over the years with it contributing 63.5% of the total generation during the year under review. However, it had witnessed a drop of 18% over the previous year due to the negative impact brought about by the tsunami and the refurbishments carried out in two of the main hotels owned by the Group.

Group's Cargo Logistics sector displayed a significant improvement with an increase of 28% than the prior year, which is mainly a result of the expansion of operations by the Groups Maritime transport division.

The contribution from the startegic investment sector remained relatively flat compared to last year. Mainly due to dip in contribution from the plantations sector as a result of the decline in the world prices for tea commodities and to the unfavorable weather conditions that existed throughout the year.

The Sri Lankan rupee depreciated against the US dollar during the financial year under review. The rupee closed the financial year 2005-06 at Rs. 102.71, a 3.35% devaluation compared to 1st April 2005.

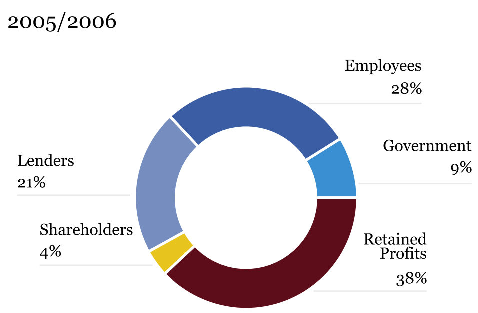


Statement of Value Added	%	2005/06 Rs. '000	%	2004/05 Rs. '000	%	2003/04 Rs. '000	%	2002/03 Rs. '000	%	2001/02 Rs. '000
Total Revenue		13,593,263		10,063,989		9,157,160		7,030,843		4,536,324
Purchase of goods & services		(9,789,085)		(6,912,731)		(5,842,674)		(4,647,171)		(2,869,660)
		3,741,572		3,151,258		3,314,486		2,383,672		1,666,664
Other operating & interest income		564,468		389,337		338,407		88,311		91,152
Share of Associate Companies profit before tax		64,677		67,226		33,585		31,271		65,762
Others		-		-		-		-		(1,544)
Total value added by the Group		4,370,687		3,607,821		3,686,478		2,503,254		1,822,034
Distributed as follows										
To government of Sri Lanka (income tax & turnover tax)	9	376,588	9	315,937	8	311,694	11	281,674	14	260,833
To employees (salaries & other costs)	28	1,224,651	28	1,025,796	27	997,416	33	837,539	41	755,105
To lenders of capital (interest on loan capital & minority interets)	21	914,554	19	697,709	18	663,144	18	450,924	10	175,785
To Share holders(dividends)	4	175,931	4	162,341	4	161,969	5	120,779	6	106,243
Retained for reinvestments & future growth(depreciation & retained profits)	38	1,678,963	39	1,406,038	42	1,552,255	32	812,338	29	524,068
	100	4,370,687	100	3,607,821	100	3,686,478	100	2,503,254	100	1,822,034

The primary objective of any commercial enterprise is the creation of wealth. With this as the focal point, the Value Added Statement highlights the quantum of wealth generated by the overall operations of the Group and the distribution of the same among it's major stakeholders for the past five years.

The Group has created Rs. 4.37 billion worth of wealth during the financial year under review. This is an improvement of 21% compared to the Rs. 3.6 billion created in the previous year.

The Group has contributed Rs. 376.6 million to the government of Sri Lanka by way of taxes and other levies. Employee remuneration has accounted to 28% of the total wealth created which is approximately Rs. 1.2 billion. Payments in the form of dividends to shareholders have remained relatively constant for the last three years with a payout of Rs. 175.9 million for the year of 2005/06. The distribution to the lenders has shown an increase by 31% over the prior year. The Group has retained 38% of the total value created for re-investment in future projects.



The success and growth of Aitken Spence & Co. Ltd., over a period of 138 years is ample proof of the efficient and consistent management of risk by the company. Spreading its wings from its initial agency house and insurance business to areas as diversified as tourism to power generation, cargo logistics to printing and plantations, the company has been able to successfully extend its reach to a wide variety of activities, thereby reducing the risk of over exposure to a single or few particular areas.

Diversification by nature, even though it reduces the risk of exposure to a given business segment, calls for more objective risk management, mainly due to the vast and diverse variables that impact on the company. The Board of Directors, the Board of Management, the Audit Committee, and the Senior Management of the Group play an integral part in this process of risk management.

Figure 01: Risk Assessment and Management Framework

The starting point of any risk management system is risk identification. This is carried out at overall Group level as a whole and also at each operating unit, within each subsidiary. The Group, in line with its vision, places greater emphasis on risks related to events or occurrences that may have a significant effect on the operational and financial stability of the Group and issues which, if not managed carefully would be detrimental to shareholder's funds. Therefore the significance of the impact and the probability of occurrence are considered when prioritising the risks faced by the Group.

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

The Group also has an Internal Audit division, which is headed by the Chief Internal Auditor, and constitutes 09 employees of the executive cadre. This Internal Audit division reports directly to the Audit Committee of the Group.

Detailed below are some of the main risks associated with the activities of the Group, along with the mechanisms currently practiced for its management.

Investment Risk

Risk Identification

- Risk of a poor performing investment.
- Risk of an investment project failing mid way before project completion due to external factors.

Deterioration of shareholder value due to the loss incurred and the decline in investor confidence would be the main repercussions of this risk.

Risk Management

- Stringent evaluation risks of each new investment using the in-house expertise and outside consultants when required.
- All new investments should satisfy the minimum expected return of the Group.
- Possible bottlenecks of a project are envisaged at the project planning stage and elimination or mitigatory measures undertaken before venturing to execution stage. Drafting of Investment Agreements are carefully done to ensure that risks to the Group are mitigated or minimised.
- When investing in new projects preference is given to the formation of strategic alliances with reputed partners for the creation of synergies.
- The Group balances the risk return trade off. Certain risks are accepted in light of the future growth and profitability potential of the investment.

Business Risk

Risk Identification

- Natural disasters, socio political climate.
- Global merger or acquisition of a partner or principal.
- Loss of market share to a competitor.
- Change of customer attitude to Groups' services and products.

The complete or partial loss of business of one or more strategic business units resulting in lower profitability to the overall Group could be a result of this risk. This in turn would affect shareholder wealth.

Risk Management

- Identification of all natural disasters that could affect the normal operations of the Group, with necessary steps carried out to mitigate the impact of such a disaster if it occurs. The Group transfers the risks of such a disaster to a third party through comprehensive insurance practices. Special emphasis is given to health and safety at all business locations.
- Cordial relationships are maintained with all strategic partners, fostering a relationship of trust whilst addressing the interest of all parties concerned.
- Excellent customer relationships are maintained at all levels with all business units in the Group striving to provide superior services to the customer. Changing customer needs are constantly monitored through one to one communication with customers and through customer surveys.
- Strives to create a higher value for the customer by providing a complete solution to all customer requirements in the given businesses the Group operates.
- All business units avoids over-dependency to any one party.

Operational Risk

Risk Identification

- Frauds that could occur due to lack of internal control.
- Negative impacts to business operations due to poor working capital management.
- Loss incurred due to non-compliance of statutory requirements.

Disruption to business and the loss incurred thereby, the high cost of legal and penalty fees and deterioration of the working environment, which would hamper productivity, would be the main consequences of this risk.

Risk Management

- A structured and uniform set of internal controls is adhered to throughout the Group. These also stipulate the levels of authority and context within which certain transactions are to be performed. Periodic and surprise checks are carried out by the Groups' Internal Audit division to ensure the adherence to and effectiveness of controls.
- The organization wide use of the Oracle EBS Applications software ensures the observance of the required internal controls, whilst facilitating a better management of the working capital requirements.
- The Group has a stringent policy for inventory control and debtors' control. A prudent policy is maintained for the provision of doubtful debts based on the time period outstanding. Centralized lists of blacklisted debtors are maintained.
- The operational activities of each of the strategic business units are captured in detail in the management-reporting framework in place within the Group. This facilitates a close monitoring by the Board of Management.
- The Group adheres to all statutory and legal requirements and maintains cordial industrial relations at all times.

Human Risk

Risk Identification

- Cost related to high staff turnover.
- Loss of company sensitive information.
- Drop in productivity and quality.
- Increase in human error.

Lack of motivation resulting in poor quality and the resultant drop in revenue and market share. Customer dissatisfaction leading to customers moving on to competition. Increase of human error and loss of sensitive information tarnishing the image of the Group are all potential outcomes of this risk.

Risk Management

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

(A detailed discussion of human resource initiatives by the Group are provided on pages 45 to 49.)

Technology Risk

Risk Identification

- Malicious software and it's impact on performance, information loss and unauthorised access.
- Loss of business opportunity due to out-dated systems and non-adaptation of new technology.
- Loss of business due to inadequate preparation for failures of systems and links.
- Loss of business due to improper capacity planning.
- Breaches in systems security leading to unauthorised access intentionally or otherwise by both internal and external users.

These risks can impose short term loss of information technology services resulting in the non-availability of current business transactions and loss of future business growth.

Risk Management

- A multi-tier safeguard mechanism is in place to meet the threat of malicious software and its adverse effects. The mechanism provides real-time detection and elimination of malicious software.
- Acquisition of systems are subject to stringent evaluation, especially in terms of suitability, continuity of systems and introduction of international best practices by way of periodic systems upgrades.
- The group maintains a keen eye to spot emerging technology, its maturity and the suitability to strengthen business processes. The maturity of voice & video over IP Network is an important emerging technology which the group has recognized, successfully tested and would introduce shortly.
- Systems & Link failure events are categorized as likely, occasional and extreme events.
- Link failure events are treated as likely and a dual service provider link infra-structure is in place to counter this risk. The company together with the telecom service providers pioneered the introduction of real-time load balances multiple link usage via MPLS networks in Sri Lanka.
- System failure events are treated as occasional; rapid response agreements and backup procedures are in place to counter these risks.
- A well managed capacity adequate Network is a must for co-operating business entities to function smoothly. The latest networking equipment supporting quality of service (QoS) features are lined for introduction shortly. This is to induct the concept of "service commitment" in technology services in the group.
- Systems hardware capacity is also monitored to ensure availability of sufficient computational resources. As a rule of thumb – a consistent 70% resource usage is considered the alarm for capacity enhancement.
- A multi-point inspection of access rights are in place to ensure better security within the IT infra-structure. In the past this inspection was limited to key hardware devices and devices that connect the enterprise to external entities. However, this inspection is currently being expanded right up to the end computing devices – the devices well known for internal security breaches.

Legal Risk

Risk Identification

- Judiciary action on the non-performance of legal obligations.

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

Risk Management

- The Group recognizes and conforms to its responsibilities as a public quoted company, a taxpayer and an employer. All statutory and legal requirements are met in all transactions.
- The Group has its own in-house legal division assisting the various business units of the Group. External professional counsel is sought as and when required.
- Periodic checks are carried out by the Internal Audit division in collaboration with the Legal division to ensure that all business units conform to legal and statutory requirements.

Reputation Risk

Risk Identification

- Negative impact on corporate image.

This risk has a direct impact on shareholder wealth and investor confidence.

Risk Management

- The setting up of a business communication unit, with representation from all the strategic business units of the Group to ensure up-to-date and accurate communication with the general public and all stakeholders of the Group.
- Maintenance of the highest ethical behaviour at all times in all business activities.
- All employees are expected to adhere to the 'Code of Ethics' of the Group, which are communicated to the employee at the point of recruitment.

- The Group actively involves itself in community development. It places the importance of being a socially responsible corporate citizen at the highest level.
- Strict adherence to environmental regulations and all other statutory requirements are maintained.

Foreign Exchange Risk

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

Adverse movement in the Rupee exchange rate against the relevant foreign currency can mean an impact on the profit & loss account on translation of liabilities as well as lead to cash flow issues when it comes to settlement of such liabilities. Any such adverse movements that occur after original estimating, can impact the profitability of a project or a particular order or transaction.

Risk Management
The company through its central treasury manages the above risks in the following manner.

- The effect of exposure to foreign currency liabilities are minimised or avoided by matching these liabilities against foreign currency denominated assets. Further, the risks associated with future repayments of foreign currency loans and interest are mitigated by ensuring such outflows are matched by foreign currency inflows.
- The impact of adverse movements in exchange rates on imports and export transactions is mitigated by the use of forward rates for initial estimating.
- Covering the actual transaction through forward booking of currencies as well as matching of foreign currency inflows and outflows on a consolidated basis across the Group companies. However the central treasury, through continuous monitoring of market movements, advises the subsidiaries as to the timing of such forward bookings, thus striving to minimize the import costs and maximize export revenues at all times whilst at the same time, managing the risks involved. For example, during the year, the Group central treasury structured and executed at an appropriate time, a forward contract for Euro/ US $. This was done to mitigate Euro/US $ rate risk involved for the 100MW Embilipitiya power project company, where the project company was required to make regular payments in Euro for certain services rendered for plant operations and maintenance, whereas its revenues are in US $.

Interest Rate Risk

Risk Identification
- Adverse movement of interest rates in rupee and foreign currency short term borrowings and long term loans where interest rates are linked to a floating index.

Increase in interest liability of the Group would have a direct impact on its profitability and shareholder wealth.

Risk Management
The Group manages and mitigates its interest rate risks through its central treasury by using the following strategies.

- Exposure to US $ loans linked to floating indices such as LIBOR is mitigated by the use of innovative financial instruments such as Interest Rate Swaps and other derivative products. The Group has been involved in pioneering derivative products in Sri Lanka in the pursuit of its transactions risk mitigating objectives.
- The interest rate exposure of Rupee long term borrowings is mitigated by negotiating Caps and Floors or executing Interest Rate Swaps where there are floating interest rates or by negotiating fixed interest rates with the lending agency.
- The impact of interest rate movements on Group short-term borrowings is minimised through the efficient management of rupee cash flows across the Group on a systematic basis, which includes netting of subsidiary cash flows through the centralised treasury. The efficiency of this method is proved by the fact that the Group has consistently maintained a lower effective interest rate compared to market rates. However, the Group keeps a continuous watch on market trends that can impact on its net exposure on short-term borrowings and takes preventative measures where necessary, to guard against anticipated fluctuation in rates.

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 previous years other than the adoption of new Sri Lanka Accounting Standard No 40 – Investment Property.

"Our core Human Resource strategy is to add value in all spheres of our activities by improving the potential of our employees and our business processes. It is our objective to ensure that all Human Resource initiatives help deliver business results."

Commitment to Service is at the very heart of Aitken Spence, giving nourishment to every aspect of its existence and future plans. Our people, who translate this commitment into business practices have been the nucleus that has led the Group on its consistent rise providing the energy that has made it possible for the Group to build on its strong roots, maintain consistent growth and venture beyond geographical boundaries, setting ambitious targets and achieving results. Therefore developing a culture and ethos of upward mobility is essential to keep our people factor in line with our vision.

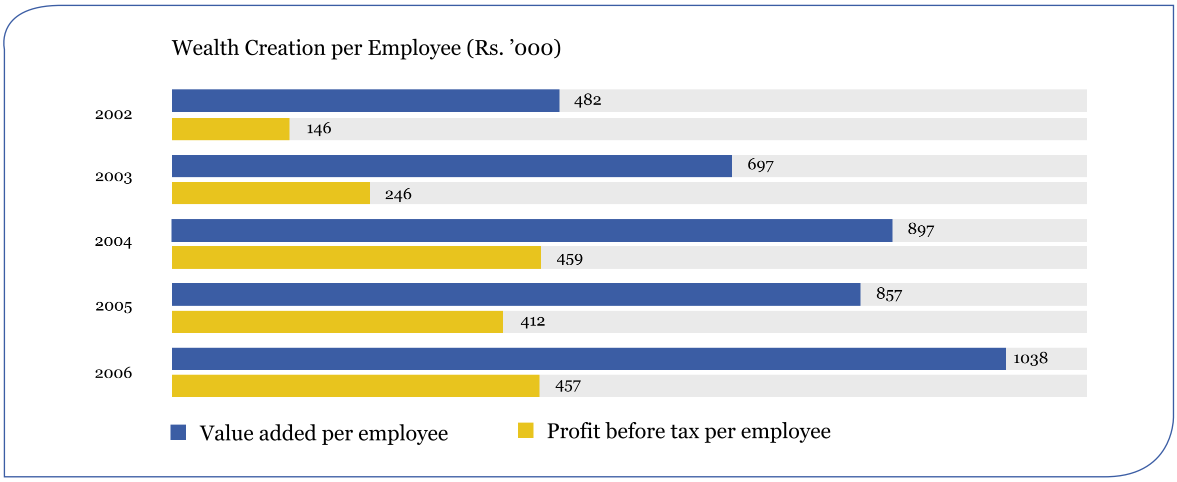
Our core human resource strategy is to add value in all spheres of our activities by improving the potential of our employees and our business processes. It is our objective to ensure that all human resource initiatives help deliver business results. Therefore the conventional role of human resource management has evolved to take on the new mission of a business partner in the development of both self and organisation.

Global Compact Commitments

Aitken Spence is proud to be a signatory to the United Nations Secretary General's corporate responsibility initiative, joining hundreds of companies around the world to promote and advance ten universal principles including the development of human rights, labour, environment and anti-corruption initiatives. We strongly support the guidelines in the Global Compact and set out below the HR initiatives we have undertaken in line with those principles.

Collective Bargaining

Within the Group we have no restrictions on freedom of association and actively support trade unions, covering nearly all employees and encouraging the concept of bipartite or tripartite Collective Bargaining wherever the need arises. 44% of our employees are covered by collective bargaining agreements. If new policies or restructuring is implemented, trade unions are informed and any subsequent discussions and negotiations are carried out within an environment of equality.

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Open Door Policy
By incorporating an "open door policy", employees have access to corporate, financial and other relevant information through trade unions.

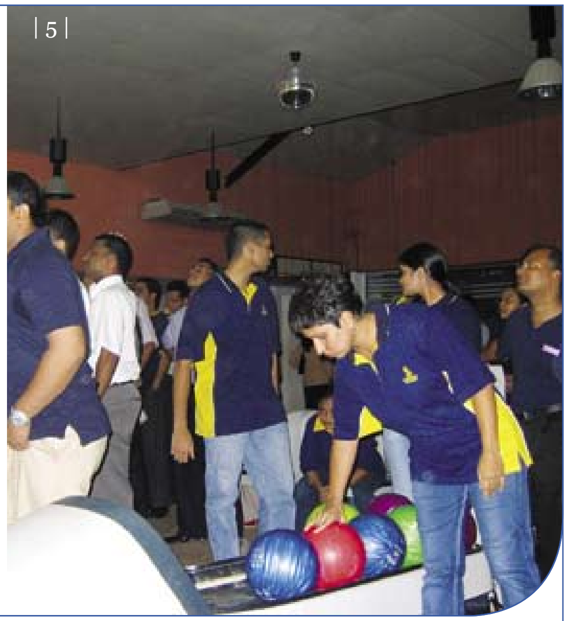
Labour Standards
There is absolutely no child, forced or compulsory labour within our Group. All employees are made aware of their specific duties/tasks/functions within the organization. Any variation of terms, conditions and added duties are intimated and authorised only with the consent of both employer and employee. The Group Human Resources and the Group Legal departments constantly monitor all subsidiaries and ensure the compliance of these best practices. Employees have been made aware that they have complete freedom to report or complain to the relevant authorities on any matter without fear of persecution.

Equality
The Group follows the guidelines set out in the ILO Conventions which is also ratified by the Constitution of Sri Lanka, guaranteeing equality and equal protection of law for every person. We are proud to be considered an equal opportunity employer with no incidences of any employee or potential employee being deprived of his/her employment opportunity due to gender differences. The Group comprises a healthy balance of multi-religious, multi-ethnic and multi-cultural segments of society and provides equal career development opportunities to all. A Code of Conduct governs workplace operations and facilitates the elimination of all forms of harassment.

Knowledge Management

We consider knowledge management an integral factor of our personal, professional and corporate growth. An in-house library spurs professional and academic study. Encouragement to participate in extracurricular activities as well as family-oriented events, imbues a holistic people-development aspect into the Company. Mentoring and counseling for both personal and professional development is also considered an integral part of management of human knowledge. We keep our people fully informed of developments in the business using a range of media, from in-house newsletters to Group Intranet. The 'Comcentre' was also established last year to align the Group media initiatives. Creating a learning culture on the foundations of knowledge, skills and competence enhances our ability to create the necessary environment for us to meet our goals. We feel this is essential in the context of the globalised and diversified industry segments we work in, to maintain and enhance the appeal of our workplace, attracting the best and most competent professionals to journey with us towards our vision, etching our reputation as one of the most preferred employers in Sri Lanka.

Strategically Aligned
We take great care to add value to our human resources by strategic alignments to common goals. The Strategic HR Team that was set up was one of the key initiatives that were introduced during this year. The team consisting of senior managers representing all sectors



1 | *Honouring our staff - a ceremony to recognise employees who completed over 25 years of service to the Group*
2 | *A training Program held for staff of Heritance Ahungalla.*
3 | *Enhancement of leadership skills of our staff*
4 | *Staff participate with enthusiasm at an Outbound training event.*
5 | *Employees enjoying recreational and entertainment activities sponsored by the Company.*

and primary subsidiaries in the Group, discusses HR issues relating to their industry and company at an open forum. This has given the subsidiaries an opportunity to find creative yet practical solutions to HR issues. This is one of the key strategies set up by the Group human resources development division to understand the requirements of the subsidiaries, in order to assist them to meet their business goals whilst developing a set of competent HR managers and a motivated work force. The monthly meeting with the HR team also strengthens the effectiveness of the training calendars whilst further requirements and developments are focused upon. Subsidiaries have the freedom to conduct sector specific training and development (T&D) programmes within their own environs, keeping to the standards set by professional Training Institutes. Group HRD supports the member subsidiaries with a comprehensive training calendar, after scientifically analysing the training requirements. A web page was introduced to incorporate the training schedule, while web-based intranet has also been introduced to promote interactive learning and disseminate information to all employees within the Group, making the communication process faster and more effective.

In what could be perceived as one of our most productive years, Group HR Development division conducted a total of 126 training programmes for 2,487 participants totaling 15,000 training hours across a broad skill and competency level. Some of the highlights topping the list of last year's calendar was the series of programmes that were conducted to develop the individual mind-set with the objective of uplifting the quality of work and personal life of the employees.

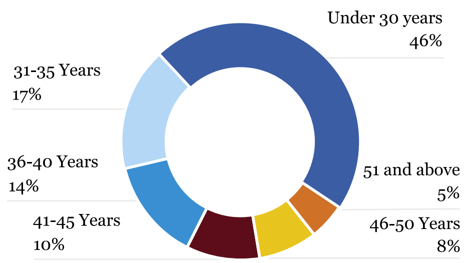
Training Programmes Conducted Sector wise

While objective training and development programmes form the majority of the calendar, the emphasis on environmental, health and safety training was also considered vital. A series of two day workshops were conducted in conjunction with St. John's Ambulance Association to give basic first aid knowledge and experience to the employees of the Group. Participants were awarded a certificate for the successful completion of the assessment tests at the end of this workshop.

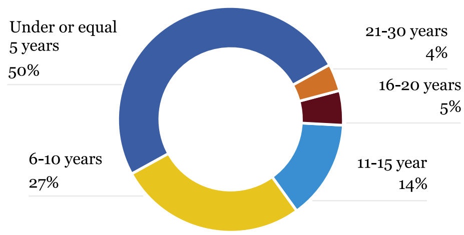
Leader's Development

Strong leadership is central to our aim of becoming one of the best companies in the region. A leadership programme for the senior management of the Group was conducted by the Post Graduate Institute of Management, University of Sri Jayewardenepura, to improve skills in leadership and effective management. This initiative was coupled with the creation of development plans for top performers backed by individual assessment and accredited business training.

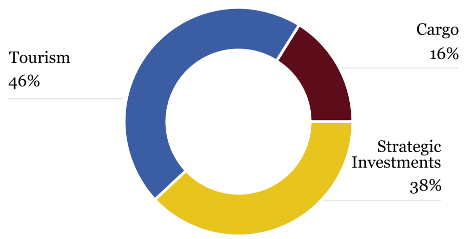
Age Analysis



Service analysis



Sectorwise analysis



We continue our journey towards leadership development by teaming up with a recognised institute in India.

The leaders set the tone for the next level emphasising the importance of developing future managers. 75 future managers were trained last year on a 64 hour study course in management. This management training programme is based on the curriculum of Nippon Keidanren International Corporation Center of Japan.

Return on Training

Pre and post evaluations of each training programme were also introduced and comprehensively carried out this year. This is not only to improve effectiveness and add value to all programmes, but also to ensure a return on investment for the training implemented. We have set the standard with all our trainers to carry out pre and post assessments, using different tools applicable for the programme in order to reap benefits of the training conducted.

Performance Feedback

We want to reward and recognize the best talent in our markets and believe we can best do this through a comprehensive unbiased appraisal system. We want all our employees, at every level to feel valued, well rewarded and involved and to play their part in achieving the high standards to which we aspire. The existing 180° Appraisal system was revamped to cater to the business requirements of the Group, specially emphasising the Key Performance Indicators.

Seeing the year beginning on a somber post tsunami note, we realised that one of our primary mainstays - the hospitality industry- would struggle to achieve forecasted targets. However, this challenge spurred a different mindset, creating an environment of opportunity and augmenting the primary resource we already have – our people. We did not retrench staff but rather used the opportunity for training and development, in a very difficult year. While the tourism sector of the Group ventured into newer areas in readiness for a growing medium term outlook, the Group decided to use the hiatus productively to develop and improve knowledge, skills and talents among our people.

'The Triton Project'
The Heritance Ahungalla, formerly known as Triton hotel was closed for refurbishment and upgrading in which an opportunity was identified especially in the light of the re-branding of the hotel. It became evident that the success of the rebranding would also require a complete realignment of the people within. It must be noted that every member of the team seemed fuelled by the passion to rise to the next rung of the ladder in professional development and displayed positive attitude towards undergoing intense training and development, to meet enhanced standards required by the transformation of Triton into Heritance Ahungalla.

'Travels Re-orientation Project'
Aitken Spence Travels conducted seminars and workshops for drivers and tour guides who remain the first point of contact for their customers and hence, have to be trained to effectively impart the values and feel of the country, the Group and its people. Marketing was also strengthened during the year, taking advantage of the lull in arrivals, with managers participating in residential brainstorming to conceptualise, design and begin implementing marketing geared towards a changing global travel audience.

Com Centre
Effective communication being a vital factor in creating a cohesive mindset among our people, Group HRD introduced a Communication Centre this year, to bolster and improve communication management of the Aitken Spence Group. The Com Centre consists of representatives of all subsidiaries who meet once a month to decide on strategic media management.

Recognition
We value the recognition obtained by the Group for our efforts in bringing Human Resources to the forefront by continuously raising the bar on HR standards. We are the reigning winners of the National HRM Awards for Group of Companies – Service Category. Ace Cargo, the courier and freight forwarding arm of the Group is the reigning National HRM Award winner in the Services Sector Medium category, while the courier division was honoured with the National Quality Award in 2005. This award is based on the Malcom Baldrige Award scheme USA.

Group 5S Competition
An initiative that was introduced in 2000 has seen a Group-wide rollout of the widely recognized Japanese 5S process, with proven productivity results. The Group 5S competition saw 21 subsidiaries and departments participate where final audits are done by the National Institute of Business Management.

Aitken Spence Travels enters the Olympics
Spurring future leaders in a global context, Aitken Spence Travels will participate in the Innovative Olympics organized by the worlds largest tour operating group TUI, to be held in Germany in May 2006, competing in disciplines that encompass structured ideas, innovative thinking and strategic implementation. The subsidiary is positive and confident being a small company with big ideas, that it has a considerable competitive advantage through its dynamic team and will compete on an equal footing.

Sustainable CSR initiatives

"We believe that the organisation's progress should positively reflect on all its stakeholders. A corporate social responsibility programme has been initiated to develop and nurture sustainable practices within the Group..."

Aitken Spence approaches corporate social responsibility on three fronts -employees, environment and community; with a strong emphasis on sustainability. For us corporate social responsibility means an enduring commitment to maintain the highest standards of employee welfare and professional development, protecting the natural environment whilst setting industry benchmarks on environmental best practices and contributing to the advancement of the communities we operate in by developing local infrastructure and the empowerment of people.

We believe that the organisation's progress should positively reflect on all its stakeholders. A corporate social responsibility programme has been initiated to develop and nurture sustainable practices within the Group.

The Group's emphasis on environmental awareness is reflected by its industrial locations conforming to environmental standards and its hotels following a formal conservation policy. Investments in environmental management have helped build an increasingly strong sense of awareness in our hotels. The plantation sector has improved on agricultural best practices, as well as providing greater protection to the land and environment in which it operates in addition to several initiatives in community development and employee welfare measures as explained below in detail.

We are a signatory to the UN Global compact charter, an international corporate responsibility initiative, which signifies our commitment to human rights, labour standards, the environment and anti corruption.

Post Tsunami Initiatives

The tsunami was probably the most devastating disaster that Sri Lanka ever had to face. It has not been easy for the people of this land to pick up the fragmented physical and social fabric that lay exposed

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1 | *Laying of a foundation stone to commence construction of houses for tsunami affected people in Wawulugalakale, Ahungalla*

2 | *A ceremony to mark the handing over of a house at Mahapalana village, Ahungalla*

3 | *Newly constructed and completed houses at Kumburuppiddy village, Trincomalee*

4 | *The proud recipients of new houses in Katuwilla village, Ahungalla*

5 | *Students receive career guidance at the Job Fair held in Anuradhapura*

and vulnerable, once the waves had dissipated. With a number of resorts on the coast, Aitken Spence had to contend with the disaster at first hand. Traumatic though it was, in true Sri Lankan spirit, the Group mustered all resources to ensure that immediate relief and assistance were speedily implemented. All guests were reassured of their safety and all possible measures taken to get back to normalcy.

All employee and their families who were affected were placed on solid ground and the needs of the devastated communities adjacent to the resorts were taken care of. Given below is the scale of the immediate impact on our employees.

Description of damage caused to employees

Deaths of family members	10
Major damages to houses	62
Minor damages to houses	64
Damages to furniture and fittings	86

Once immediate relief plans were affected, it was time for the Group to look at the bigger picture of rebuilding!

Our post tsunami corporate social responsibility initiative is probably the largest and most comprehensive project we embarked on in recent years. We realised that unless the people affected were quickly given back familiar surroundings, the psychological trauma of what they experienced would affect their daily lives. The Group quickly and effectively marshalled forces and set up a 24 hour help desk with resources to develop and implement plans, generate funds and implement the projects speedily, which would have an immediate, medium and long term impact.

With provisional reconstruction estimated on a national scale at US $ 1.5 billion, the Group worked on the plan of providing shelter as a long term disaster relief measure.

Each and every employee of the Group donated a minimum of one day's salary and some even contributed a month's salary towards the 'Spence Evoluzione Charitable Trust'.

Drawing on our strategic alliances both locally and globally, we are extremely happy that our newest partner TUI became the largest donor through the Spence Evoluzione Charitable Trust towards the housing projects earmarked by the Group. In addition other principals, business partners, well wishers, the Company and its subsidiaries joined in to contribute to the Fund, enabling us to complete the projects


1


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within the allocated time frame. A major component of the funds raised was through donations made by our principals. This is extremely significant, since it proves that we have nurtured and developed long lasting relationships with our valued business partners , and that such relationships built over the years, have now gone far beyond the boundaries of being mere "business relationships". They have transcended geographical boundaries, are profound, long-lasting and valued. We are also grateful to the Government of Sri Lanka for the donation of most of the land on which the projects are located.

With the catastrophic damage that the tsunami caused to the coastal belt, Aitken Spence Group decided to assist in building four villages in Mahapalana, Wawulagalakele and Katuwila in Ahungalla and Kumpurupiddy village in Trincomalee. We are now in the process of completing the villages, which will have 100 houses, medical centres, pre-school, playground and community centres.

Mahapalana Village	-	10 housing units and a Community Centre
Katuwila Village	-	22 housing units and a Community Centre
Wawulugalakale	-	33 housing units, a Community Centre and a Medical Centre.
Kumpurupiddy Village	-	26 housing units, Community Centre, Medical Centre, PreSchool, and a Playground.

Phase I

One of the most memorable moments in our history has been the ceremonial handing over of our first batch of 58 houses and two community centres in Phase I of the project in December 2005 and January 2006. These houses were constructed on land donated by the Government. The families now residing in these brand new abodes will, with time, hopefully allow the trauma of the tsunami to fade into oblivion and begin a new chapter in their lives. The houses which were designed by a premier architect were single storey houses comprising a sitting room, kitchen, toilet, two verandas and two bedrooms on a total floor area of 530 sq.ft. The houses were handed over to the affected families from Trincomalee, Ahungalla, Balapitiya, Wellabada and Kosgoda. We are extremely glad to have been able to add a ray of hope to the darkened lives of these families.

Phase II

Ahungalla

The Spence Evoluzione Charitable Trust has commenced construction of Phase II in Ahungalla with Havatzelet – Kibbutzu Movement of Israel joining the project to build 33 houses, a medical centre and a community centre on the scenic hilly terrain of Wawulagalakele, Ahungalla. The land was purchased by the Spence Evoluzione Charitable Trust, and each house will be equipped with regular amenities including water and electricity with a deep well and a water tank to ensure a continuous supply of water.

1 | *"Walk The World To Feed The Children" - the TNT sponsored charity event which was flagged off by Dr Arthur C. Clarke*

2 | *A blood donation campaign at Vauxhall Street*

3 | *Harvest time in Matara. These paddy lands were previously uncultivated for over 15 years, until we constructed a canal to irrigate the area.*

4 | *The donation of a tractor, trailer and other farming equipment to farmer societies at Embilipitiya.*

5 | *An environmental program to protect and sustain the eco-system at Kandalama Hotel.*

Trincomalee

Having completed and handed over the houses in Kumpurupiddy village, we have commenced Phase II of the project which would include a pre school, medical centre and community centre.

Community Initiatives

Aitken Spence has always been involved with the community because we believe very strongly that the community is an integral stakeholder which contributes effectively to our success. Given below are some community initiatives we worked on during the year, which we hope will make a difference to those targeted segments of society.

Education and Employability

Scholarships for employees' children

Each year, Ace Cargo presents scholarships to two students, who are the children of employees. This is primarily done to encourage them to continue with their education which will eventually result in enhanced employment opportunities. As part of the corporate social responsibility initiative, plans are underway to upgrade a school in Mawanella.

Careers for Employees' Children

With the objective of developing careers of students the Group had developed a Career Planning Training Session. These training sessions would be primarily to children of employees, with the aim of introducing the children to employable avenues available.

Management Training for Ruhuna University

Under the aegis of the Career Guidance Unit of the Ruhuna University, a five day Management Training Programme was conducted on campus of the Ruhuna University to enhance the employability of undergraduates seeking employment in the corporate sector. Undergraduates from the Department of Geography, Faculties of social sciences, humanities, management, science, engineering and agriculture followed the programme.

Job Fair at Anuradhapura

Group HRD partnered with the Ministry of Employment and Labour to publicize the employment opportunities available within the corporate sector, at a job fair held in November 2005 at Niwaththakachethiya Vidyalaya in Anuradhapura.

Creating Knowledge Centers
In order to inculcate a reading habit among the younger generation, two hotels donated books to six libraries, while Deviturai Estate in Ethkandura presented books to the children of all the estate workers.

Health and Nutrition

Fight Hunger - Walk the World 2005
An estimated one billion people suffer from poverty and malnutrition around the world and eradication of hunger is one of the Millenium Development Goals of the United Nations.

In a bid to raise awareness of child hunger across the globe and as a means of fundraising to alleviate hunger in more than 50,000 children, our Group Company representing TNT International and the World Food Programme combined their resources for the second successive year to be a part of the worldwide United Nations initiative of a 'round the clock - round the world' event. This event was simultaneously held in 269 cities across 91 countries, world renowned science fiction writer Dr. Arthur C. Clarke, now domiciled in Sri Lanka, flagged off over 800 participants in the Sri Lankan leg of the event. The funds collected by us, was utilised by the WFP to assist in feeding needy school children in Sri Lanka.

Blood Donation Campaigns
Every year the Group organises blood donation campaigns which aims to meet the persistent demand for blood in the country and to encourage increased employee participation in socially beneficial initiatives.

The Group Human Resources Development division organized a campaign with 52 volunteers at the Group head office to assist the Cancer Hospital in Maharagama, whilst Ace Logistics with 35 volunteers, and the Aitken Spence Sports Club with 44 volunteers also organized very successful blood donation campaigns.

HIV Awareness Campaign
Being in the tourism industry, we believe that one of the negative factors in tourism could be the vulnerability of people in the trade being exposed to AIDS, due to lack of awareness and information regarding the disease. Given the rising incidence of HIV, two resorts within the Aitken Spence umbrella namely Neptune Hotel and Earls Regency Hotel undertook a comprehensive AIDS awareness campaign to create understanding of this debilitating disease and as a means of prevention.

Sustainability within the Plantations
The whole focus within the workings of the plantations is one of social responsibility, to ensure a better and more sustainable livelihood for the 10,000 workers on our estates. The entrance of the Private Sector to the Plantations a few years ago brought about significant improvements to the overall standard of life and spearheaded an attitude change within the industry.

The Group has continuously implemented a number of social programmes that would benefit and create an uplifting environment for the entire network of families within the plantation community, as we feel that it is not only the worker but his entire family is our responsibility. These initiatives include,

- constuction of 300 brand new housing units,
- re-roofing of 330 existing houses,
- water and sanitation projects,
- comprehensive medical programmes including clinics, hospitals and ambulance facilities and focused programmes on health, nutrition and social issues.
- micro financing for entrepreneurial ventures and a co- operative network,
- vocational training for children of workers. Training courses in dressmaking and fabric painting have also commenced on two estates to steer them onto paths of employability.
- education of estate workers' children. We work with World University Services on two estates to conduct programmes for children.
- introduction of highly developed Child Development Centres (CDC), which replaced the traditional crèches have made a difference to the mindset of the mothers on the estates as well as those toddlers and nursery children attending the CDCs. Surrounding schools too have benefited through the donation of infrastructure and equipment as well as the training of teachers implemented through our companies.

Uplifting Farming Communities in Embilipitya and Matara
Our power sector has been constantly working with the communities within which it operates, to forge closer ties with them while enhancing the environment in which they live. The village surrounding the Embilipitiya project saw an amazing transformation with tarred roads and electrification whilst in Matara, paddy lands not cultivated for more than 15 years were given a new lease of life with the construction of a canal for use

by the farmers. We have also donated a much needed tractor-trailer and other farming equipment to the farmers' societies in Embilipitiya and are continuing to work with the farmers on community driven initiatives to ensure that a sense of ownership prevails in these projects.

Environment, Health & Safety Initiatives

Sustainable Management Accolades for Kandalama

Adding to the numerous awards that Kandalama has won since its inception, the resort was honoured with the CIMA Community Leader Award and the Presidential Award for Sustainable Management, presented to the resort in the year under review. The Presidential Award for Sustainable Management is an employee driven initiative that has taken the concept of waste management and environmentally friendly practices to 39 schools, creating awareness on the subjects of water, energy, solid waste, conservation and balancing the eco system, planned land use, recycling and disposal.

The CIMA Community Leader Award is presented to organisations that are role models in sustainable development and Kandalama's groundbreaking efforts in waste management have now spurred other corporates to follow its lead.

This luxury resort in the jungle, an architectural wonder and a national case study for sustainable management, was the first in Asia to be presented with the Green Globe award and has also won the Green Leaf PATA award for its practice of the 3R principles. Kandalama has a zero tolerance rate on garbage and is aiming towards a zero waste environment, having undertaken simple but effective processes to sort, recycle and dispose waste in an environmentally friendly manner.

The waste management programme was pioneered as a community initiative in the Dambulla Town which has to dispose of 6 ½ tons of solid waste per day. Currently the children of the villages, the Dambulla Trade association as well as organisations within the cultural triangle are involved in these initiatives. Kandalama plays a catalyst role in managing the massive solid waste component prevalent in Dambulla city. These efforts will be replicated in other areas and plans are currently underway to do so.

Being located in the heart of the jungle but ensuring that the eco balance remains intact in order to further its environmental sustainability thrust, Kandalama hopes to utilise 200 acres of jungle that belong to the property to inculcate nature friendly habits among employees and guests alike. Into this plan, the resort will also introduce the concepts of Ayurveda and yoga, which would blend seamlessly into these environs.

Food Safety Management

While all our resorts both in Sri Lanka and in the Maldives stringently conform to internationally accepted standards in environment, health and safety, on a Food Safety Management initiative piloted at Kandalama, all resorts will speedily be brought into practicing the detailed methodology laid out in those guidelines. This is an extremely important initiative for us as we have always been strong proponents of very high standards in food safety from the inception of our tourism drive. This initiative will also assist us in working towards complying and exceeding the requirements of HACCP which we aim to apply for in the very near future.

Economic Overview

The year under review saw Sri Lanka experience a closely fought Presidential Election followed by a renewal of peace negotiations that came in the backdrop of a gradually worsening security situation in the country and escalating oil prices. Unfortunately, hopes that the Government and the LTTE would work together at least in the area of tsunami rehabilitation and reconstruction were not realised. Though peace talks were resumed in Geneva, the ground situation deteriorated with many acts of violence recorded.

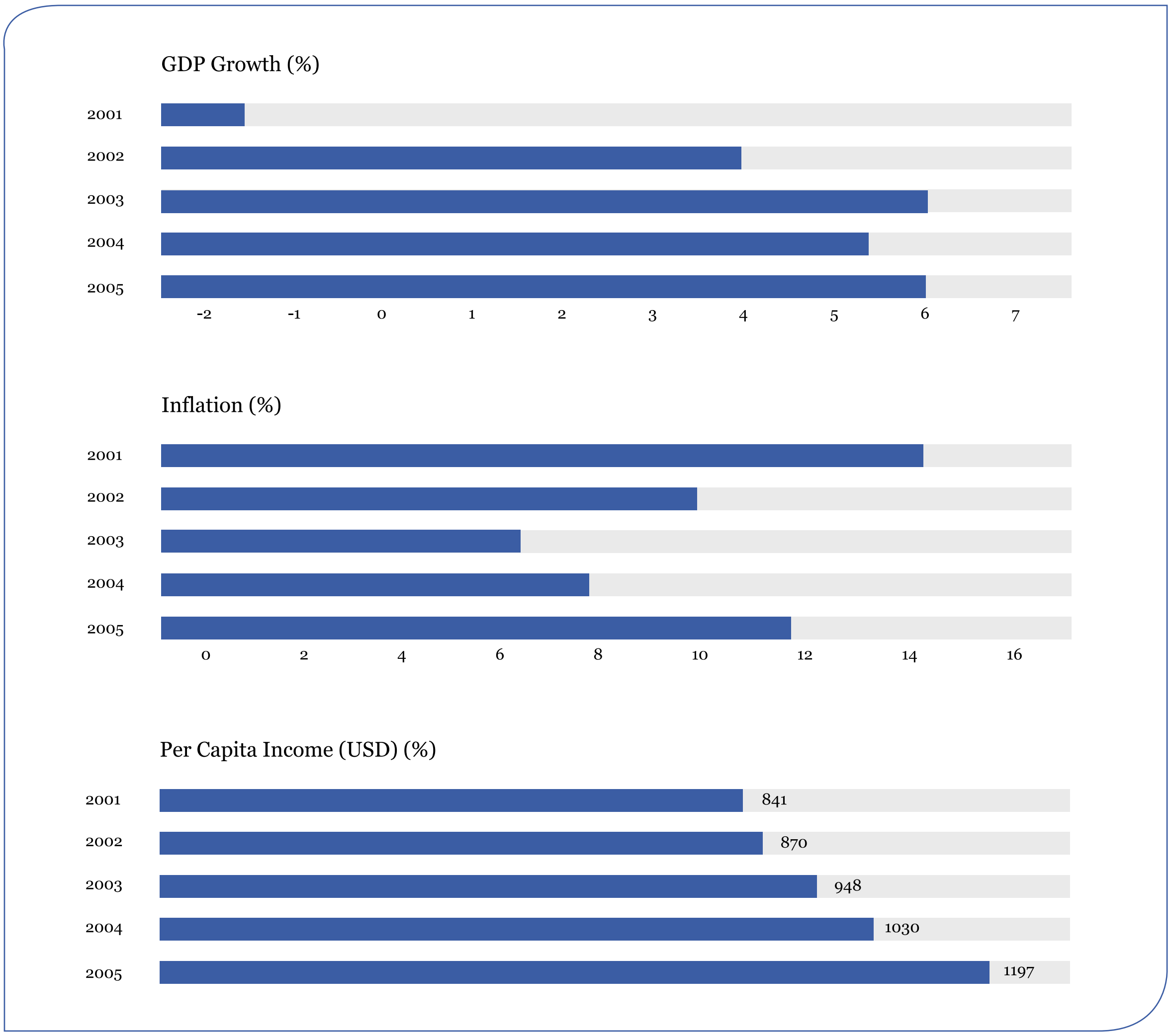
Through all this adversity the Sri Lankan economy showed resilience with the first nine months of 2005 recording GDP growth of 5.5% and with a strong fourth quarter growth helping it to move up to 6% for the year, in comparison to 5.4% in 2004. The economic growth and relatively lower population growth pushed Sri Lanka's per capita income to US Dollar 1,197 in comparison to US Dollar 1,030 in 2004.

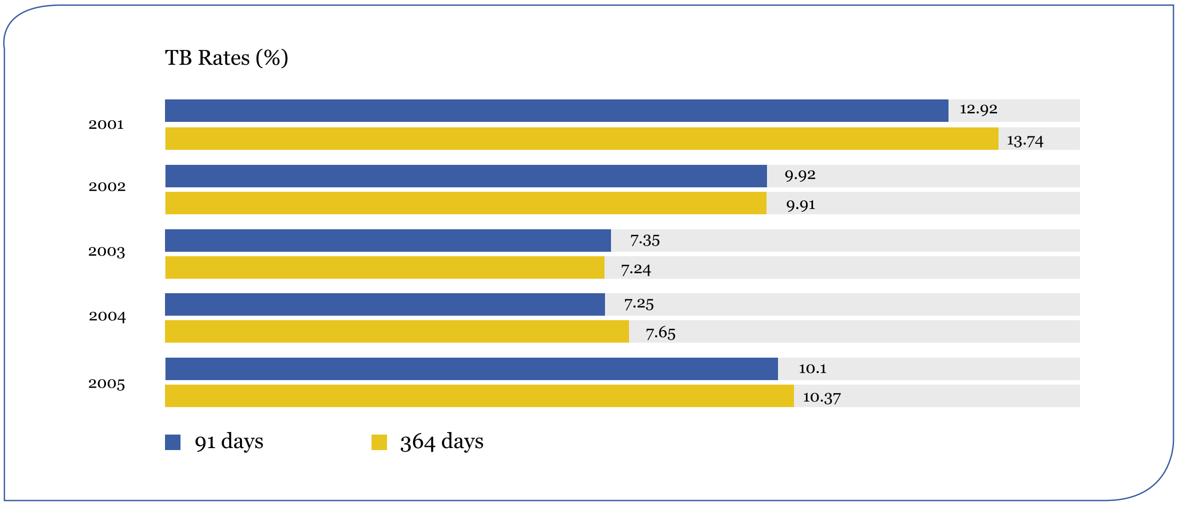
Sri Lanka's imports grew by 10.8% to US Dollar 8.86 billion while exports grew by 10.2% to US Dollar 6.35 billion in 2005 leading to a trade deficit of US Dollar 2.51 billion. However, the current account deficit was only US$ 650 million due to a sharp growth of 22.6% in Sri Lankan expatriate worker remittances, which reached US$ 1.92 billion in 2005.

Perceptions of rising interest rates due to the uncertainty in the ceasefire and peace process coupled with high inflation resulted in there being no demand for medium and long term bonds and there were no issues of 10,15 and 20 year Treasury Bonds during the year. This situation does not auger well for the development of the bond market in Sri Lanka.

The 58% increase in the fuel prices combined with a 38% increase in fuel imports had a negative impact on GDP growth and foreign reserves and contributed significantly to an increase in inflation. Inflation, which was a single digit of 7.4% increased to 11.6% for the year.

In a bid to control inflation Government raised interest rates where we saw the overnight repo rate increasing by 125 basis points during the year. The six-month and one year Treasury Bill rates increased significantly from





7.65% and 7.76% to10.35% and 10.38% respectively. The short term bonds witnessed higher increases with the 5 year bond rates increasing from 8.19% to 11.28% and the 2 year bond rates increasing from 8.24% to 11.22%. The Commercial Banks Average Weighted Prime Lending rate (AWPLR) also reflected the increases in the interest rate scenario by increasing from 9.88% to 11.97%.

Rising inflation, coupled with the rising interest rates and increase in crude oil prices put the Sri Lanka Rupee under pressure and by end March 2006 it had depreciated by 3.25% to Rs 102.68 per US Dollar in comparison to Rs. 99.44 in March 2005. The depreciation of the rupee was lower than expected due to the post tsunami pledged foreign aid inflows and an increase in foreign remittances which led to the balance of payments recording a surplus of US Dollars 501 million. During the year the gross foreign direct investment reached US Dollars 272 million in comparison to US Dollars 223 million in the previous year.

In the international market we saw the US$ Government continuing with its policy of increasing interest rates which resulted in the six month LIBOR rising from 3.40% as at 31.3.2005 to 5.12% as at 31.3.2005. However it is expected that the coming year will see a stabilisation of the LIBOR and we do not expect significant increases in LIBOR during 2006/07.

The US Dollar to Euro cross rate for the year under review saw a reversal of the fortunes of the US Dollar which appreciated against the Euro by almost 6% as opposed to the continuous depreciation we witnessed over the previous three years.

The unemployment rate declined to 7.7%, which was the lowest in five years, as a result of increase in skilled and unskilled employment in on ongoing foreign funded tsunami rehabilitation work.

Although there was economic uncertainty throughout the year the Colombo Stock Exchange performed positively with the All Share Price Index and Milanka Price Index recording gains of 29.3% and 20.3% during the year.

Tourist arrivals declined by 3% to 549,000 in 2005 from a record high of 566,000 arrivals in 2004. However the gross earnings from the tourism industry declined by 20.3% during the year. This was mainly due to a significant number of tourist arrivals being aid workers, together with the post tsunami adverse publicity and the increased instability in the country leading to a decline in the number of high spending Western European tourists visiting the island. In contrast, lower spending Asian tourist arrivals grew significantly and accounted for 40.7% of total arrivals.

A negotiated settlement for the north and east would be a prerequisite to promoting Sri Lanka as a tourism destination and it is hoped that the currently fragile peace process regain some degree of forward momentum and stability.

Widely held fears that the apparel sector dependent Sri Lankan economy would suffer serious repercussions with the end of the multi fiber agreement, fortunately did not materialise due to the resilience of the country's apparel sector and its ability to face upto the challenges posed by the new apparel trading environment.

The year ended with some positive news for the country's power sector by way of confirmation that construction work on the country's first coal power project will finally get underway during 2006 after 16 years of procrastination by successive governments.

Corporate Governance

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

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

The Company firmly believes that the adoption and implementation of sound principles and practices of Corporate Governance are important to the Group's overall success. This has enabled the Group to acquire and enhance the confidence and trust of its shareholders, employees, customers, and other stakeholders. The consistent adherence to the principles and practices of good Corporate Governance has been rewarded by the Company acquiring a matchless reputation in Sri Lanka for trustworthiness and reliability amongst all its stakeholders.

The Company is primarily guided by the Code of Best Practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka. Further, the Company strictly adheres to the requirements of the Securities and Exchange Commission of Sri Lanka, the Registrar of Companies, other Regulatory Bodies and Institutions, Chambers of Commerce and Professional and Trade Associations.

This report sets out the Company's Corporate Governance processes with specific references to the Code of Best Practices on Corporate Governance Code issued by the Institute of Chartered Accountants of Sri Lanka.

Principle 1 – Every Company should be headed by an effective Board

Aitken Spence & Co Ltd., The Board of Directors and its composition

Aitken Spence & Co. Ltd. and its subsidiaries are directed and managed by an efficient Board of Directors who discharge their duties in a professional manner. The Board is responsible for the effective and efficient management of the Company. It meets at regular intervals prior to which Board papers are circulated giving ample time for individual Directors to study the matters under discussion. This enables Board members to actively participate at Board meetings. The Board critically reviews all matters under its jurisdiction prior to taking appropriate decisions. The Board of Aitken Spence & Co Ltd., comprises of a Chairman, a Deputy Chairman & Managing Director, and four other Directors of whom one is an Executive Director. The other three are Non Executive Directors. The names and profiles of the Directors are given on pages 12 and 13 of this report.

The Board held 6 meetings during this financial year. The Chairman presides over the Board meetings and ensures that proper procedures are strictly followed in the conduct of Board meetings. The Board is in complete control of the Company's direction and is alert to its obligations to all stakeholders.

The key responsibilities of the Board include,

- Appointing a competent Managing Director and 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, policies, objectives and goals of the Group.
- Reviewing, approving and monitoring the operational and financial budgets of the Group.
- Evaluating and monitoring the performance of each business sector on a regular basis and initiating remedial action, where necessary.
- Approving new business and investment proposals recommended by the Managing Director and the Board of Management.
- Restructuring and Re-Engineering of existing businesses of the Group.
- Ensuring the strict implementation of legal, ethical, health, environmental and safety standards adopted by the Group.
- Preparing in a timely and meaningful manner the quarterly and the annual accounts, approving and submitting same to the shareholders and relevant regulatory authorities.
- Determining the quantum of the interim dividends and recommending the final dividend for approval by the shareholders.
- Examining and monitoring the various operational and financial risks associated with the different sectors of the Group.
- Ensuring the optimisation and evaluation of business opportunities.

Board of Management of the Group

The Board of Directors have delegated the implementation of the day to day operations of the Company and the Group to the Board of Management. The Board of Management comprises of the Managing Director of Aitken Spence & Company Ltd., as Chairman, and the Managing Directors of the various strategic business units of the Group as Executive Directors.

The names of the Directors of the Board of Management and their profiles are disclosed on pages 14 and 17 of this report.

The Board of Management is involved in implementing strategies and policies that have been approved by the Board of Directors of the Company. Each Managing Director of a strategic business unit is responsible and accountable for the efficient operations of the relevant strategic business unit.

During the financial year under review the Board of Directors established a formally structured 'think tank' replacing the previous adhoc and unstructured system of obtaining views and suggestions. The objective of the structured 'think tank' is to seek and develop new ideas and concepts to assist in the strategic direction of the Group and also to identify new growth opportunities and evaluate existing businesses. The 'think tank' has multi sector and multi disciplinary representation and is a forum for brainstorming of new concepts and ideas received from time to time from all levels of Group employees. The 'think tank' has developed several initiatives for the long term growth of the Group, including the re-branding of Aitken Spence and its subsidiaries. In order to make the branding initiative meaningful, organisational realignment particularly in relation to human resources and improved service standards and quality has been adopted to reflect a more dynamic organisation.

Principle 2 – There should be a clear division of responsibilities at the top of the Company which will ensure a balance of power and authority so that a considerable concentration of power does not devolve on any individual.

The functions of the Chairman and the Managing Director are distinct and separate, which ensure the balance of power and authority within the organisation, so that no person has unfettered powers of decision making.

The Chairman of the Company who is one of the most successful and experienced business leaders of the country, is responsible for guiding the Board in formulating the strategic direction of the Company. He is responsible for and ensures that the meetings of the Board and the shareholders are conducted in an extremely professional manner. He ensures the effective discharge of Board functions.

The Managing Director who is from a multi disciplinary background, possesses a wealth of international business management experience and is responsible for guiding the Board of Management of the Group to achieve the strategic objectives and targets set out by the Board of Directors.

Principle 3 – The Board should ensure the availability amongst it's members of those with sufficient financial and entrepreneurial acumen and knowledge to be able to offer guidance on finance and operational matters.

The Board benefits from the large reservoir of indepth knowledge and experience of the Chairman, The Deputy Chairman and each Director, who collectively provide core competencies in finance, legal, industry, business entrepreneurship and management. The profiles of the Directors are given on pages 12 and 13 of this report. All Directors are able to and willingly add substantial value and independent judgement on the decision making process, which is of immense benefit to the effective functioning of the Board.

Principle 4 – In order to fulfil their responsibilities, Board Members should be provided with complete, adequate and timely information.

Professionally prepared Board papers, including detailed agenda, are sent in advance of the Board meetings to enable the Directors to be properly prepared on the matters to be discussed and in respect of which decisions are made. Board papers contain financial and operational reports of Group Companies, updates on business development and other matters for decision making. At the Board meetings the Directors are encouraged to and willingly offer their opinions. The Board may seek independent professional advice, if required, at the Company's expense to assist in the discharging of their duties.

All Directors have separate and independent access to the Company Secretary, who is present at all Board meetings. The Company Secretary who is present at all Board meetings ensures that proper facilities are in place for the effective conduct of Board meetings.

Principle 5 -There should be a formal and transparent process for the appointment of new Directors to the Board. As a principle of Good Governance all Directors should be required to submit themselves for re- election at regular intervals.

The Directors are elected by the shareholders of the Company. The Articles of Association of the Company empower the Board of Directors to either fill a casual vacancy in the directorate or appoint additional Directors. Directors so appointed hold office until the next annual general meeting and are eligible for re- election.

The Company's Articles of Association provide that one third of the Directors for the time being, or if their number is not a multiple of three the number nearest to (but not greater than) one third shall retire from office. A Director appointed to the office of Managing Director shall not while holding that office be subjected to retirement by rotation. Retiring Directors are selected on the basis of those who have been longest in office since their last election. In the event there are one or more Directors appointed on the same date the retiring Director shall be determined either by agreement or by lot. A retiring Director shall be eligible for re-election. In order to ensure that the Board is comprised of members who add value to the Group, the Board evaluates the qualifications and contribution of each retiring Director before recommending such person for re-election.

Principle 6 – There should be a formal and transparent procedure for fixing the remuneration packages of Employees inclusive of individual Directors.

The Board has established a Remuneration Committee, to formulate policy relating to and the review of remuneration packages of executive employees inclusive of the Executive Directors. The remuneration committee comprises of the Chairman of Aitken Spence & Company Ltd., as Chairman of the Committee and two Non Executive Directors.

The Remuneration Committee is responsible for evaluating the performance of the Directors and the senior executives of the various Group Companies and structuring remuneration packages in such a manner to attract the best professional and managerial skills in the country, and retain and motivate the Executive Directors and senior management of the Group. No Director is involved in determining his or her own remuneration.

The names of the members of the Remuneration Committee are listed on the inner back cover of the report. The report of the Remuneration Committee is given on page 63 of this Annual Report.

Principles 7- The Board should ensure that the management maintains a sound monitoring system to safeguard the shareholders' investments and the Company assets.

The Group addresses risk management at all levels with the active participation of its Board of Directors, the Board of Management, the Audit Committee and the Senior Management of the strategic business units. Shareholders' risks are minimised by a strict evaluation procedure for all proposed investments in new projects and expansion of existing units. All proposals for restructuring and re-engineering of existing businesses and the investments in new projects are subjected to an exhaustive project feasibility evaluation by the Group finance division headed by the Group Chief Financial Officer. The feasibility study covers the financial, marketing, operational, legal and other risks associated with the relevant proposal. In addition to performing sensitivity analysis on key assumptions, the Company seeks expert advice from outside sources when 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 will then be forwarded to the Board of Directors as a recommendation for its approval.

The Board reserves the right to approve, reject or amend an investment proposal. The Board may in certain instances request that the proposal be re-evaluated and an amended proposal re submitted for consideration of the Board. The above system ensures that the risks associated with the proposals are minimised and the potential benefits enhanced.

Subsequent to the Board decision being made, the drafting of the required Joint Venture agreements, service agreements, operational and financing agreements which give effect to such decisions, are done in consultation with legal experts in the relevant fields in order to safeguard the Company's commercial and legal interests.

Principle 8- The Company should establish an internal audit function

The Board is responsible for the formulation of appropriate systems of internal controls for the Group and reviewing its operational effectiveness. In order to safeguard the shareholders' investments and the

Company's assets the Group maintains a management structure with clearly defined lines of responsibility and authority.

The Board ensures that the Company maintains strict accountability and transparency for all its 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. Internal control systems encompass all areas including financial, operational, legal, vendor compliance, health, safety and risk management.

The Company has an internal audit department headed by the Chief Internal Auditor of the Group who is independent of the Managing Directors of the strategic business units and the Board of Management. Group companies are subject to regular internal audits and system reviews. The internal audit department ensures that all strategic business units strictly comply with the approved internal control systems and procedures of the Group. The observations and findings of the group Chief Internal Auditor and the response from the relevant strategic business units are tabled and discussed at meetings of the Audit Committee where necessary corrective action is promptly instituted.

The Audit Committee is a sub committee of the Board of Directors of Aitken Spence & Company Ltd. The Committees comprises of three Non Executive Directors. The names of the members of the Audit Committee are listed on the inner back cover and the Report of the Audit Committee is given on page 64 of this Annual Report.

The Audit Committee endeavours to assist the Board to discharge its duty of ensuring that the Group's internal controls and conduct of business are in accordance with the best practices appropriate to the Company and the strategic business units. The Audit Committee monitors and guides the Internal Audit function.

The Board has taken necessary action to review and ensure the effectiveness of the internal control systems of the Company in operation. The Board while being conscious that any internal control system contains inherent limitations and no system of internal control could provide absolute assurance against the occurrence of material errors, poor judgement in decision making, human errors, losses, frauds, or other irregularities has taken appropriate action to minimise such situations.

Principle 9 - Companies should engage in regular communication with shareholders and encourage greater shareholder participation at annual general meetings and allow shareholders the opportunity to communicate their views on various matters affecting the Company and their interest as investors.

The Company maintains a web site, which gives Company information, announcement of corporate results and any other non confidential information of relevance for the benefit of shareholders, potential investors and other interested parties,. The Board is committed to ensure that the Colombo Stock Exchange and the shareholders are promptly informed of all material transactions of the Group. The Managing Director and the Senior Management meet regularly with Institutional Shareholders and local and foreign Fund Managers to keep them abreast of the performance of the Group.

All shareholders are invited and encouraged to be present and actively participate and vote at the annual general meeting. The annual general meeting provides an excellent opportunity for shareholders to seek and obtain clarifications and information on the performance and management of the Company and to informally meet the Directors after the annual general meeting. The external auditors and the Company's lawyers are invited to and are present at the annual general meeting to render any professional assistance that may be requested.

Shareholders who are not in a position to attend the annual general meeting in person are entitled to have their voting rights exercised by a proxy of their own choice. Prior to the annual general meeting, all relevant documents prepared in a meaningful and accurate manner according to the Accounting Standards and the regulations of the Regulatory and Advisory Boards are provided to the shareholders within the stipulated time.

Principle 10- The Board should present a balanced and understandable assessment of the Company's position and prospects

The Board ensures the accurate, meaningful and timely publication of quarterly and annual results, which are prepared and published according to the requirement of the Sri Lanka Accounting Standards, the Companies Act No 17 of 1982, and other Regulatory Authorities. The quarterly accounts and the Annual report are published in advance of the regulatory reporting requirements.

The Board of Directors confirm that the financial statements of the Company and its subsidiaries for the year ended 31 March 2006 that are incorporated in this report have been prepared in accordance with the Sri Lanka Accounting Standards and the Companies Act No. 17 of 1982.

Areas of Relevance

(1) **Employees**
The Board of Management ensures that the vision, goals and objectives of the Group are appropriately formulated, clearly communicated, duly understood and adhered by all employees. Thereby the direction of the Company is clearly known to all employees of the Group.

There is neither forced nor compulsory labour in the organisation. All employees are aware of their specific duties, tasks and functions which they are required to perform. The Company strictly ensures that no person below the legal minimum age is offered employment.

The Group affords equal opportunities to potential employees irrespective of gender, race, or religion. There is no gender discrimination and irrespective of the gender eligible persons are given the opportunity to gain employment and once recruited would continue in their career path.

(2) **Relationship with Institutions and Regulatory Bodies**
A meaningful relationship is maintained with Institutions such as the relevant Line Ministries, the Registrar of Companies, the Securities Exchange of Sri Lanka, the Colombo Stock Exchange, the Department of Inland Revenue, the Central Bank of Sri Lanka, The Board of Investment, Professional and Trade Associations and the various Chambers of Commerce, which ensure that the Group's operations and activities strictly adhere to the rules, regulations and codes of conduct set out by the relevant Regulatory and Advisory Bodies and the laws of the country.

(3) **Business and Corporate Ethics**
The Board ensures that the Company strictly complies with all relevant laws, regulations and codes of best business practices appropriate to the conduct of the Company's business activities and is not involved in any unethical practices.
The compliance referred to above is achieved by the Company maintaining a comprehensive and unambiguous code of business conduct and ethics for its employees inclusive of Directors. The Board of Directors ensures that in the organisation, the code of ethics which has been duly documented is given to all executives of the Company who confirm their acceptance of same. A violation of the code of ethics is considered an offence which is subject to disciplinary action.

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

(5) **Environment**
The Board of Directors to the best of its ability has applied very high standards to protect and nurture the environment. The Companies of the Group promote detailed and defined health and safety procedures appropriate to each employees' nature of work as well as to outsiders who come in contact with the relevant strategic business units. The Group does not compromise in its commitment to strict adherence to best practices on Environmental issues. The numerous Environmental awards won by Group Companies are ample testimony to this aspect of the Group's governance system.

Remuneration Committee Report

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

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

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

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

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

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

D. H. S. Jayawardena
Chairman
Remuneration Committee

25th May 2006

Audit Committee Report

The Committee comprises of three non executive 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.

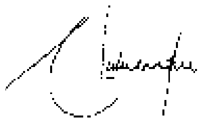
The Audit Committee endeavours to assist the Directors to discharge their duty of ensuring that the Company's internal controls and conduct of business are in accordance with best practices appropriate to the Company's activities. The Audit Committee also monitors and guides the Internal Audit function.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

The Committee met formally four times during the financial year ended 31st March 2006.

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 detailed Internal Audit Reports highlighting audit concerns and recommendations for improvement of financial and operational control systems together with the responses thereto were tabled, discussed and appropriate action 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.

The Committee had discussions with the external auditors Messrs. KPMG Ford, Rhodes, Thornton & Co., regarding the conduct of the audit for the year ended 31st March 2006. The Audit Committee was advised of the audit approach of the external auditors. The Audit Committee requested the external auditors to identify and report on control weaknesses that come to their attention during the course of their audit work which could result in possible areas of fraud and any significant financial losses. The external auditors were advised that an Audit Committee meeting could, if necessary, be convened at short notice if they wish to bring any important matters to the urgent attention of the Audit Committee.

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



G. C. Wickremasinghe
Chairman
Audit Committee

08th May 2006

| Financial Section |

Financial Calendar 2006/2007

21st April 2006
Interim Dividend for 2005/2006 (ex dividend date 6th April 2006)

29th June 2006
Fifty Fourth Annual General Meeting -
[Final Dividend for 2005/2006 (ex dividend date 19th June 2006)]

First week of August 2006
Interim Statement for the three months ending 30th June 2006

First week of November 2006
Interim Statement for the Six months ending 30th September 2006

First week of February 2007
Interim Statement for the nine months ending 31st December 2006

| Directors' Report

The Directors of Aitken Spence & Company Limited have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31st March 2006, which were approved by the Directors on the 29th of May 2006.

Principal Activities
The Group is engaged in diverse business activities which are described on pages 112 & 113 of this report.

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

Group Revenue
The Revenue of the Group was Rs. 13,593,263,113/- (2004/2005-Rs. 10,063,989,316/-). An analysis of revenue based on business and geographical segments is disclosed in Note 1 to the financial statements on page 82.

Profit
The net profit before tax of the Group increased by 10.8% to Rs. 1,921,557,910/- and the profit after tax increased by 9.7% to Rs. 1,709,452,206/-. The profit available for distribution to shareholders for the year was Rs. 1,211,283,941/- which is an increase of 8.5%.

The segmental profits are disclosed in Note 1 to the financial statements on page 82 .

Donations
During the year charitable donations amounting to Rs. 612,312/- were made by the Group.

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

It is the policy of the Group to provide for deferred taxation on all known timing differences on the liability method, unless there is reasonable evidence that they would not reverse in the foreseeable future. The deferred tax liability of the Group is given in Note 23 to the financial statements.

Dividends
An interim ordinary dividend of 30% was paid on the 21st of April 2006. The Directors recommend a final ordinary dividend of 35% making a total dividend payment of 65% for the year ended 31st March 2006. The total dividend payment for the previous year was 60%. The total dividend for the current year as well as for the previous year is from exempt dividends received by the Company and is exempt from tax in the hands of the shareholders.

Share Capital
The issued and paid up ordinary share capital of the Company as at 31st March 2006, was Rs. 270,664,030/-, which is an increase of Rs. 95,000/- over the issued and payment up ordinary share capital as at the end of the previous financial year. The increase in the share capital is due to 9,500 share options being exercised by executives of the Group.

	2005/2006 Rs.	2004/2005 Rs.
Group Profits		
The net profit of the Group for the year after providing for all expenses known liabilities and depreciation on property, plant & equipment was	1,921,557,910	1,733,654,627
From which income tax and deferred tax has to be deducted	(212,105,704)	(175,130,402)
Leaving the Group with a profit after taxation of	1,709,452,206	1,558,524,225
From which the amount attributable to minority interest has to be deducted	(498,168,265)	(441,747,769)
Leaving a profit for the year applicable to the Company of	1,211,283,941	1,116,776,456
To which the balance of the previous year has to be added	3,031,818,054	2,311,365,487
The amount available to the Company for appropriation therefore was	4,243,101,995	3,428,141,943
Appropriations		
The amount available has been appropriated by your Directors as follows:		
Transfer to general reserves	79,366,526	233,951,021
Transfer to proposed dividend	12,250	31,449
Interim dividend declared (2005/06 - paid)	81,199,209	67,642,258
Final dividend recommended	94,732,411	94,699,161
Leaving an unappropriated balance to be carried forward of	3,987,791,599	3,031,818,054
	4,243,101,995	3,428,141,943

Reserves
The total Group reserves as at 31st March 2006 were Rs. 8,317,383,356/- (2005 - Rs. 7,296,349,081/-). This consisted of Capital Reserves of Rs. 3,270,276,692/- (2005 - Rs. 3,269,559,442/-) and Revenue Reserves of Rs. 5,047,106,664/- (2005 – Rs. 4,026,789,639/-). The movement in these reserves is shown in the Statement of Changes in Equity – Consolidated on page 74.

Debentures
Quoted Debentures
The details of the unredeemed quoted debentures which were listed on the debt securities board of the Colombo Stock Exchange as at 31 st March 2006 were 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. These debentures were redeemed on 4th April 2006.
- 1,000,000 four year debentures of Rs. 100/- each with interest payable annually at a fixed interest rate of 16.00% p.a. These debentures were redeemed on 4th April 2006.

None of the above debentures were traded during the year.

Unquoted Debentures
The Company in the previous year raised Rs. 1 billion through a private placement of 10,000 unsecured redeemable debentures. Each debenture has a face value of Rs. 100,000/- . The debentures were granted a credit rating of AA (sri) by Fitch Ratings Lanka Ltd. The details of the debentures issued and redeemed are as follows:

- 5,000 fixed rate unsecured redeemable debentures of Rs. 100,000/- each were issued on the 30th June 2004, with interest payable semi-annually at an interest rate of 10.96% p.a. 1,000 debentures were redeemed on 29th of June 2005. The applicable interest on these debentures were duly paid on 29th June 2005 and 29th December 2005.
- 5,000 floating rate unsecured redeemable debentures of Rs. 100,000/- each were issued on the 30th July, 2004 with interest payable semi annually at an interest rate of the six month net treasury bill rate +2.15% p.a. 1,000 debentures were redeemed on 29th July 2005. The applicable interest on these debentures were duly paid on 29th July 2005 and 26th January 2006.

Property, Plant & Equipment
The total expenditure on the acquisition of property, plant and equipment during the year in respect of new assets and replacements amounted to Rs. 2,446,190,412/-. The major component of the above investment was for the reconstruction and refurbishment of Heritance Ahungalla and Kandalama Hotel. The movement in property, plant and 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 other than those owned by Aitken Spence Hotel Holdings Ltd., was revalued by professionally qualified independent valuers during the financial year 2003/2004. The freehold land of Aitken Spence Hotel Holdings Ltd., was 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 is given in the Financial Highlights on page 2. The Share & Debenture Information is given on page 108 of the Annual Report.

Investments and Future Developments
During the year the Group invested Rs. 566,501,070/- 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 page 58 of the Annual Report.

Internal Control
The Directors accept ultimate responsibility for the Group's system of internal control. The systems are geared to provide reasonable assurance that the assets of the Group are safeguarded and that all transactions entered into by the Group are relevant, properly authorised and duly recorded. Further details of the internal control systems in operation are contained in the Statement of Directors' Responsibilities on page 70 and the Audit Committee Report on page 64 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 29 to the financial statements.

Statutory Payments
The Directors, to the best of their knowledge and belief are satisfied that all statutory obligations due to the Government and to the employees have been either duly paid or adequately provided for in the financial statements. A confirmation of same is included in the Statement of Directors' Responsibilities on page 70 of this report.

Environmental Protection
The Board of Directors to the best of their ability has applied very high standards to protect and nurture the environment in which the Group operates and ensures strict adherence to all

environmental laws. The numerous environmental awards won by Group companies are ample testimony to this aspect of the Group's Corporate Governance procedures and practices. The Group has not engaged in any activities which are harmful and dangerous to the environment. The environmental report of the Group is included in the Sustainable CSR initiatives report which is on page 50 of the Annual Report.

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

Events occurring after the Balance Sheet date
There have not been any material events that occurred subsequent to the date of the Balance Sheet, other than the redemption by the company on 4th April 2006, of the 2,000,000 quoted debentures each having a face value of Rs. 100/-.

Shareholdings
There were 1,593 shareholders as at 31st March 2006. The distribution of the shares is detailed on page 108 Details of the twenty largest shareholders as at 31st March 2006 are given on 109.

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

All Directors of the Company as at the date of this report held office during the entire financial year.

Mr. E. P. A. Cooray who retired by rotation in terms of Article 85 of the Articles of Association, at the last Annual General Meeting held on 8th July 2005, informed the company in writing that he will not be seeking re-election as a Director at that Annual General Meeting. He therefore ceased to be a Director of the company with effect from 8th July 2005.

Mr. C. H. Gomez retires by rotation at the forthcoming Annual General Meeting, in terms of the Article 85 of the Articles of Association of the company, and being eligible is recommended by the Board for re-election.

Directors' Shareholding and their Interests
The Directors of the Company together with their spouses held 967,639 Shares as at 31st March 2006. Their share holdings amounted to 3.5% of the total issued share capital, as detailed below.

Shareholding of Directors together with their spouses

	31.03.06	31.03.05
D.H.S. Jayawardena	Nil	Nil
J.M.S. Brito	12,733	3,733
R.M. Fernando	Nil	Nil
G.C. Wickremasinghe	487,216	487,216
R. Sivaratnam	467,690	503,290
C.H. Gomez	Nil	Nil

The indirect shareholding of Directors

	31.03.06	31.03.05
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

	31.03.06	31.03.05
Aitken Spence Hotel Holdings Ltd.		
J.M.S. Brito	3,000	3,000
G.C. Wickremasinghe	316,551	316,551
R. Sivaratnam	73,334	73,334
Hethersett Hotels Ltd.		
G.C. Wickremasinghe	1,041,500	1,041,500
R. Sivaratnam	25,000	25,000

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

Debentures held by the Directors

	31.03.06	31.03.05
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 which are reflected in Note 33 of the financial statements.

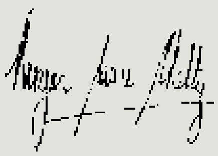
Share Option Scheme
The Company as at 31st March 2006 has offered options for 1,169,800 shares by way of share options to executives including Executive Directors of Group companies. As at 31st March 2006 options for 704,903 shares had been exercised while options for the balance 464,897 shares had lapsed.

During the year, executives of the Group exercised options for 9,500 shares at a price of Rs. 85.50 per share.

Public Holding
The percentage of the shares held by the public as at 31st March 2006 was 50.1%.

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
Company Secretary

305, Vauxhall Street, Colombo 2
29th of May 2006

| 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 in accordance with the relevant provisions of the said 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 2006 have been prepared in accordance with the Companies Act No. 17 of 1982 and the Sri Lanka Accounting Standards. In the preparation of the financial statements, the Directors have selected appropriate accounting policies and have applied them consistently.

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

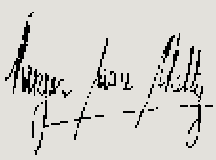
The Directors accept the responsibility to ensure that the companies within the Group maintain adequate and accurate records which reflect the true financial position of each such company and hence the Group.

The Directors have taken reasonable steps to safeguard the assets of the Company and the Group. The Directors have instituted appropriate systems of internal controls in order to prevent and detect fraud and other irregularities.

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

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

By Order of the Board,



R.E.V. Casie Chetty
F.C.A., F.C.M.A., M.C.M.I., J.Dip. M.A.
Company Secretary

Colombo
29th of May 2006

KPMG

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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To the Members of Aitken Spence & Company Ltd.

We have audited the balance sheet of Aitken Spence & Company Ltd. as at 31st March 2006, 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 72 to 104 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 2006, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, cash flow and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st March 2006, 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 the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31st March 2006, 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 2006, except as stated in Note 33 to these financial statements.

Ford Rhodes Thornton & Co

Chartered Accountants

Colombo.
29th May 2006.

Income Statements

For the year ended 31st March	Notes	Group 2006 Rs. '000	Group 2005 Rs. '000	Group % Change	Company 2006 Rs. '000	Company 2005 Rs. '000	Company % Change
Revenue	1	13,593,263	10,063,989	35.1	220,561	178,636	23.5
Revenue tax		(164,482)	(140,807)	16.8	-	-	-
Net Revenue		13,428,781	9,923,182	35.3	220,561	178,636	23.5
Other operating income	2	493,192	301,193	63.7	560,248	784,286	(28.6)
Changes in inventories of finished goods and work-in-progress		(5,886)	3,659	(260.9)	-	-	-
Raw materials and consumables used		(5,372,856)	(2,550,693)	110.6	-	-	-
Staff costs		(1,224,651)	(1,025,796)	19.4	(82,503)	(47,754)	72.8
Depreciation and amortisation		(653,388)	(459,874)	42.1	(15,219)	(19,113)	(20.4)
Other operating expenses - direct	3	(2,774,859)	(2,789,323)	(0.5)	-	-	-
Other operating expenses - indirect		(1,667,001)	(1,525,530)	9.3	(102,972)	(85,871)	19.9
Profit from operations	1&4	2,223,332	1,876,818	18.5	580,115	810,184	(28.4)
Interest income		71,276	88,144	(19.1)	135,423	97,730	38.6
Finance cost	5	(437,727)	(298,534)	46.6	(168,789)	(146,324)	15.4
Profit from operations after interest		1,856,881	1,666,428	11.4	546,749	761,590	(28.2)
Share of associate companies profit before taxation	6	64,677	67,226	(3.8)	-	-	-
Profit on ordinary activities before taxation		1,921,558	1,733,654	10.8	546,749	761,590	(28.2)
Taxation	7	(212,106)	(175,130)	21.1	(19,188)	1,463	(1,411.6)
Profit after taxation		1,709,452	1,558,524	9.7	527,561	763,053	(30.9)
Minority interest		(498,168)	(441,748)	12.8	-	-	-
Net profit for the year		1,211,284	1,116,776	8.5	527,561	763,053	(30.9)
Earnings per share (Rs.)	8	44.76	41.32	8.3	19.50	28.23	(30.9)
Diluted earnings per share (Rs.)	8	44.76	41.29	8.4	19.50	28.22	(30.9)

The accounting policies and notes on pages 78 to 104 form an integral part of these financial statements.
Figures in brackets indicate deductions.

As at 31st March	Notes	Group 2006 Rs. '000	Group 2005 Rs. '000	Company 2006 Rs. '000	Company 2005 Rs. '000
Assets					
Non-current assets					
Property, plant and equipment	10	15,450,267	11,005,913	46,963	735,706
Intangible assets	11	191,811	170,058	-	-
Investments in subsidiaries and joint ventures - unquoted	12	-	-	4,118,842	2,807,698
Investments in subsidiaries - quoted	12	-	-	679,300	679,300
Investments in associates	13	690,374	672,513	398,441	398,441
Long-term investments	14	213,234	529,963	205,130	521,333
Investment Property	15	28,936	28,936	720,933	28,936
		16,574,622	12,407,383	6,169,609	5,171,414
Current assets					
Inventories	16	694,739	363,089	983	1,369
Amount due from subsidiaries		-	-	2,214,718	1,138,350
Amount due from associates		103,990	80,129	90,566	75,822
Trade and other receivables	17	4,448,199	1,954,557	83,212	70,684
Current investments	18	4,268	3,670	139	139
Deposits and prepayments		346,326	248,570	2,863	2,480
Short-term deposits		616,495	1,370,665	69,330	825,279
Cash and cash equivalents		418,055	678,662	19,869	69,119
		6,632,072	4,699,342	2,481,680	2,183,242
Total assets	19	23,206,694	17,106,725	8,651,289	7,354,656
Equity and liabilities					
Equity					
Issued and fully paid share capital	20	270,664	270,569	270,664	270,569
Reserves	20	4,234,859	4,169,832	2,872,365	3,390,182
Retained earnings		3,987,792	3,031,818	1,853,150	982,998
Proposed dividend		94,732	94,699	94,732	94,699
Total equity		8,588,047	7,566,918	5,090,911	4,738,448
Minority interest		2,697,910	1,774,362	-	-
Non-current liabilities					
Deferred income	21	36,678	30,643	-	-
Interest bearing liabilities	22	5,424,584	4,206,804	600,000	1,000,000
Deferred tax	23	121,862	103,625	9,497	11,059
Retirement benefit obligations	24	154,656	135,736	17,333	14,471
		5,737,780	4,476,808	626,830	1,025,530
Current liabilities					
Trade payables		1,313,627	777,727	-	-
Provisions and other payables	25	1,210,030	1,249,542	212,292	255,434
Interest bearing liabilities repayable within one year	22	1,921,261	745,903	400,000	200,000
Amount due to subsidiaries		-	-	1,790,373	1,024,973
Amount due to associates		951	310	14	-
Provision for taxation		62,577	62,863	9,232	-
Interim dividend declared		81,199	67,642	81,199	67,642
Short-term bank borrowings		1,593,312	384,650	440,438	42,629
		6,182,957	3,288,637	2,933,548	1,590,678
Total equity and liabilities		23,206,694	17,106,725	8,651,289	7,354,656

The accounting policies and notes on pages 78 to 104 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 29th May 2006

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 2006	Share Capital	Share Premium	Revaluation Reserves	Other Capital Reserves	General Reserves	Exchange Fluctuation Reserves	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 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 from retained earnings	-	-	-	-	(137,549)	-	137,518	31	-
Unclaimed dividend transferred to reserves	-	-	-	-	159	-	-	-	159
Final dividend paid for 2003/2004 (Note 9)	-	-	-	-	-	-	-	(94,513)	(94,513)
Interim dividend proposed 2004/2005 (Note 9)	-	-	-	-	-	-	(67,642)	-	(67,642)
Final dividend recommended for 2004/2005 (Note 9)	-	-	-	-	-	-	(94,699)	94,699	-
Debenture issue expense	-	(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
Currency translation differences	-	-	-	-	-	(15,057)	-	-	(15,057)
Net gains and losses not recognised in the income statement	-	-	-	-	-	(15,057)	-	-	(15,057)
Net profit for the period	-	-	-	-	-	-	1,211,284	-	1,211,284
Transfer to general reserve	-	-	-	-	79,367	-	(79,367)	-	-
Transfer from retained earnings	-	-	-	-	-	-	(12)	12	-
Final dividend paid for 2004/2005 (Note 9)	-	-	-	-	-	-	-	(94,711)	(94,711)
Interim dividend proposed 2005/2006 (Note 9)	-	-	-	-	-	-	(81,199)	-	(81,199)
Final dividend recommended for 2005/2006 (Note 9)	-	-	-	-	-	-	(94,732)	94,732	-
Shares issued under stock option scheme	95	717	-	-	-	-	-	-	812
Balance as at 31st March 2006	270,664	1,864,474	1,278,282	127,521	900,067	64,515	3,987,792	94,732	8,588,047

The accounting policies and notes on pages 78 to 104 form an integral part of thes financial statements.

Figures in brackets indicate deductions.

| Statement of Changes in Equity - Company

For the year ended 31st March 2006	**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 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 to/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 proposed 2004/2005 (Note 9)	-	-	-	-	(67,642)	-	(67,642)
Final dividend recommended for 2004/2005 (Note 9)	-	-	-	-	(94,699)	94,699	-
Debenture issue expense	-	(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
Transfer to retained earnings (Note 15.4)	-	-	(518,534)	-	518,534	-	-
Net gains or losses not recognised in the income statement	-	-	(518,534)	-	518,534	-	-
Net profit for the period	-	-	-	-	527,561	-	527,561
Transfer to general reserve	-	-	-	-	-	-	-
Transfer to/from retained earnings	-	-	-	-	(12)	12	-
Unclaimed dividend transferred to reserves	-	-	-	-	-	-	-
Final dividend paid for 2004/2005 (Note 9)	-	-	-	-	-	(94,711)	(94,711)
Interim dividend proposed 2005/2006 (Note 9)	-	-	-	-	(81,199)	-	(81,199)
Final dividend recommended for 2005/2006 (Note 9)	-	-	-	-	(94,732)	94,732	-
Shares issued under stock option scheme	95	717	-	-	-	-	812
Balance as at 31st March 2006	270,664	1,864,474	217,370	790,521	1,853,150	94,732	5,090,911

The accounting policies and notes on pages 78 to 104 form an integral part of thes financial statements.

Figures in brackets indicate deductions.

| Cash Flow Statements

For the year ended 31st March	Group 2006 Rs. '000	Group 2005 Rs. '000	Company 2006 Rs. '000	Company 2005 Rs. '000
Cash Flow from operating activities				
Net profit before taxation	1,921,558	1,733,654	546,749	761,590
Adjustments for				
Depreciation & amortisation	653,388	459,874	15,220	19,113
Interest expense	416,386	280,650	168,100	145,812
(Profit)/loss on sale of property plant & equipment	(16,265)	(14,354)	4,748	(3,643)
Profit on sale of investments	(118,411)	(200,538)	(115,270)	(237,459)
Interest income	(71,276)	(88,144)	(135,423)	(97,730)
Amortisation of surplus on acquisition	(2,739)	(2,278)	-	-
Share of associate companies' profit before tax	(64,677)	(67,226)	-	-
Provision / write off of bad and doubtful debts	19,530	(2,924)	-	-
Effect of subsidiaries disposed during the year	607	(49,705)	-	-
Effect of subsidiaries acquired during the year	(1,545,489)	5,973	-	-
Write offs of property, plant & equipment	95,429	103,863	-	-
Provisions made during the year	-	127,930	-	-
Unclaimed dividends transfered to reserves	-	159	-	159
Movement in provision for fall in value of investment	(598)	275	-	-
Foreign exchange profit	(22,530)	(44,799)	(7,774)	(9,343)
Gratuity provision	33,922	29,931	4,026	3,696
	(622,723)	538,687	(66,373)	(179,395)
Operating profit before working capital changes	1,298,835	2,272,341	480,376	582,195
(Increase)/decrese in trade and other receivable	(2,537,033)	155,251	(1,110,218)	(292,102)
(Increase)/decrease in inventories	(331,650)	(47,021)	386	(293)
Increase/(decrease) in trade and other payables	496,769	48,209	722,012	(416,283)
(Increase)/ decrease in deposits & prepayments	(97,756)	66,817	(383)	(588)
	(2,469,670)	223,256	(388,203)	(709,266)
Cash generated from operations	(1,170,835)	2,495,597	92,173	(127,071)
Interest paid	(416,386)	(280,650)	(168,100)	(145,812)
Income tax paid	(169,941)	(181,704)	(4,940)	(9,668)
Gratuity payment	(14,582)	(17,517)	(1,164)	(5,461)
	(600,909)	(479,871)	(174,204)	(160,941)
Net cash flow from operating activities (carried forward to next page)	(1,771,744)	2,015,726	(82,031)	(288,012)

For the year ended 31st March	Group 2006 Rs. '000	Group 2005 Rs. '000	Company 2006 Rs. '000	Company 2005 Rs. '000
Net cash flow from operating activities (brought forward from previous page)	(1,771,744)	2,015,726	(82,031)	(288,012)
Cash flow from investing activities				
Investments made during the year	(566,501)	(177,149)	(1,315,102)	(339,034)
Purchase of property, plant and equipment	(2,446,190)	(2,927,915)	(25,314)	(6,660)
Proceeds from sale of property, plant and equipment	40,004	24,879	2,093	3,933
Proceeds from sale of investment	438,297	275,977	435,430	285,853
Dividends and dividend taxes paid by subsidiary companies to outside shareholders	(175,553)	(491,435)	-	-
Dividends received from associate companies	31,915	5,556	-	-
Net cash used in investing activities	(2,678,028)	(3,290,087)	(902,893)	(55,908)
Cash flow from financing activities				
Interest received from deposits	71,276	88,144	135,423	97,730
Proceeds from interest bearing liabilities	3,050,518	2,640,966	-	1,000,000
Issue of shares	812	7,289	812	7,289
Debenture issue expenses	-	(3,800)	-	(3,800)
Repayment of interest-bearing liabilities	(829,140)	(879,457)	(200,000)	(200,000)
Dividends paid	(162,093)	(102,268)	(162,093)	(102,268)
Net cash from financing activities	2,131,373	1,750,874	(225,858)	798,951
Net increase/(decrease) in cash and cash equivalents	(2,318,399)	476,513	(1,210,782)	455,031
Cash and cash equivalents at the beginning of the period	1,759,637	1,188,164	859,543	396,738
Cash and cash equivalents at the end of the period	(558,762)	1,664,677	(351,239)	851,769
Cash and cash equivalents at the end of the period				
Cash at bank and in hand	418,055	678,662	19,869	69,119
Short-term deposits	616,495	1,370,665	69,330	825,279
Short-term bank borrowings	(1,593,312)	(384,650)	(440,438)	(42,629)
Cash and cash equivalents as previously reported	(558,762)	1,664,677	(351,239)	851,769
Effect of exchange rate changes	-	94,960	-	7,774
Cash and cash equivalents as restated	(558,762)	1,759,637	(351,239)	859,543

The accounting policies and notes on pages 78 to 104 form an integral part of these financial statements.

Figures in brackets indicate deductions.

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 the 29th May 2006.

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

1.2.3 Goodwill

Goodwill 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.

In accordance with the revised SLAS 25 – Business combination (Revised 2004) the company will discontinue amortising such goodwill in future and test for impairment. Any negative goodwill arising on future acquisitions will be recognized immediately to the income statement. Carrying amount of goodwill or negative goodwill at the beginning of next financial year will be dealt with as per the transitional provision recommended in the SLAS 25 (revised 2004)

1.2.4 Associates

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

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

1.2.5 Joint Ventures

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

1.2.6 Reporting Date

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

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 while 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 and 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 and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Land is re-valued 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 and 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
Plant & Machinery	10 - 20 years
Power Generation Plants	10 - 20 years
Equipment	04 - 05 years
Motor Vehicles	04 - 10 years
Furniture & Fittings	10 years
Computer Equipment	3-5 years
Crockery, Cutlery & Glassware	3-5 years
Vessels	35 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 stated 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 stated 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 paragraph 1.2.4 above. In the parent company's financial statements, the investments are stated at cost.

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

2.3 Investment Properties

Investments in land and buildings that are held to earn rentals or for capital appreciation or for both are treated as investment properties. The net book value of such properties previously classified under property, plant and equipment have been reclassified under investment property to be accounted on the cost model. However, if there is impairment in value, other than of a temporary nature, the carrying amount is reduced to recognise the decline.

2.3.1 Depreciation

No depreciation is provided on land treated as investment property depreciation of other investment property of the Group is provided for on a consistent basis, over the period appropriate to the estimated useful lives of the assets on a straight-line method.

Leasehold Premises	Over the periods of the leases
Buildings	Over 20 - 50 years

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

2.4 Inventories

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

2.5 Debtors

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

2.6 Cash and Cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits with banks, short-term liquid money market investments, bank overdrafts and short-term borrowings repayable on demand are included as components of cash and 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 and 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. Tax effect of timing differences that results in a deferred tax debit are not carried forward unless there is reasonable expectation of realisation.

In accordance with SLAS 14 – Income Taxes (Revised 2005) the company will compute temporary differences and identify taxable and deductible temporary differences for the next period.

5 Income Statement

5.1 Revenue

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

5.2 Profit

The profit earned by the Group before taxation as shown in the consolidated income statement is after making provision for bad and doubtful debts, all known liabilities and depreciation of property, plant & equipment except as referred to under paragraph 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 according to the nature of the product or service provided.

6.2 Geographical Segment

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

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

6.4 Segment information analysed by industry and geographical segments is disclosed in notes to the accounts 1 & 19 on pages 82 and 96.

7 Cash Flow

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

8 Commitments and Contingencies

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

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

9 Retirement Benefits

9.1 Defined Benefit Plan - Retiring Gratuity

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

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

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

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

9.2 Defined Contribution Plan

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

The group contributes 12% - 15% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

10 Events Occurring After The Balance Sheet Date

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

1. Segment Analysis of Group Revenue and Profit

1.1 Business Segment

a. Revenue

	Total Revenue Generated		Inter-Segmental Revenue		Intra-Segmental Revenue		Revenue from External Customers	
	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000
Tourism sector	3,778,268	4,156,625	13,773	16,534	261,115	211,512	3,503,380	3,928,579
Cargo logistics sector	2,374,688	2,110,754	256,370	105,032	118,997	134,608	1,999,321	1,871,114
Strategic investments	8,277,993	4,502,501	140,396	184,802	47,035	53,403	8,090,562	4,264,296
Total revenue	14,430,949	10,769,880	410,539	306,368	427,147	399,523	13,593,263	10,063,989

b. Profit

	Profit from Operations		Profit from Ordinary Activities		Non Cash Expenses		Income Tax	
	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000
Tourism sector*	319,482	453,224	322,930	447,077	28,733	9,602	74,231	57,608
Cargo logistics sector*	314,782	281,491	330,745	290,616	21,636	18,152	69,027	68,399
Strategic investments*	1,985,183	1,654,865	1,662,832	1,508,723	14,604	5,935	56,129	23,019
	2,619,447	2,389,580	2,316,507	2,246,416	64,973	33,689	199,387	149,026
Amortisation of (goodwill)/ negative goodwill	(9,185)	(5,992)	(9,185)	(5,992)	-	-	-	-
Inter-company dividends	(386,930)	(506,770)	(385,764)	(506,770)	-	-	12,719	26,104
	2,223,332	1,876,818	1,921,558	1,733,654	64,973	33,689	212,106	175,130

* Includes Associate Companies.

1.2 Geographical Segment

	Total Revenue		Profit on Ordinary Activities	
	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000
Sri Lanka	12,155,833	8,659,553	1,477,251	1,375,468
South Asia (Maldives & Bangladesh)	2,275,116	2,110,327	444,307	358,186
	14,430,949	10,769,880	1,921,558	1,733,654

2 Other Operating Income

	Group		Company	
	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000
Profit/(loss) on sale of property, plant & equipment	16,265	14,354	(4,748)	3,643
Profit on sale of investments	118,411	200,538	115,238	237,459
Dividend (net) from investments	12,668	3,993	396,911	533,841
Amortisation of surplus on acquisition	2,739	2,278	-	-
Provision for fall in value of investments	589	(275)	-	-
Foreign exchange profit	22,530	44,799	7,774	9,343
Insurance received	231,933	30,435	-	-
Compensation received	37,787	-	-	-
Effect of restructuring of subsidiaries	44,750	-	44,750	-
Sundry income	5,520	5,071	323	-
	493,192	301,193	560,248	784,286

3 Other Operating Expenses - Direct

Direct o□
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portion of the total operating costs.

4 Profit from Operations before Interest

Profit from operations stated in the profit and loss accounts is computed after charging the following:

	Group		Company	
	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000
Cost of inventories and services	9,429,250	6,522,568	75,144	40,338
Directors' emoluments	123,126	111,514	10,265	10,581
Auditors' remuneration	5,760	4,858	494	457
Fees paid to auditors for non-audit services				
- KPMG Ford, Rhodes, Thornton & Co.	209	1,724	136	531
- Other auditors	845	1,563	-	-
Depreciation	641,464	451,603	15,219	19,113
Amortisation	11,924	8,271	-	-
Provision for bad and doubtful debts	31,064	3,845	-	-
Defined contribution plan cost - EPF & ETF	88,452	81,881	7,833	8,921
Defined benefit plan cost - Gratuity	33,922	29,931	4,026	3,696

5 Finance Cost

	Group		Company	
	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000
Interest on long-term borrowings	362,794	253,789	121,988	36,137
Interest on short-term borrowings	53,592	26,861	46,112	109,675
Bank charges	21,250	15,712	689	512
Finance charges on leases	91	2,172	-	-
	437,727	298,534	168,789	146,324

Borrowing costs capitalised on qualifying assets during the financial year 2005/2006 was Rs. 42,127,558/- (2004/05 - Rs. 50,529,283/-). There were no borrowing costs capitalised by the company during the financial years 2005/2006 & 2004/2005.

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

	Group	
	2005/2006 Rs. '000	2004/2005 Rs. '000
M.P.S. Hotels Ltd.	(31)	1,762
Browns Beach Hotels Ltd.	2,795	(2,131)
Aventis Pharma Ltd.	11,082	6,318
Aitken Spence Plantation Managements (Pvt) Ltd. (consolidated with Elpitiya Plantations Ltd.)	(5,994)	23,239
Hayleys Plantation Services Ltd. (consolidated with Talawakelle Plantations Ltd.)	16,478	31,604
Ceyspence (Pvt) Ltd.	26,091	1,596
Ceyserv Lines (Pvt) Ltd.	13,524	7,398
Ceyfirst Shipping (Pvt) Ltd.	732	(2,560)
	64,677	67,226

7 Taxation

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 Tourism Sector

- 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.

- The profits of Kandalama Hotels Ltd., are exempt from income tax for a period of 10 years from the year 1997/1998 being the year in which the Company commenced to make profit, in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.

- The profits of Neptune Ayurvedic (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.

- The profits of the Aitken Spence Hotels (International) Ltd., and Ace Ayurvedic (Pvt) Ltd., are exempt from income tax in terms of Section 15 of the Inland Revenue Amendment Act No.8 of 2001.

- The profits and income of Aitken Spence Travels Ltd., Ace Travels & Conventions (Pvt) Ltd., Aitken Spence Hotels Ltd., Aitken Spence Hotel Holdings Ltd. and Aitken Spence Hotel Managements (Pvt) 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.

- The profits of B.I.R Hotel Management (Pvt) Ltd., Jetan Travel Services Company (Pvt) Ltd., Cowrie Investment (Pvt) Ltd., Crest Star Ltd., Crest Star (BVI) Ltd., being non-resident companies in Sri Lanka and not deriving income from Sri Lanka, are out of scope of income taxation in Sri Lanka.

7.2 Cargo Logistics sector

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

- The profits and income of GAC Marine Services (Private) Limited are liable to tax at a concessionary rate of 15% as per the agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No. 4 of 1978.

- The profits of Ace Bangladesh Ltd., are liable to income tax at 37.5% in Bangladesh.

- The profits and income of Ceycapital Shipping (Pvt) Ltd., and Ceyaki Shipping (Pvt) Ltd., are exempt from income tax for a period of five years, in terms of agreements concluded with the Board of Investment of Sri Lanka under section 17 of the BOI Law No. 4 of 1978.

7.3 Strategic Investments

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

- 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.

- 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.

- The profits and income of Ace Power Generation Matara Ltd., are exempt from income tax for a period of 10 years from the year of assessment 2002/2003 in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.

- The profits and income of Ace Power Generation Horana (Pvt) Ltd., are exempt from income tax for a period of 10 years from the year of assessment 2002/2003 in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.

- The profits and income of Ace Power Embilipitiya (Pvt) Ltd., are exempt from income tax for a period of 10 years from the year of assessment 2005/2006 in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.

- The profits and income of Aitken Spence GTECH (Pvt) Ltd. are exempt from income tax for a period of 3 years in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978.

- Vauxhall Property Developments Ltd., has completed its tax exempt period and as per the agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No.4 of 1978 the company is liable to income tax at a tax rate of 2% of turnover.

7.4 Associate Companies

- The relevant profits and income of Aitken Spence Plantation Managements (Pvt) Ltd. and Hayleys Plantation Services Ltd., being companies providing management services to agricultural undertakings are liable to tax at a concessionary rate of 15% in terms of Section 40 of the Inland Revenue Act No.38 of 2000.

- The relevant profits and income of Elpitiya Plantations Ltd. and Talawakelle Plantations Ltd. being agricultural undertakings are exempt from income tax for a period of 5 years commencing from the year of assessment 2005/2006, in terms of Section 17 A of the Inland Revenue (Amendment) Act No 8 of 2005.

- The profits and income of Ceyfirst Shipping (Pvt) Ltd., Ceyspence (Pvt) Ltd. and 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.

- The profit and income of Browns Beach Hotels Ltd. and MPS Hotels Ltd., being companies involved in the promotion of tourism are liable to tax at a concessionary rate of 15%, in terms of Section 40 of the Inland Revenue Act No.38 of 2000.

7.5 All subsidiaries and associate companies whose taxable income is less than Rs. 5 Mn 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 Mn, the same is liable to tax at 30%, and all other non-quoted companies and associate companies of the Group are liable to tax at 32.5%. This rate includes a 2.5% contribution to the Human Resource Endowment Fund.

7.6 □
of 2005 has been accounted and provided for in the income tax provision.

7.7 The companies in the Group have losses amounting to Rs. 280.2 Mn which are available to be set off against the future tax profits of those companies

7.8 Provision for Taxation

	Group		Company	
	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000
Taxation on current year profits	126,655	132,650	20,750	2,500
Under/(over) provision in previous years	-	(22,369)	-	-
Associate companies	11,444	12,531	-	-
Tax on dividends	55,719	55,104	-	-
Deferred taxation	18,288	(2,786)	(1,562)	(3,963)
	212,106	175,130	19,188	(1,463)

7.9 Reconciliation of the Accounting Profit and the Income Tax Expense

	Group		Company	
	2005/2006 Rs. '000	2004/2005 Rs. '000	2005/2006 Rs. '000	2004/2005 Rs. '000
Profit from operations after interest	1,856,881	1,666,428	546,749	761,590
Consolidation adjustments	9,185	5,993	-	-
Profit from operations after adjustments	1,866,066	1,672,421	546,749	761,590
Profit exempt from tax	(1,352,630)	(1,363,947)	(512,148)	(771,300)
Profits liable for income tax	513,436	308,474	34,601	(9,710)
Disallowable expenses for taxation	397,740	409,995	66,762	46,080
Tax deductible expenses for taxation	(484,174)	(251,259)	(32,197)	(28,037)
Current year losses not utilised	7,255	71,150	-	-
Non current losses utilised in the year	(33,488)	(20,036)	-	-
Taxable profit	400,769	518,324	69,166	8,333
Taxed at 15%	18,812	30,538	-	-
Taxed at 30% and 32.5%	102,153	92,296	20,750	2,500
Taxed at other rates	5,690	9,661	-	-
Tax on inter-company dividends	55,719	55,104	-	-
Tax on foreign subsidiaries	-	155	-	-
Deferred tax charge	18,288	(2,786)	(1,562)	(3,963)
	200,662	184,968	19,188	(1,463)
Under/(Over) provisions in previous years	-	(22,369)	-	-
Associate Companies	11,444	12,531	-	-
	212,106	175,130	19,188	(1,463)

8 Earnings per Ordinary Share

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	
	2005/2006	2004/2005	2005/2006	2004/2005
Profit attributable to shareholders (Rs.)	1,211,283,941	1,116,776,456	527,561,101	763,053,042
Weighted average number of shares outstanding during the year	27,061,329	27,026,827	27,061,329	27,026,827
Earnings per share (Rs.)	44.76	41.32	19.50	28.23

As there are no options out standing at year end diluted earnings per share is equal to the earnings per share for the year.

9 Dividends

	2005/2006 Rs. '000	2004/2005 Rs. '000
30% interim ordinary dividend declared (2004/2005 -25%) (paid on 21st April 2006)	81,199	67,642
35% final ordinary dividend recommended (2004/2005 -35%)	94,732	94,711
	175,931	162,353

Directors have recommended a 35% final dividend payment for the year ended 31st March 2006. (2004/05 - 35%), to be approved at the Annual General Meeting on the 29th June 2006.

Ent□
the shareholders.

10 Property, Plant & Equipment

10.1 Group

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Plant, Machinery & Equipments Rs. '000	Motor Vehicles Rs. '000	Furniture & Fittings Rs. '000	Leased Assets Rs. '000	Vessels Rs. '000	Capital Work-in-Progress Rs. '000	Total Rs. '000
Cost or Valuation									
Balance as at 01.04.2005	1,528,186	3,962,609	4,365,309	512,808	424,240	60,225	17,199	2,526,249	13,396,825
Companies acquired during the year	-	3,559	292,594	33	980	-	-	2,504,671	2,801,837
Companies disposed during the year	-	(67)	(1,430)	(4,777)	(545)	-	-	-	(6,819)
Exchange difference	-	66,181	12,906	1,337	7,199	-	-	-	87,623
Additions	25,128	969,514	555,959	29,628	290,064	3,634	263,513	308,750	2,446,190
Transfers	-	367,594	4,848,798	1,152	(1,819)	(37,085)	-	(5,178,640)	-
Write offs	-	(126,916)	(4,304)	-	-	-	-	-	(131,220)
Disposals	-	(15,795)	(7,583)	(33,949)	(9,405)	(12,240)	-	-	(78,972)
Balance as at 31.03.2006	1,553,314	5,226,679	10,062,249	506,232	710,714	14,534	280,712	161,030	18,515,464
Accumulated Depreciation									
Balance as at 01.04.2005	-	676,428	1,175,629	219,060	246,001	56,425	14,855	2,514	2,390,912
Companies acquired during the year	-	1,447	104,021	8	84	-	-	-	105,560
Companies disposed during the year	-	(42)	(1,062)	(2,825)	(455)	-	-	-	(4,384)
Exchange difference	-	10,251	6,953	1,130	4,335	-	-	-	22,669
Charge for the year	-	117,262	432,085	46,626	42,210	99	2,344	838	641,464
Transfers	-	-	36,195	1,195	(6)	(37,384)	-	-	-
Write offs	-	(36,126)	(887)	-	1,222	-	-	-	(35,791)
Disposals	-	(6,193)	(6,537)	(21,118)	(9,145)	(12,240)	-	-	(55,233)
Balance as at 31.03.2006	-	763,027	1,746,397	244,076	284,246	6,900	17,199	3,352	3,065,197
Written Down Value as at 31.03.2006	1,553,314	4,463,652	8,315,852	262,156	426,468	7,634	263,513	157,678	15,450,267
Written Down Value as at 31.03.2005	1,528,186	3,286,181	3,189,680	293,748	178,239	3,800	2,344	2,523,735	11,005,913

Assets pledged as securities against liabilities are disclosed under note 22.5

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 Rs. '000	Freehold Buildings Rs. '000	Plant, Machinery & Equipment Rs. '000	Motor Vehicles Rs. '000	Furniture & Fittings Rs. '000	Total Rs. '000
Cost or Valuation						
Balance as at 01.04.2005	568,596	191,353	94,145	5,977	22,800	882,871
Transferred to investment property *	(568,596)	(179,142)	-	-	-	(747,738)
Additions	-	-	25,277	-	37	25,314
Disposals	-	(12,211)	(855)	-	(50)	(13,116)
Balance as at 31.03.2006	-	-	118,567	5,977	22,787	147,331
Accumulated Depreciation						
Balance as at 01.04.2005	-	56,567	71,786	1,494	17,318	147,165
Transferred to investment property*	-	(51,090)	-	-	-	(51,090)
Charge for the year	-	-	7,725	1,494	1,349	10,568
Disposals	-	(5,477)	(786)	-	(12)	(6,275)
Balance as at 31.03.2006	-	-	78,725	2,988	18,655	100,368
Written Down Value as at 31.03.2006	-	-	39,842	2,989	4,132	46,963
Written Down Value as at 31.03.2005	568,596	134,786	22,359	4,483	5,482	735,706

* Pursuant to the adoption of SLAS 40 - Investment Property, Land & Building that are held by the company and rented to its subsidiaries have been transferred to Investment Property

10.3 Details of Land Revaluation

Company	Location	Last Revaluation Date	WDV as at 31.03.2006 Rs. '000	Revaluation Surplus Rs. '000	Carrying Amount at Cost 31.03.2006 Rs. '000
Aitken Spence & Co., Ltd.	315, Vauxhall Street, Colombo 02	31.03.2004	160,000	158,843	1,157
Aitken Spence & Co., Ltd.	316, K. Cyril C. Perera Mw., Colombo 13	31.03.2004	76,379	71,388	4,991
Aitken Spence & Co., Ltd.	170, Sri Wickrema Mw., Colombo 02	31.03.2004	87,760	44,799	42,961
Aitken Spence & Co., Ltd.	Neptune Hotel, Moragalla, Beruwala	29.09.2003	244,458	243,504	954
Aitken Spence Hotel Holdings Ltd.	"Heritance Ahungalla", Galle Road, 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, Beruwala	31.03.2004	121,640	110,560	11,080
			1,477,501	1,177,668	299,833

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

11 Intangible Assets
Goodwill on consolidation

	Group 31.03.2006 Rs. '000	Group 31.03.2005 Rs. '000
Balance brought forward	206,588	120,276
Goodwill on acquisitions of subsidiaries	33,677	86,312
Balance carried forward	240,265	206,588
Accumulated amortisation		
Balance brought forward	(36,530)	(28,259)
Amortisation during the year	(11,924)	(8,271)
Balance carried forward	(48,454)	(36,530)
Total Intangible Assets	191,811	170,058

□
of twenty years in accordance with the Sri Lanka Accounting Standard 25 - Business Combinations, since in the opinion of the Directors the future economic benefits arising from the investments are expected to flow to the Group over a period of more than twenty ye□
Goodwill is amortised over the agreed project life

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 %	31.03.2006 Rs. '000	31.03.2005 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
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.	21,523,362	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	231,547
Ace Power Embilipitiya (Pvt) Ltd. ***	124,033,413	74.0	74.0	1,404,415	-
Aitken Spence Property Developments Ltd.	74,865,000	90.0	100.0	748,650	-
Ace Freight Logistics (Pvt) Ltd.	10,000	100.0	100.0	100	-
Ace International Express (Pvt) Ltd.	10,000	100.0	100.0	100	100
Pearl Beach Hotels Ltd.*	1	-	72.7	-	-
Ahungalla Resorts Ltd.*	1	-	74.4	-	-
Ace Haulage (Pvt) Ltd.*	-	-	100.0	-	-
Aitken Spence Hotels Ltd.*	-	-	72.7	-	-
Aset Airways Ltd.*	-	-	100.0	-	-
BIR Hotel Management Pvt Ltd.*	-	-	70.7	-	-
Jetan Travel Services Company (Pvt) Ltd.*	-	-	70.7	-	-
Hethersett Hotels Ltd.*	-	-	37.4	-	-
Crest Star Ltd.*	-	-	74.4	-	-
Crest Star (BVI) Ltd.*	-	-	74.4	-	-
Cowrie Investments (Pvt) Ltd.*	-	-	44.6	-	-
Ace Ayurvedic (Pvt) Ltd.*	-	-	74.4	-	-
Neptune Ayurvedic (Pvt) Ltd.*	-	-	74.4	-	-

*** Ace Power Embilipitiya (Pvt) Ltd. was a joint venture company till January 2006

12.1 Investments in Subsidiaries - Unquoted Contd.

	Number of shares	Company Holding %	Group Holding %	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Joint Ventures					
Aitken Spence Travels Ltd.	2,445,211	71.8	71.8	87,351	91,308
Aitken Spence GTECH (Pvt) Ltd.	16,830,000	50.0	50.0	168,300	168,300
Ace Power Embilipitiya (Pvt) Ltd.***	-	-	-	-	838,064
Aitken Spence (Garments) Ltd.	998,750	50.0	50.0	26,257	26,257
Vauxhall Shipping (Pvt) Ltd.	12,250	49.0	49.0	150	150
SpenceMac Holdings (Pvt) Ltd.	5,000,000	50.0	50.0	50,000	50,000
Aitken Spence Shipping Ltd.*	-	-	50.0	-	-
Clark Spence Garments Ltd.*	-	-	50.0	-	-
Ace Travels & Conventions (Pvt) Ltd.*	-	-	71.8	-	-
Aitken Spence Overseas Travel Services (Pvt) Ltd.*	-	-	71.8	-	-
Shipping & Cargo Logistics (Pvt) Ltd.*	-	-	25.0	-	-
Ultimate Freight Services (Pvt) Ltd.*	-	-	50.0	-	-
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	-	-
Ceyaki Shipping (Pvt) Ltd.*	-	-	25.0	-	-
Ceycapital Shipping (Pvt) Ltd.*	-	-	27.5	-	-
Spence Mac Bangladesh (Pvt) Ltd.*	-	-	25.0	-	-
Spence Logistics (Pvt) Ltd.*	-	-	50.0	-	-
	-	-	-	3,758,842	2,447,698
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	-	-
	-	-		360,000	360,000
	-	-		4,118,842	2,807,698

12.2 Investment in Subsidiaries - Quoted

	Number of shares	Company Holding %	Group Holding %	31.03.2006 Rs. '000	31.03.2005 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				2,278,397	2,661,550

* Inves□
Trav□
Ltd., Aitken Spence Shipping Ltd., or Aset Ltd.

** □
in th□
Hongkong and Ace Bangladesh Ltd. and Spence Mac Bangladesh (Pvt) Ltd., are 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 of companies incorporated in Sri Lanka is Rs. 10.

13 Investment in Associate Companies

13.1 Investment in Associate Companies - Unquoted

	Group				Company			
	No. of Shares	Holding %	31.03.2006 Rs. '000	31.03.2005 Rs. '000	No. of Shares	Holding %	31.03.2006 Rs. '000	31.03.2005 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	57,237	5,723,712	40.0	57,237	57,237
Ceyfirst Shipping (Pvt) Ltd.								
(Ordinary Shares of Rs.10/- each)								
(Associate of Spence Mac Holdings (Pvt) Ltd.)	-	20.0	9,412	9,412	-	-	-	-
Ceyserv Lines (Pvt) Ltd.								
(Ordinary Shares of Rs.10/- each)								
(Associate of Spence Mac Holdings (Pvt) Ltd.)	-	12.5	15,000	15,000	-	-	-	-
Net Book Value as at 31st March	-	-	455,765	455,765	-	-	398,441	398,441
Share of movement in equity value	-	-	176,085	161,028	-	-	-	-
Equity value of investments	-	-	631,850	616,793	-	-	-	-

13.2 Investment in Associate Companies - Quoted

	Group				Company			
	No. of Shares	**Holding %**	**31.03.2006 Rs. '000**	**31.03.2005 Rs. '000**	**No. of Shares**	**Holding**	**31.03.2006 Rs. '000**	**31.03.2005 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	-	-	(9,286)	(12,090)	-	-	-	-
Equity value of investments	-	-	58,524	55,720	-	-	-	-
Market value of quoted investments as at 31st March	-	-	98,750	78,858	-	-	-	-
Equity value - unquoted	-	-	631,850	616,793	Net book value -Unquoted		398,441	398,441
Equity value - quoted	-	-	58,524	55,720	Net Book Value -quoted		-	-
Equity value as at 31st March	-	-	690,374	672,513	**Net book value as at 31st March**		398,441	398,441

14 Long-term investments

	Group			Company		
	No. of Shares	**31.03.2006 Rs. '000**	**31.03.2005 Rs. '000**	**No. of Shares**	**31.03.2006 Rs. '000**	**31.03.2005 Rs. '000**
Sumiko Lanka Hotels (Pvt) Ltd. (Preference Shares of Rs 10/- each)	7,500,000	75,000	75,000	7,500,000	75,000	75,000
Sumiko Lanka Hotels (Pvt) Ltd. (Secured Redeemable Debentures of Rs.100/- each)	1,016,000	101,600	115,000	1,016,000	101,600	115,000
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	30,250,000	-	302,803
Rainforest Ecolodge (Pvt) Ltd. (advance against investment)	2,500,000	25,000	25,000	2,500,000	25,000	25,000
Hotel Training Institute (Pte) Ltd. (Ordinary Shares of Rs 10/- each)	1,000	10	10	-	-	-
Cargo Village Ltd. (Ordinary Shares of Rs 10/- each)	38,571	357	357	-	-	-
Wilkin Spence Packaging Lanka (Pvt) Ltd. (Ordinary Shares of Rs 10/- each)	125,000	1,250	1,875	-	-	-
Ingrin Institute of Printing & Graphics Sri Lanka Ltd. (Ordinary Shares of Rs 10/- each)	10,000	100	100	-	-	-
Skynet Worldwide Express Management Company Ltd. (Ordinary Shares of $ 1/- each)	1,000	99	-	-	-	-
		213,484	530,213		205,130	521,333
Provision for fall in value of investments	-	(250)	(250)	-	-	-
Net Book Value as at 31st March	-	213,234	529,963	-	205,130	521,333

** Holding Company of Sri Lanka Insurance Corporation Ltd.

15 Investment Property

15.1 Movement during the year

	Group		Company	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Cost or Valuation				
Balance as at 01.04.2005	28,936	28,936	28,936	28,936
Transferred from property, plant & equipment	-	-	747,738	-
Balance as at 31.03.2006	28,936	28,936	776,674	28,936
Accumulated Depreciation				
Transferred from property, plant & equipment	-	-	(51,090)	-
Charge for the year	-	-	(4,651)	-
Balance as at 31.03.2006	-	-	(55,741)	-
Written Down Value as at 31.03.2006	28,936	28,936	720,933	28,936

15.2 Market Value

Investment properties in the Group are accounted on the cost model. The open market value of the above property based on a valuation carried out by an independent qualified valuer as at 31st March 2004 is as follows,

	Group		Company	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Freehold land & building	28,936	28,936	877,400	28,936
	28,936	28,936	877,400	28,936

15.3 Income earned from investment property

Total rent income earned by the company from the investment property is Rs. 38,439,767/- (Group -nil). There were no direct operating expenses arising from any of the above investment properties.

15.4 In accordance with the transitional provision of SLAS 40 - Investment Property, Rs. 518 Mn of revaluation surplus has been reclassified in the opening balance of reserves for the year.

16 Inventories

	Group		Company	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Raw materials	406,794	207,047	-	-
Work-in-progress & finished goods	79,199	49,162	-	-
Consumables	206,147	104,281	983	1,369
Land	2,599	2,599	-	-
	694,739	363,089	983	1,369

Value of inventories pledged as security for facilities obtained from banks amounted to Rs. 404,685,917/- (2004/05 - Rs. 161,450,733/-) Company - Nil.

17 Trade and Other Receivables

	Group		Company	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Trade debtors	3,972,034	1,759,990	-	-
Other debtors	551,482	249,830	78,213	64,326
Provision for bad debts	(87,531)	(68,001)	(5,496)	(5,496)
	4,435,985	1,941,819	72,717	58,830
Loans to employees	12,214	12,738	10,495	11,854
	4,448,199	1,954,557	83,212	70,684

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

	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Loans as at 1st April	10,600	13,917
Loans granted during the year	3,675	3,250
	14,275	17,167
Rocoveries during the year	(3,780)	(6,567)
Loans as at 31st March	10,495	10,600

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

18 Current Investments

	Group			Company		
	No. of Shares	31.03.2006 Rs. '000	31.03.2005 Rs. '000	No. of Shares	31.03.2006 Rs. '000	31.03.2005 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)	5,505	110	110	5,505	110	110
Overseas Realty (Ceylon) Ltd. (Ordinary shares of Rs 10/- each)	3,750	37	37	3,750	37	37
Colombo Dockyard Ltd. (Ordinary shares of Rs 10/- each)	5,850	59	59	-	-	-
Hatton National Bank Ltd. (Non-voting ordinary shares of Rs 10/- each)	63,800	4,060	4,060	-	-	-
		4,268	4,268		149	149
Provision for fall in value of investments		-	(598)		(10)	(10)
Net Book value as at 31st March		4,268	3,670		139	139
Market Value as at 31st March		4,975	3,670		1,314	1,019

19 Segmental Information

a. Business Segment

	Total Assets		Total Liabilities	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Tourism sector	7,200,485	5,053,525	2,611,133	1,580,310
Cargo logistics sector	1,886,848	1,584,652	714,125	404,087
Strategic investments	13,927,550	10,298,490	8,558,801	5,750,405
	23,014,883	16,936,667	11,884,059	7,734,802
Goodwill on consolidation/deferrred income	191,811	170,058	36,678	30,643
	23,206,694	17,106,725	11,920,737	7,765,445

	Addition to Property, Plant & Equipment		Depreciation & Amortisation	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Tourism sector	1,787,164	144,104	202,781	211,536
Cargo logistics sector	334,694	244,570	65,691	33,585
Strategic investments	324,332	2,539,241	384,916	214,753
	2,446,190	2,927,915	653,388	459,874

b. Geographical Segment

	Total Assets		Total Liabilities	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Sri Lanka	19,502,933	14,037,404	10,543,066	6,967,509
South Asia (Maldives & Bangladesh)	3,511,950	2,899,263	1,340,993	767,293
	23,014,883	16,936,667	11,884,059	7,734,802
Goodwill on consolidation/deferred income	191,811	170,058	36,678	30,643
	23,206,694	17,106,725	11,920,737	7,765,445

	Addition to Property, Plant & Equipment		Depreciation & Amortisation	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Sri Lanka	2,055,621	2,879,100	526,955	339,033
South Asia (Maldives & Bangladesh)	390,569	48,815	126,433	120,841
	2,446,190	2,927,915	653,388	459,874

20 Share Capital & Reserves

20.1 Share Capital

	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Authorised		
75,000,000 ordinary shares of Rs.10/- each	750,000	750,000
Issued & fully paid		
As at 1st April		
27,056,903 ordinary shares at Rs. 10/- each (2004/05- 26,994,903)	270,569	269,949
Issued during the year		
9,500 ordinary shares at Rs. 10/- each (2004/05- 62,000)	95	620
As at 31st March		
27,066,403 ordinary shares at Rs. 10/- each (2004/05- 27,056,903)	270,664	270,569

The shares were issued pursuant to the stock option scheme disclosed in Note 31 to the financial statements.

□
individual present at meetings of the shareholders or one vote per share in case of a poll.

20.2 Reserves

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

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

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

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

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

21 Deferred Income

Negative Goodwill on consolidation

	Group	
	31.03.2006 Rs. '000	**31.03.2005 Rs. '000**
Balance brought forward	46,183	44,967
Surplus on acquisitions and change in percentage holding in subsidiaries	8,774	1,216
Balance carried forward	54,957	46,183
Accumulated amortisation		
Balance brought forward	(15,540)	(13,262)
Amortisation during the year	(2,739)	(2,278)
Balance carried forward	(18,279)	(15,540)
Net balance	36,678	30,643

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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.

22 Interest-Bearing Liabilities

22.1 Analysed by Lending Institution

	Group		Company	
	31.03.2006 Rs. '000	**31.03.2005 Rs. '000**	**31.03.2006 Rs. '000**	**31.03.2005 Rs. '000**
Hatton National Bank Ltd.	1,241,221	935,140	-	-
Commercial Bank of Ceylon Ltd.	649,252	528,257	-	-
People's Bank	1,091,391	647,459	-	-
Hongkong & Shanghai Banking Corporation Ltd.	399,777	175,212	-	-
Bank of Ceylon	1,150,351	608,621	-	-
DFCC Bank	912,427	256,679	-	-
Sri Lanka Insurance Corporation Ltd.	492,960	292,814	80,000	100,000
Seylan Bank Ltd.	206,480	96,325	-	-
Pan Asia Bank Ltd.	54,077	71,251	-	-
Standard Chartered Bank	9,704	12,571	-	-
National Development Bank of Sri Lanka	431,853	501,221	400,000	500,000
National Savings Bank	160,000	200,000	160,000	200,000
Waldock Mackenzie Ltd.	160,000	200,000	160,000	200,000
Central Finance Co., Ltd.	7,009	92	-	-
Quoted Debentures	352,500	352,500	200,000	200,000
Advances from tour operators	26,843	74,565	-	-
	7,345,845	4,952,707	1,000,000	1,200,000
Current portion of interest-bearing liabilities	(1,921,261)	(745,903)	(400,000)	(200,000)
Non-current interest-bearing liabilities	5,424,584	4,206,804	600,000	1,000,000

22.2 Analysed by Repayment Period

	Group		Company	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Payable within one year	1,921,261	745,903	400,000	200,000
Payable between one and two years	1,642,288	866,652	200,000	400,000
Payable between two and five years	3,415,389	1,463,560	400,000	600,000
Payable after five years	366,907	1,876,592	-	-
	7,345,845	4,952,707	1,000,000	1,200,000

22.3 Analysed by Currency Equivalent in Rupees

	Group				Company	
	31.03.2006 Rs. Equivalent Rs. '000	%	31.03.2005 Rs. Equivalent Rs. '000	%	31.03.2006 Rs. Equivalent Rs. '000	31.03.2005 Rs. Equivalent Rs. '000
United States Dollars	5,655,017	77	3,535,027	71	-	-
Sri Lankan Rupees	1,690,828	23	1,417,680	29	1,000,000	1,200,000
	7,345,845	100	4,952,707	100	1,000,000	1,200,000

22.4 Movement of Interest-Bearing Liabilities

	Group		Company	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Total outstanding as at 01st April	4,952,706	3,103,665	1,200,000	400,000
Exchange difference	171,761	87,533	-	-
Loans received during the year	3,050,518	2,640,966	-	1,000,000
	8,174,985	5,832,164	1,200,000	1,400,000
Loan repayments during the year	(829,140)	(879,457)	(200,000)	(200,000)
	7,345,845	4,952,707	1,000,000	1,200,000
Current portion of interest-bearing liabilities	(1,921,261)	(745,903)	(400,000)	(200,000)
Non-current interest-bearing liabilities	5,424,584	4,206,804	600,000	1,000,000

22.5 Interest-Bearing Liabilities

Loans

Company	Lender / Rate of Interest (p.a.)	31.03.2006 Rs. '000	31.03.2005 Rs. '000	Repayment	Security
Aitken Spence & Co., Ltd.	Listed debentures [Rated AA (Sri)]				
	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%	160,000	200,000	Repaid over 5 years in equal instalments commencing June 2005	
	Sri Lanka Insurance Corporation Ltd. 6 Month Net TB + 2.15%	80,000	100,000	-do-	-
	Waldock Mackenzie Ltd. 6 Month Net TB + 2.15%	160,000	200,000	-do-	-
	National Development Bank of Sri Lanka 10.96%	400,000	500,000	-do-	-
Aitken Spence Printing (Pvt) Ltd.	National Development Bank of Sri Lanka 8.50%	-	92	60 equal monthly instalments from August 2000	-
Ace Exports (Pvt) Ltd.	DFCC Bank 10.50%	145,000	-	84 equal monthly instalments from January 2007	Promissory note from Ace Exports (Pvt) Ltd.
Aitken Spence (Garments) Ltd.	Standard Chartered Bank 3 month LIBOR + 1.75%	9,703	12,571	20 instalments over 5 years commencing September 2003	Mortgage over land, building and machinery
	Hatton National Bank Ltd. 3 month LIBOR + 2.5%	-	818	13 instalments commencing January 2000	Mortgage over land, building, machinery. Corporate guarantee of Aitken Spence & Co., Ltd.
	Hongkong & Shanghai Banking Corporation Ltd. 3 month SIBOR + 2%	-	299	48 equal monthly instalments from September 2001	Mortgage over land, building, machinery. Corporate guarantee of Aitken Spence & Co., Ltd.
Ace Containers (Pvt) Ltd.	National Development Bank of Sri Lanka 10.50%	31,853	-	60 equal monthly instalments from December 2005	Mortgage bond over equipment
Jetan Travel Services Company (Pvt) Ltd.	Hongkong & Shanghai Banking Corporation Ltd. 3 month LIBOR + 2.25%	267,072	-	60 equal monthly instalments from January 2006	Primary mortgage over Rannalhi Resort Property. Insurance cover for US $ 10 million
Cowrie Investments (Pvt) Ltd.	Hatton National Bank Ltd. 5.00%	166,406	286,330	72 equal monthly instalments from July 1997	Mortgage over leaseholder's rights of the Island
	6 month LIBOR + 1%	346,166	-	60 equal monthly instalments from July 2006	Mortgage over leaseholder's rights of the land
	Advance from tour operators 5%	26,843	74,565	Full settlement in 2006/2007	-
Aitken Spence Hotel Holdings Ltd.	National Development Bank of Sri Lanka 5.00%	-	1,129	60 equal monthly instalments from February 2001	Promissory note from Aitken Spence Hotel Holdings Ltd.
	DFCC Bank 11.00%	-	6,067	60 equal monthly instalments from April 2002	Primary mortgage over equipment and promissory note from Aitken Spence Hotel Holdings Ltd.
	10.50%	300,000	-	66 equal monthly instalments from September 2007	Corporate Guarantee from Aitken Spence & Co., Ltd.
	12.00%	3,467	-	60 equal monthly instalments from August 2002	Promissory note from Aitken Spence Hotel Holdings Ltd. and mortage over the equipment financed.
Cey Capital (Pvt) Ltd.	Hatton National Bank Ltd. 3 month LIBOR + 2.00%	83,660	-	57 equal monthly instalments from October 2005	Primary mortgage over the vessel
Ceyaki Shipping (Pvt) Ltd.	Bank of Ceylon 3 month LIBOR + 2.35%	88,486	-	57 equal monthly instalments from October 2005	Primary mortgage over the vessel and shareholder guarantees
GAC Shipping Ltd.	Central Finance Company Ltd.	3,516	-	57 equal monthly instalments from October 2005	Mortgage over the vessel and a Corporate Guarentee by Gac Marine Services Ltd.

Interest-Bearing Liabilities Contd.
Loans

Company	Lender / Rate of Interest (p.a.)	31.03.2006 Rs. '000	31.03.2005 Rs. '000	Repayment	Security
Ace Power Generation Matara (Pvt) Ltd.	Syndicate 7.7%	127,043	172,813	Quarterly Instalments over 5 years from September 2003	Mortgage bond over immovable assets
	Syndicate 7.7%	431,404	586,830	Quarterly Instalments over 5 years from September 2003	Mortgage bond over movable assets and book debt
	Listed Debenture				
	AWDR + 5.5%	45,000	45,000	March 2007	Same security as above ranking on a pari passu basis
	AWDR + 5.75%	53,500	53,500	March 2008	
	AWDR + 6.25%	54,000	54,000	March 2009	
Ace Power Generation Horana (Pvt) Ltd.	Syndicate 3 month LIBOR + 3%	158,875	203,603	Quarterly Instalments over 5 years from June 2004	Mortgage Bond over immovable assets
	3 month LIBOR + 3%	434,036	556,231	Quarterly Instalments over 5 years from June 2004	Mortgage bond over movable assets and book debt
	Unquoted Debenture				
	DFCC Bank AWDR + 6.00% p.a	51,000	57,800	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%	589,500	285,100	Quarterly Instalments over 5 years from June 2006	Mortgage Bond over immovable assets
	Syndicate 3 month LIBOR + 3%	2,512,862	1,163,053	Quarterly Instalments over 5 years from June 2006	Mortgage bond over movable assets and book debt
	Syndicate 3 month LIBOR + 3%	412,960	192,813	Quarterly Instalments over 5 years from June 2006	Secondary mortgage over movable assets
		7,342,352	4,952,614		
Current portion of interest bearing loans		(1,920,517)	(745,834)		
Non - current interest bearing loans		5,421,835	4,206,780		

Leases

Company	Lessor	31.03.2006 Rs. '000	31.03.2005 Rs. '000	Repayment	Leased Assets
Ace Cargo (Pvt) Ltd.	Central Finance Company Ltd.	24	93	48 equal monthly instalments from August 2002	Motor vehicles
Aitken Spence (Garments) Ltd.	Central Finance Company Ltd.	1,574	-	60 equal monthly instalments from February 2006	Motor vehicles
		1,895	-	60 equal monthly instalments from February 2006	Machinery
		3,493	93		
Current portion of interest bearing loans		(744)	(69)		
Non - current interest bearing loans		2,749	24		
Total non-current interest bearing liabilities		5,424,584	4,206,804		

23 Deferred Taxation

	Group		Company	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
As at 1st April	103,625	106,963	11,059	15,022
Subsidiaries disposed during the year	(51)	(552)	-	-
Transfer from/(to) income statement	18,288	(2,786)	(1,562)	(3,963)
As at 31st March	121,862	103,625	9,497	11,059

24 Retirement Benefit Obligations

	Group		Company	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
As at 1st April	135,736	130,442	14,471	16,236
Subsidiaries acquired during the year	214	2,505	-	-
Subsidiaries disposed during the year	(634)	(9,625)	-	-
Provision for the year	33,922	29,931	4,026	3,696
Payments during the year	(14,582)	(17,517)	(1,164)	(5,461)
As at 31st March	154,656	135,736	17,333	14,471

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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/-)

25 Provisions and Other Payables

	Group		Company	
	31.03.2006 Rs. '000	31.03.2005 Rs. '000	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Accruals and other payables	1,185,271	1,120,452	210,872	254,274
Provisions *	23,339	127,930	-	-
Unclaimed dividends	1,420	1,160	1,420	1,160
	1,210,030	1,249,542	212,292	255,434

* Out of the Rs. 127.9 million provision made during 2004/05 for the reconstruction of damages to hotel buildings caused by the tsunami on 26th December 2004, Rs. 104.6 million was utilised during the year.

26 Joint Ventures

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

	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Income	1,546,296	1,526,601
Expenses	1,565,301	1,307,616
Current assets	503,250	571,982
Non-current assets	694,327	2,982,970
Current liabilities	626,221	674,666
Non-current liabilities	177,798	1,678,426

27 Foreign Currency Translation

The principal exchange rates used for translation purposes were:

	31.03.2006 Rs.	31.03.2005 Rs.
US Dollar	102.71	99.38
Pound Sterling	179.34	186.75
Taka	1.66	1.66
Euro	124.96	128.42

28 Contracts for Capital Expenditure

The following commitments for capital expenditure approved by the Directors as at 31st March 2006 have not been provided for in the accounts:

	31.03.2006 Rs. '000	31.03.2005 Rs. '000
Approximate amount approved but not contracted for	522,748	2,846,348
Approximate amount contracted for but not incurred	1,114,147	31,627
	1,636,895	2,877,975

29 Contingent Liabilities

The contingent liability as at 31.03.2006 on guarantees given by Aitken Spence & Co. Ltd., to third parties amounted to Rs. 530,871, 500/-. Of this sum, Rs. 393,434,000/- and Rs. 137,437,500/- relates to facilities obtained by subsidiaries and joint ventures respectively and none to Associate companies. Liability as at 31.03.2006 on guarantees given by subsidiaries to third parties amounted to Rs. 933,989,600/-. None of the above guarantees were in relation to facilities obtained by companies other than companies within the Group. There were no guarantees given in relation to facilities obtained by Aitken Spence & Co. Ltd.

30 Directors' Fees

The directors of the Company have received fees amounting to Rs 129,600/- from subsidiaries for the year ended 31st March 2006.

31 Employees' Share Option Scheme

The Company as at 31st March 2006 has offered 1,169,800 shares by way of stock options to executives including Executive Directors of the Group companies. As at 31st March 2006, options for 704,903 shares had been exercised, options for 464,897 shares have lapsed. There were no options outstanding as at the Balance Sheet date.

32 Subsidiaries 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., Ace Freight Logistics (Pvt) Ltd., Crest Star (Pvt) Ltd., Crest Star (BVI) Ltd., Ace Bangladesh Ltd., Aset Airways Ltd., Ace Power Generation Horana (Pvt) Ltd., Ace Power Generation Matara (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., and McShips Agencies (Colombo) Ltd., Spence Mac Bangladesh (Pvt) 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., Ceyaki Shipping (Pvt) Ltd., and Cey Capital (Pvt) Ltd.

33 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. 34. Mr. D. H. S. Jayawardena was also a Director of some of the subsidiaries listed in note 12 to the financial statement throughout or part of the financial year.

Mr. J.M.S Brito, Deputy Chairman /Managing Director of the company was either Chairman or 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 DFCC Bank with which companies trading transactions as disclosed in note 34, have taken place.

Dr. R.M. Fernanado, Director of the company, is also a Director of Aitken Spence Plantation Management (Pvt) Ltd. and Elpitiya Plantation Ltd. with which companies transaction as disclosed in note 34 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 34 on Related Party Transactions

34 Related Party Transactions

Name of Related Party	Relationship	Nature of Transaction	Amount Rs. '000	Balance outstanding as at year end Rs. '000
MPS Hotels Ltd.	Associate Company	Payment of management fees to Aitken Spence Hotel Managements (Pvt) Ltd.	1,790	(160)
		Purchase of Hotel Rooms	11,249	(2,147)
		Payment of fees for services provided by Aitken Spence & Co. Ltd.	120	903
Browns Beach Hotels Ltd. *	Associate Company	Payment of management fees to Aitken Spence Hotel Managements (Pvt) Ltd.	3,564	2,965
		Purchase of Hotel Rooms	11,261	(1,955)
		Payment of fees for services provided by Aitken Spence & Co. Ltd.	591	2,583
Aitken Spence Plantation Managements Ltd.	Associate Company	Payment of interest and fees for services provided by Aitken Spence & Co. Ltd.	825	3,516
Elpitiya Plantations Ltd.	Associate Company	Payment of interest and fees for services provided by Aitken Spence & Co. Ltd.	6,846	53,363
Ceyfirst Shipping (Pvt) Ltd.	Associate Company	Provision of short term finance to Ceyfirst Shipping (Pvt) Ltd.	25,111	22,427
Distilleries Company of Sri Lanka Ltd. *	Common Director / Shareholder	Supply of goods to Group hotels	8,338	(326)
		Printing services obtained from the Group	10,505	1,981
		Courier services obtained from the Group	39	
Stassens Exports Ltd. *	Common Director	Supply of goods to Group hotels	141,054	(19,524)
		Purchase of bottled water bottles from the Group	8,365	1,636
		Printing services obtained from the Group	125	-
		Hire of Containers from the Group	5,460	514
		Freight and Courier services obtained from the Group	1,354	342
Stassens International Ltd. *	Common Director	Printing services obtained from the Group	6,519	1,102
Stassens Natural Foods (Pvt) Ltd. *	Common Director	Printing services obtained from the Group	1,876	256
Lanka Milk Foods (CWE) Ltd. *	Common Director	Printing services obtained from the Group	15,160	5,230
		Supply of goods to Group hotels	2,826	(101)
		Courier services obtained from the Group	11	255
Hatton National Bank *	Common Director	Short / long term facilities	2,398,496	2,218,980
		Courier services obtained from the Group	6,795	-
		Printing services obtained from the Group	16,832	2,947
DFCC Bank	Common Director	Long Term Facilities	912,427	(912,427)
		Printing services obtained from the Group	1,271	-
Sri Lanka Insurance Corporation Ltd.*	Common Director	Printing services obtained from the Group	14,865	4,785
		Provision of Insurance services to the Group	172,412	(46,444)
		Long-term borrowings	492,960	(492,960)
		Courier services obtained from the Group	270	29
		Sale of bottled water	29	-
Lanka Bell (Pvt) Ltd.*	Common Director	Printing services obtained from the Group	2,645	-
		Telecommunication services obtained by the Group	2,909	(211)
Sri Lankan Airlines Ltd.*	Common Director	Courier services obtained from the Group	4,463	182

Amounts payable are indicated in brackets.

Related party transactions should be read in conjunction with Note 33 - Directors' interest in contracts.

35 No of employees

The number of employees of the Group as at end of the year was 4209 (2005 - 4209) .The number of employees of the Company at end of the year was 94 (2005 - 99).

36 Events After The Balance Sheet Date

The company redeemed 2,000,000 four year unsecured redeemable debentures on the due date, 4th April 2006. These debentures carried a either a semi-annual fixed interest rate of 15.75% per annum or an annual fixed interest rate of 16.0% per annum. There were no other 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, other than the adoption of new Sri Lanka Accounting Standard No. 40 – Investment Property.

38 Directors' Responsibility

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

| Ten Year Summary

Year ended 31st March	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Operating Results										
Revenue	13,593,263	10,063,989	9,157,160	7,030,843	4,536,324	4,524,020	3,724,595	3,353,175	3,297,559	2,859,435
Profit before taxation	1,921,558	1,733,654	1,888,676	884,070	552,398	654,931	496,958	392,362	236,577	136,963
Taxation	212,106	175,130	189,180	151,654	112,855	106,632	90,723	62,779	46,954	28,675
Profit after taxation	1,709,452	1,558,524	1,699,496	732,416	439,543	548,299	406,235	329,583	189,623	108,288
Profit attributable to Aitken Spence & Co., Ltd.	1,211,284	1,116,776	1,275,523	525,185	346,082	452,720	352,579	279,642	157,192	95,747
Equity & Liabilities										
Share capital	270,664	270,569	269,949	268,158	265,722	265,139	264,962	264,306	145,080	144,950
Reserves	4,234,859	4,169,832	3,899,020	2,819,818	2,640,116	2,632,471	2,606,740	2,616,403	2,103,816	1,813,980
Retained earnings	3,987,792	3,031,818	2,311,365	1,559,551	1,303,856	1,064,503	754,720	496,473	240,734	175,619
Proposed dividend	94,732	94,699	94,482	67,040	-	-	-	-	-	-
Minority interest	2,697,910	1,774,362	1,765,622	1,433,522	1,252,413	1,146,962	477,875	440,673	416,249	400,780
Non-current liabilities	5,737,780	4,476,808	2,504,832	3,439,933	2,517,504	1,088,454	478,078	816,309	1,276,667	899,405
Current liabilities	6,182,957	3,288,637	3,432,392	2,492,515	3,638,465	3,156,661	2,395,046	1,985,640	1,595,497	1,551,734
	23,206,694	17,106,725	14,277,662	12,080,537	11,618,076	9,354,190	6,977,421	6,619,804	5,778,043	4,986,468
Assets										
Property, plant & equipment	15,450,267	11,005,913	8,576,500	7,754,569	6,791,715	4,801,965	3,336,790	3,363,336	3,267,846	2,931,853
Intangible assets	191,811	170,058	92,017	98,117	102,251	117,417	269,535	190,164	170,860	155,692
Investments	932,544	1,231,412	1,150,139	856,579	933,971	981,392	1,133,604	750,423	722,886	306,956
Current assets	6,632,072	4,699,342	4,459,006	3,371,272	3,790,139	3,453,416	2,237,492	2,315,881	1,616,451	1,591,967
	23,206,694	17,106,725	14,277,662	12,080,537	11,618,076	9,354,190	6,977,421	6,619,804	5,778,043	4,986,468
Share Information										
Earnings per share (Rs.)	44.76	41.32	47.36	19.69	13.05	17.08	13.33	11.93	8.13	6.24
Market value per share (Rs.)	339.00	380.00	263.50	140.00	90.00	78.25	120.00	90.00	190.00	110.50
Highest market value per share (Rs.)	410.00	390.00	319.00	156.00	125.00	121.00	140.00	200.00	225.25	180.00
Market capitalisation on 31st March (Rs. Mn)	9,176	10,282	7,113	3,754	2,391	2,075	3,180	2,379	2,757	1,602
Price earnings ratio	7.57	9.20	5.56	7.11	6.90	4.58	9.00	7.54	23.37	17.71
Net assets per share (Rs.)	317.30	279.67	243.56	175.81	158.42	149.44	136.87	127.78	171.60	147.26
Employees' Information										
No. of employees	4,209	4,209	4,112	3,590	3,783	4,040	3,967	4,558	4,686	4,376
Value added per employee (Rs. '000)	1,038	857	897	697	482	441	366	276	239	217
Ratios & Statistics										
Ordinary dividend (Rs. '000)	175,931	162,341	161,969	120,974	106,243	106,077	92,757	79,292	50,818	21,743
Effective rate of dividend (%)	65.00	60.00	60.00	45.00	40.00	40.00	35.00	30.00	30.00	15.00
Dividend cover (times covered)	6.88	6.88	7.88	4.34	3.26	4.27	3.68	3.53	3.09	4.40
Dividend - payout ratio	0.15	0.15	0.13	0.23	0.31	0.23	0.26	0.25	0.37	0.24
Current ratio (times covered)	1.07	1.43	1.30	1.35	1.04	1.09	0.93	1.17	1.01	1.03
Debt / Equity	0.48	0.45	0.27	0.53	0.43	0.18	0.08	0.18	0.39	0.32
ROE (%)	14.99	15.79	22.60	11.77	8.47	11.93	9.72	9.15	6.36	4.12
Interest cover ratio	6.38	9.66	12.12	5.10	4.55	5.75	5.96	3.59	2.11	1.63

Consolidated Income Statement in USD

For the year ended 31st March		2006 US $ '000	2005 US $ '000
Revenue		132,346	101,268
Revenue tax		(1,601)	(1,417)
Net Revenue		130,745	99,851
Other operating income		4,801	3,031
Changes in inventories of finished goods and work-in progress		(57)	37
Raw materials and consumables used		(52,311)	(25,666)
Staff costs		(11,923)	(10,322)
Depreciation and amortisation		(6,361)	(4,627)
Other operating expenses - direct		(27,017)	(28,068)
Other operating expenses - indirect		(16,231)	(15,351)
Profit from operations		21,646	18,885
Interest income		694	887
Finance cost		(4,262)	(3,004)
Profit from operations after interest		18,078	16,768
Share of associate companies profit before taxation		630	676
Profit on ordinary activities before taxation		18,708	17,444
Taxation		(2,065)	(1,762)
Profit after taxation		16,643	15,682
Minority interest		(4,850)	(4,445)
Net profit attributable to Aitken Spence & Co., Ltd.		11,793	11,237
Unappropriated profit brought forward		29,518	23,258
Transfer from/to reserves		922	951
Profit available for appropriation		42,233	35,446
Appropriations			
Transfer to general reserve		773	2,354
Final dividend for the year ended 31.03.2005		922	951
Gross dividend		1,713	1,634
Retained in the business		38,825	30,507
Earnings per share (US $ cents)		44	42
Exchange rate	US $ =	Rs. 102.71	Rs. 99.38

| Consolidated Balance Sheet in USD

As at 31st March		2006 US $ '000	2005 US $ '000
Assets			
Non-current assets			
Property, plant & equipment		150,426	110,746
Intangible assets		1,868	1,711
Investments in associates		6,722	6,767
Long-term investments		2,076	5,333
Investment Property		282	291
		161,374	124,848
Current assets			
Inventories		6,764	3,654
Amount due from associates		1,012	806
Trade & other receivables		43,308	19,668
Current investments		42	37
Deposits and prepayments		3,372	2,501
Short-term deposits		6,002	13,792
Cash & cash equivalents		4,070	6,829
		64,570	47,287
Total assets		225,944	172,135
Equity and liabilities			
Equity			
Issued and fully paid share capital		2,635	2,723
Reserves		41,231	41,959
Retained earnings		38,826	30,507
Proposed dividends		922	953
Total equity		83,614	76,142
Minority interest		26,267	17,854
Non-current liabilities			
Deferred income		357	308
Interest bearing liabilities		52,815	42,330
Deferred tax		1,186	1,043
Retirement benefit obligations		1,506	1,366
		55,864	45,047
Current liabilities			
Trade and other payables		24,571	20,399
Interest bearing liabilities repayable within one year		18,706	7,506
Amount due to associates		9	3
Provision for taxation		609	633
Interim dividend declared		791	681
Short-term bank borrowings		15,513	3,870
		60,199	33,092
Total equity and liabilities		225,944	172,135
Exchange rate	US $ =	Rs. 102.71	Rs. 99.38

| Share & Debenture Information

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

Market Sector: Diversified Holdings

Reuters Code: SPEN.CM

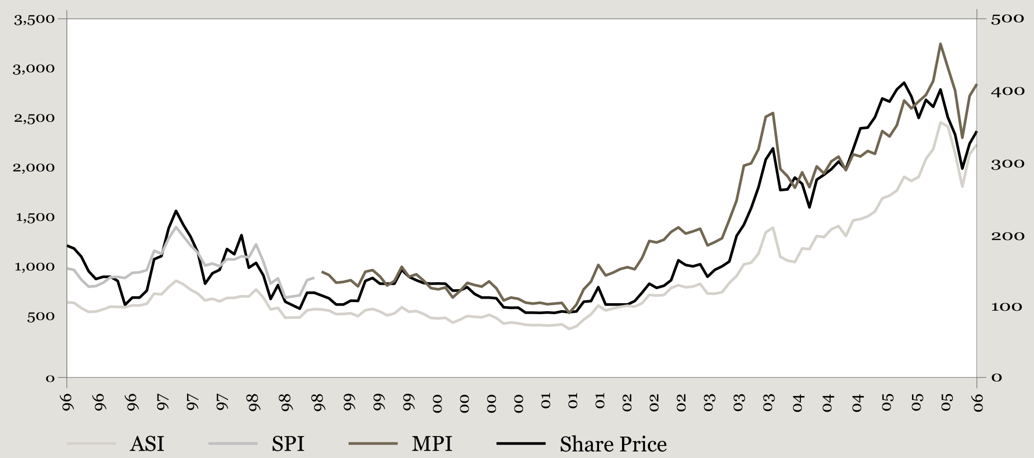
Shareholders
There were 1,593 registered shareholders as at 31st March 2006, (31st March 2005 – 1,548) whose shareholding is distributed as follows:

Category			31st March 2006			31st March 2005		
			No. of Shareholders	No. of Shareholding	%	No. of Shareholders	No. of Shareholding	%
1	-	1,000	1,156	273,796	1.01	1,113	268,317	0.99
1,001	-	5,000	273	633,075	2.34	280	649,218	2.40
5,001	-	10,000	57	419,652	1.55	50	376,694	1.39
10,001	-	50,000	60	1,328,232	4.91	53	1,233,726	4.56
50,001	-	100,000	12	901,500	3.33	18	1,374,900	5.08
100,001	-	500,000	28	6,782,706	25.06	29	7,492,745	27.70
500,001	-	1,000,000	2	1,066,139	3.94	-	-	-
Over		1,000,001	5	15,661,303	57.86	5	15,661,303	57.88
All Holdings			1,593	27,066,403	100.00	1,548	27,056,903	100.00

	31st March 2006		31st March 2005	
	Shareholding	%	Shareholding	%
Institutions	23,429,618	86.56	23,259,860	85.97
Individual	3,636,785	13.44	3,797,043	14.03
All Holdings	27,066,403	100.00	27,056,903	100.00

	31st March 2006		31st March 2005	
	Shareholding	%	Shareholding	%
Nationals	14,245,667	52.63	15,377,332	56.83
Non-Nationals	12,820,736	47.37	11,679,571	43.17
All Holdings	27,066,403	100.00	27,056,903	100.00

Share Price (Rs) vs Indices



Share Options

The Company as at 31st March 2006, had offered 1,169,800 shares by way of stock options to executives including Executive Directors of the Group companies. As at 31 st March 2006 options for 704,903 shares have been exercised, and options for the balance 464,897 shares have lapsed.

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at a price of Rs. 85.50.

Substantial Shareholdings

The twenty largest shareholdings as at 31st March 2006, are given below.

Name	No of Shares	%
Distilleries Company of Sri Lanka Limited	4,658,355	17.21
Rubicond Enterprises Limited	4,399,343	16.25
Sri Lanka Insurance Corporation Ltd. – General Fund	2,935,505	10.85
HSBC International Nominees Ltd. –SNFE- Arisaig India Fund Ltd.	2,512,700	9.28
HSBC International Nominees Ltd.-BPSS LDN-Aberdeen Far East Emerging Economies Unit Trust	1,155,400	4.27
HSBC International Nominees Ltd.-BPSS LDN-Aberdeen Investment Fund ICVC Aberdeen Emerging Markets Fund	554,500	2.05
Employees Provident Fund	511,639	1.89
HSBC International Nominees Ltd. –BPSS LUX- Aberdeen Global-Asian Smaller Companies Fund	495,700	1.83
Mr. G.C. Wickremasinghe	487,216	1.80
Northern Trust Company S/A Murray Johnstone International Delaware Business Trust	469,000	1.73
Mr. R. Sivaratnam	410,290	1.52
Placidrange Holdings Limited	368,100	1.36
HSBC International Nominees Ltd. – JPMCB-Scottish ORL SML TR GTI 6018	350,000	1.30
HSBC International Nominees Ltd. –BPSS LUX- Aberdeen Global Emerging Markets Fund	327,400	1.21
HSBC International Nominees Ltd. – SSBTL Aberdeen New Dawn Investment Trust	300,237	1.11
Milford Exports (Ceylon) Ltd.	288,100	1.07
HSBC International Nominees Ltd.- SNFE-CMG First State Global Umbrella Fund plc. CMG First state Indian Subcontinent Fund.	282,172	1.04
Hongkong & Shanghai Banking Corp. Ltd.- National Equity	241,400	0.89
Stassen Exports Limited	216,300	0.80
A.T. Wickremasinghe	209,465	0.77
Total	21,172,822	78.23

Share Valuation

The market value of the ordinary shares as at 31st March 2006 was Rs. 339.00 per share.
(31st March 2005 – Rs. 380.00) The market value of ordinary shares as at 24 th May 2006 was Rs 330.00 per share.

Earnings

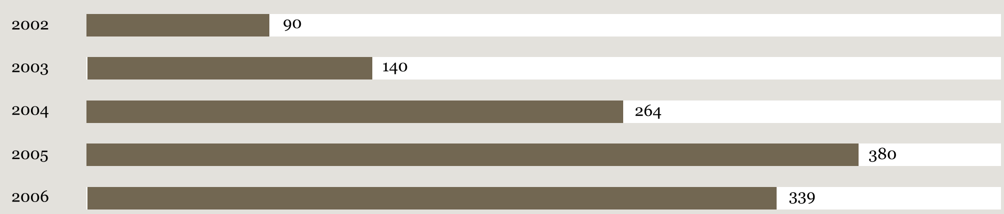
Earnings per share for 2005/2006 was Rs. 44.76 (2004/2005 – Rs. 41.32). The price earnings ratio (P/E) was 7.57 (2004/2005 – 9.20).

Dividends

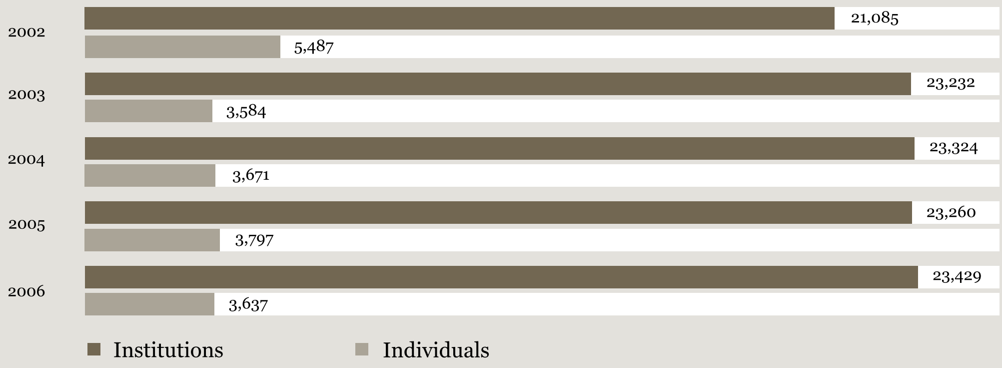
A 30% (2004/2005 – 25%) interim dividend was paid on 21 st April 2006 (2004/2005 – 12th April 2005). A final ordinary dividend of 35% (2004/2005 – 35%) is proposed and payable on 29 th June 2006 (2004/2005 – 8th July 2005).

The dividend per share amounted to Rs. 6.50 per share (2004/2005 – Rs. 6.00), while the dividend cover was 6.90 times (2004/2005 - 6.88 times).

Market Value per Share As at 31st March (Rs)



Shareholding of Institutions & Individuals As at 31st March (Shares '000)



Quoted Debentures

The Company raised Rs. 400,000,000 by way of 4,000,000 unsecured redeemable debentures of Rs. 100.00 each with a SL AA rating by Fitch Ratings Lanka Ltd., on 4th April 2002. The details of the debentures are as follows:

(i) 2,000,000 two year debentures carrying a fixed interest rate of 15.25% p.a., interest being paid semi annually. These debentures were redeemed on 4th April 2004.

(ii) 1,000,000 four year debentures carrying a fixed interest rate of 15.75% p.a., interest being paid semi annually. These debentures were redeemed on 4th April 2006.

(iii) 1,000,000 four year debentures carrying a fixed interest rate of 16.00% p.a., interest being paid annually. These debentures were redeemed on 4th April 2006.

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payments due in 2005/06 were duly paid on 30th June 2005 and on 31st December 2005.

Unquoted Debentures

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Fitch☐
redeemed to date are as follows:

(i) 5,000 fixed rate unsecured redeemable debentures of Rs. 100,000/- each was issued on the 30th June 2004, with interest payable semi annually at an interest rate of 10.96% p.a., 1,000 debentures of the above were redeemed on 29th June 2005. The applicable interest on these debentures were duly paid on 29th June 2005 and 29th December 2005.

(ii) 5,000 floating rate unsecured redeemable debentures of Rs. 100,000/- each was issued on the 30th July 2004 with interest payable semi annually at an interest rate six month net treasury bill rate +2.15% p.a. 1,000 debentures of the above were redeemed on 29th July 2005. The applicable interest on these debentures were duly paid on 29th July 2005 and 26th January 2006.

Debentures Traded during the year

	2005/2006	2004/2005
Highest Price Traded *	No Trades	111.00 (09.08.2004)
Lowest Price Traded *	No Trades	110.75 (23.04.2004)
Last Traded Price *	No Trades	111.00 (09.08.2004)
Debt/Equity Ratio	0.48	0.45
Quick Asset Ratio (times)	0.96	1.32
Interest Cover	6.38	9.66
Interest yield as at date of last debenture trade	N/A	14.41%
Yield to maturity of last debenture trade	N/A	8.27%
Interest rate of comparable Government Securities - for the 4 year debenture	N/A	7.76%

*Note * There has not been any trading in the company's debentures during the year ended 31st March 2006.*

Shares Traded during the year

	2005/2006	2004/2005
Number of transactions	1,347	1,639
Number of shares	3,596,800	5,541,800
Total value (Rs. million)	1,322	1,692
Percentage of Total Value Transacted	1.16%	2.27%
Highest Price Traded (Rs.)	410.00 (20.05.05)	390.00 (03.03.2005)
Lowest Price Traded (Rs.)	286.00 (17.01.06)	225.00 (22.04.2004)
Market Capitalisation on 31st March (Rs. million)	9,175.5	10,281.6
Percentage of Total Market Capitalisation	1.33%	2.29%

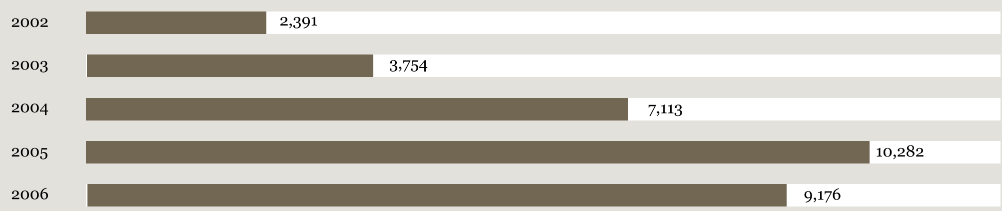
History of Dividend Percentage and Share prices for the Past 10 Years

Year	Rate (%)	Share price as at 31st March
1996/97	15	110.50
1997/98	30	190.00
1998/99	30	90.00
1999/00	35	120.00
2000/01	40	78.25
2001/02	40	90.00
2002/03	45	140.00
2003/04	60	263.50
2004/05	60	380.00
2005/06	65	339.00

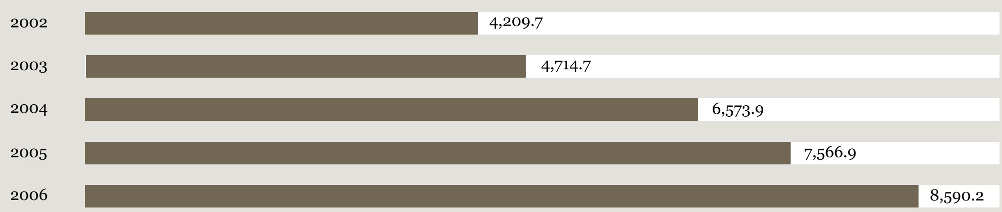
History of Bonus Issues since the Company was listed in the Colombo Stock Exchange in March 1983

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

Market Capitalisation As at 31st March (Rs Mn)



Shareholder's Funds As at 31st March (Rs Mn)



| Group Companies

	SUB SECTOR	COMPANY	ACTIVITY
TOURISM	Inbound Travel	Aitken Spence Travels Ltd.	Destination Management Company. Represents world renowned tour operators including TUI, the largest in Europe.
		Ace Travels & Conventions (Pvt) Ltd.	Professional Conference, Exhibition & Event organiser. Also offers Destination Management Services.
	Outbound Travel	Aset Airways Ltd.	General Sales Agents for Singapore Airlines.
		Aitken Spence Overseas Travel Services (Pvt) Ltd.	An IATA agent and General Sales Agent for Tradewinds, Eurail and British Railways. Organises outbound Holiday Packages.
		Aitken Spence Moscow (Pvt) Ltd.	General Sales Agents for Aeroflot Russian Airlines.
	Hotels	Aitken Spence Hotel Holdings Ltd.	The holding company of the Group's hotel interests. Owns and operates the Heritance Ahungalle Hotel.
		Aitken Spence Hotels Ltd.	Owns and operates Neptune Hotel.
		Pearl Beach Hotels Ltd.	Leases 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 land for a proposed future Hotel.
		Crest Star (B.V.I.) Ltd.	The holding company of B.I.R. Hotel Management (Pvt) Ltd. and Jetan Travel Services Company (Pvt) Ltd.
		BIR Hotel Management (Pvt) Ltd.	Owns and operates Bathala Island Resort - Maldives.
		Jetan Travel Services Co. (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 Medhupparu Island Resort - Maldives.
		Aitken Spence Hotel Managements (Pvt) Ltd.	Manages resorts in Sri Lanka.
		Aitken Spence Hotels (International) Ltd.	Manages resorts in the Maldives.
CARGO LOGISTICS	Freight Forwarding	Ace Cargo (Pvt) Ltd.	Provides international freight forwarding services.
		Ace Bangladesh Ltd.	Provides international freight forwarding services in Bangladesh.
		Ace International Express (Pvt) Ltd.	Provides international & domestic express delivery and mail 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.
		Ace Freight Logistics (Pvt) Ltd.	Import/Export brokerage and supply chain management.
	Integrated Logistics	Ace Containers (Pvt) Ltd.	Operates an inland container depot and a freight station.
		Ace Container Terminals (Pvt) Ltd.	Provides container storage, customs brokerage and warehousing services.
		Ace Haulage (Pvt) Ltd.	Transporters of laden and empty containers.
		Ace Container Repair (Pvt) Ltd.	Provides container repairing and GOH Conversion.
		Ace Distriparks (Pvt) Ltd.	Provides total logistics support and warehousing with 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 Maritime Transport sector of the group.
		Aitken Spence Shipping Ltd.	Liner, Cruise and Tramp agency representation, NVOCC and an international freight forwarder.
		Clark Spence & Co. Ltd.	Shipping and bunkering agents in the ports of Colombo, Galle and Trincomalee and a international freight forwarder.
		Shipping & Cargo Logistics (Pvt) Ltd.	Liner Agency representation.
		Spence Logistics (Pvt) Ltd.	NVOCC freight forwarding operator.
		Mcship Agencies (Colombo) Ltd.	Provides Liner 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 vessles.
		GAC Logistics Ltd.	Providers of logistic warehouse management & freight forwarding services.
		Ceyaki Shipping (Pvt) Ltd.	Owners and operators of Eco Dani , a 580 TEU container vessel.
		Ceycapital Shipping (Pvt) Ltd.	Owners and operators of Safmarine Bomar , a multi purpose container vessel.

	SUB SECTOR	COMPANY	ACTIVITY
STRATEGIC INVESTMENTS	Printing & Packaging	Aitken Spence Printing (Pvt) Ltd.	Provides printing & packaging services to the local market.
		Ace Exports (Pvt) Ltd.	Provides printing & packaging services to the export 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.
		Aitken Spence Property Developments (Pvt) Ltd.	Constructs a multi-storied office complex to be used by companies within the Group.
		Vauxhall Investments Ltd.	Owns and operates the printing office complex.
	Garment Manufacture	Aitken Spence (Garments) Ltd. Clark Spence Garments Ltd.	Manufacturer and exporter of high quality mens, boys, ladies & girls shirts and blouses to prestigious departmental stores and importers in USA and EU.
	Insurance Survey and claim settling agancy.	Aitken Spence Insurance (Pvt) Ltd.	Survey and claim settling agents for several reputed insurance companies and organisations worldwide, including Lloyds, Cesam, Groupama, PICC and Tokoyo Marine and Fire Insurance Company Ltd., Oriental Insurance Co., of India. Superintendents for UN World Food Programme in Sri Lanka and Maldives.
	Elevator Agency	Elevators (Pvt) Ltd.	Solely responsible in Sri Lanka and Maldives for OTIS products, the world leader in elevators, escalators, moving walkways and dumb waiters.
	Infrastructure	Ace Power Generation Matara Ltd.	Owns and operates a 20MW power plant in Marara to supply power to the national grid.
		Ace Power Generation Horana (Pvt) Ltd.	Owns and operates a 20MW power plant in Horana to supply power to the national grid.
		Ace Power Embilipitiya (Pvt) Ltd.	Owns and 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 8,851 hectares.
		Talawakelle Plantations Ltd.	Owns 18 estates with total land extent of 6,519 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 Talawakale Plantations 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	Ceyspence (Pvt) Ltd.	Owners and operators of M.V. X Press Resolve, a fully cellular 500 TEU container vessel.
		Ceyserve Lines (Pvt) Ltd.	Owners and operators of M.V. Indonesia Star, a 1,300 TEU container vessel.
		Ceyfirst Shipping (Pvt) Ltd.	Owners and operators of M.V. Cey Pioneer, a multi purpose container vessel.

| A Brief Historical Overview

The Aitken Spence Group has its origins in Clark Spence & Company, originally based in the southern port of Galle, founded by visionary Scotsmen Thomas Clark and Patrick Gordon Spence. In 1870, the brothers Edward and S. R. Aitken joined the partnership and so, the company was renamed Aitken Spence & Company Limited.

Beginning operations as primarily a trading company, Aitken Spence & Co. began diversifying into other aspects of business including insurance and shipping, representing global players in both industries. One of the highlights of this time was the appointment of the company in 1876, as agents for Lloyds of London, the world's most renowned insurers. This relationship has withstood the challenges of time and remains a strong facet in our portfolio of businesses today. This year the company has made significant inroads into the shipping industry as well, adding two more ships to our fleet.

In 1900, an inevitable move to the commercial capital was made by the company, relocating into the Freudenberg building in Colombo Fort. The building was renamed Lloyd's Building and continued to be the Group's headquarters until 1995, when we custom - built our own modern headquarters at Vauxhall Street.

In light of a strong colonial heritage, entering the plantations industry was an obvious move. In the 1920's the company decided to venture into this field - a key national economic contributor. Prudent decisions were taken during the 1930's great depression, when the company shifted away from trading and stabilised itself in shipping, insurance and plantation management. Aitken Spence continued as a leader among the Ceylonese companies in these industries, as the Second World War began in the 1940's.

The end of World War II and independence from British rule in 1948 impacted on the company, seeing a change of course and a much wider business perspective. In 1950, it was converted into a private limited company without changing ownership, while it also diversified into industrial printing, light engineering and securing the IATA travel agency as well. On the retirement of the last Chairman of the founding families P.W.G. Spence in 1952, the first Sri Lankan Chairman E.L. Van Langenberg took on the mantle of leading the company in 1952. In 1968, the company's centenary was marked with a change of ownership from its British managers to a wholly owned Sri Lankan enterprise.

The nationalisation era of the 1970's, saw a company transformation, venturing into new areas of business including freight forwarding, marine container allied services, courier services, property development, garment manufacture and tourism. The latter was seen to have immense potential in the global service sector scenario and soon became the company's core business.

The Neptune Hotel became the standard bearer for the company's grand entrance into the tourist industry in 1974, with Sri Lanka's first five star resort - Triton, following in 1981. Both Kandalama Hotel and Tea Factory, built in 1994 and 1996 respectively, have spurred stories and cultures of their own, making them two of the most talked about destination resorts in the world.

Designed by world renowned architect Geoffrey Bawa, Kandalama has an unique environment and is aesthetically in a league of its own. Since inception it has been awarded numerous accolades including becoming the first hotel in Asia to be awarded the prestigious Green Globe 21 Certificate at the World Travel Mart, the Ultimate Service Award 2001 for the Indian Ocean Region (presented by CNN), as well as the CIMA Community Leader Award and the Presidential Award for Environmental Management in the last two years.

The concept hotel - Tea Factory, transformed from an abandoned tea processing facility to a five star resort, designed to give the visiting guest an unique experience of enjoying a complete 'tea experience', was presented with the Building Conservation award by the Royal Institute of Chartered Surveyors of London in 2001.

The company also became the first conglomerate to spearhead regional tourism, when in 1993, Bathala Island resort in the Maldives was acquired and developed as a part of the Aitken Spence Hotels umbrella. Currently, we have four upmarket properties in the Maldive Islands, the latest being the uniquely conceptualised Water Villas in Meedhupparu, which will begin operations this year.

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. Subsequently, the company successfully raised Rs. 730 million in 1998, with a placement of shares among major foreign and local investors.

Supported by the Government's decision in the 1990s to rely on the private sector to assist in contributing towards national power needs and Sri Lanka's growing power crisis, spurred the company to venture into power generation. The diversification begun in 2000, initially saw the commissioning of two 20 MW power plants and another 100Mw plant was launched in Embilipitiya in 2005.

In 2001, Aitken Spence was rated SL AA by Fitch Ratings Lanka Limited, for Rs. 400 million debentures issued, a rating maintained for the successful implementation of Rs. 1 billion debentures in 2004. The Company is honoured to be rated among the 'Best Under a Billion' companies in US dollar revenues among those outside the United States by Forbes Global, for three years consecutively since 2003.

This year we have decided to continue our journey even more confidently, etching our presence and ideals further into corporate Sri Lanka. Aitken Spence & Company will now sport the multi-dimensional brilliance of a polished diamond with the launch of its new corporate brand identity.

This new brand identity draws inspiration from the colonial roots of founders Aitken and Spence, while retaining our aspirations to be the diamond of the service industry in Sri Lanka. Together with this transformation, our hotel properties will also undergo re-branding as 'Heritance'. The new brand-name is a fusion of the words 'Heritage' and 'Inheritance ' representing Aitken Spence's proud and enduring heritage of service while reflecting the architectural magnificence of our unique collection of properties; each a product of a specific historical, social and cultural inheritance.

Heritance Ahungalla (formerly the Triton Hotel) will soon re-open, and together with Kandalama Hotel, will include the globally renowned Six Senses Spa, which will add even more value to both properties.

136 eventful years have seen numerous paths explored by Aitken Spence which have helped us create our own business footprint in Sri Lanka. Entrepreneurship, a pioneering spirit, dedication in service and a commitment to excellence have been the principles which guided us on this journey towards success.

Now, with a new vision of taking on the 'brilliance of a diamond' the Group goes forth with renewed enthusiasm and confidence in our strategies for the future.

| 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-tem 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.

Investment Property
Investments in land and buildings that are held to earn rentals or for capital appreciation or for both.

LIBOR
London Inter Bank offered rate.

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

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

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

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

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

Price Earnings Ratio
Market value per share divided by the earnings per share.

Price to Book Ratio
Market price per share divided by net assets per share.

Quick Asset Ratio
Total current assets less inventories divided by total current liabilities.

Related Parties
Parties who could control or significantly influence the financial and operating decisions of the business.

Return on Equity
Profit after tax and minority interest divided by average equity 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 the Stock Exchange.

Yield to Maturity
The Discount rate that equals present value of all expected interest payment and the repayment of principal.

| Notice of Meeting

Notice is hereby given that the Fifty Fourth Annual General Meeting of Aitken Spence & Company Limited will be held at the "Sapphire Ballroom" Ceylon Continental Hotel Colombo at 10.00 a.m. on Thursday, June 29, 2006, for the following purposes :-

- To receive and consider the Statement of Accounts for the year ended 31st March 2006 with the Reports of the Directors and Auditors thereon.
- To declare a dividend as recommended by the Directors.
- To re-elect Mr. C H Gomez, who retires in terms of Article 85 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
6th June 2006

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote in his/her stead and a Form of Proxy is enclosed for this purpose. A Proxy need not be a member of the Company.

2. The completed Form of Proxy must be deposited at the Registered Office No. 305, Vauxhall Street, Colombo 2, not less than forty eight hours before the time fixed for the meeting.

3. Any member or proxy holder attending the meeting is kindly requested to bring this report.

4. It is proposed to post the dividend warrants on June 29, 2006, provided that the Final Dividend recommended is approved. In accordance with the rules of the Colombo Stock Exchange the shares of the Company will be quoted ex- dividend with effect from June 19, 2006.

| Form of Proxy

I/We ....

of ....

being a member/members of Aitken Spence & Company Limited hereby appoint ....

.... of ....

....☐

Don Harold Stassen Jayawardena of Colombo	(whom failing)
Joseph Michael Suresh Brito of Colombo	(whom failing)
Rohan Marshall Fernando of Colombo	(whom failing)
Gaurin Chandraka Wickremasinghe of Colombo	(whom failing)
Ratneswara Sivaratnam of Colombo	(whom failing)
Charles Humbert Gomez of Gibraltar	

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 b☐

Signed this ....☐

....
Signature

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

INSTRUCTIONS AS TO COMPLETION

Kindly perfect the form of proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.

If the proxy form is signed by an Attorney, the relative power of attorney should also accompany the proxy form for registration, if such power of attorney has not already been registered with the Company.

In the case of a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.

The completed form of proxy should be deposited at the Registered Office of the Company, No. 305 Vauxhall Street, Colombo 2 before 10.00 a.m. on June 27, 2006, 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 02, Sri Lanka.

Directors
D. H. S. Jayawardena – *Chairman*
J. M. S. Brito, LLB., F.C.A, MBA – *Deputy Chairman and Managing Director*
R. M. Fernando, Ph.D., MBA, MCIM (UK)
G. C. Wickremasinghe
R. Sivaratnam
C. H. Gomez

Audit Committee
G. C. Wickremasinghe – *Chairman*
R. Sivaratnam
C. H. Gomez

Remuneration Committee
D. H. S. Jayawardena – *Chairman*
G. C. Wickremasinghe
R. Sivaratnam

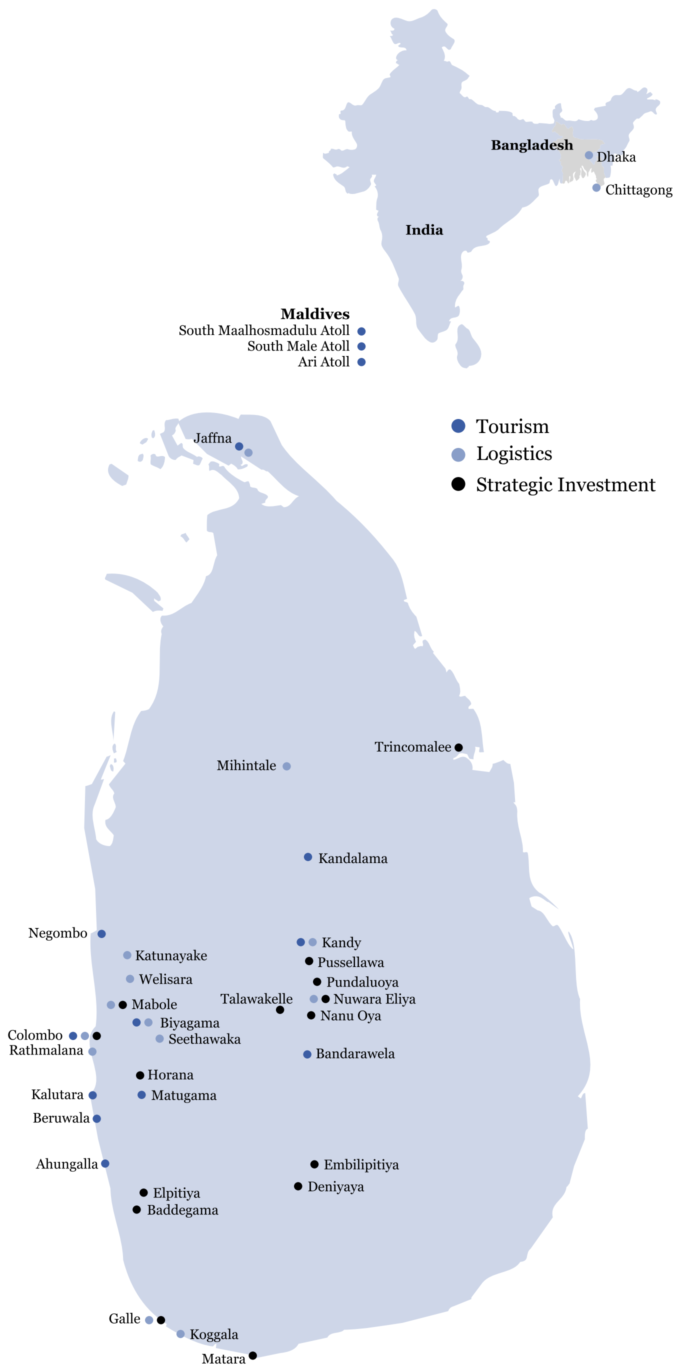
Company Secretary
R. E. V. Casie Chetty, F.C.A, F.C.M.A, M.C.M.I., J. Dip.M.A.

Auditors
KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants

Contact Details
305, Vauxhall Street,
Colombo 02.
Sri Lanka.

Telephone: (94 11) 2308308
Facsimile: (94 11) 2445406
Internet: www.aitkenspence.lk

Our Network



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