

Our Mission

To generate the maximum amount of electricity from the available water resources with the lowest possible cost and with a minimal environmental pollution.



Water to Wire

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Voith Siemens Turbine



Indoor 33KV switch gear panels



Power Transformer

Who we are?

Vallibel Power Erathna Limited is the largest privately owned hydro power company with installed capacity of 9.9 MW. It began construction in July 2002 and commenced commercial operation in July 2004 and reached normal operational capacity in October 2004.

The Erathna Small Hydropower Project is located in the Kuruwita Divisional Secretariat in the District of Ratnapura. The plant is 'Run-of-the-River' and utilizes the water flow of the upper reaches of the Kuru Ganga, which originates at the Adam's Peak at an elevation of 2,100 meters above the mean sea level. The river leaves the boundary of the sanctuary at an elevation of 1,030 meters and continues onward as a tributary of the Kalu Ganga.

The hydro plant infrastructure is sited on a total land extent of approximately 4.0 Ha, spanning two villages – Pelendakanda and Adavikanda. The land extent covers the land trace from the Weir through the Headrace channel up to the Forebay tank, the Penstock path, the Powerhouse and the Tailrace path. The Powerhouse is located on the right bank of the river at Adavikanda and easily accessible by road.

The water catchment area for the plant is estimated to be 14.5 square kilometers in extent. The water diversion point and the Weir are at an elevation of 840 meters above the mean sea level. The diverted water flows through the intake and along a covered Headrace

channel to the Forebay tank. It is then channeled down through a penstock of 2.4 kilo meters long to the Powerhouse, which is at an elevation of 377 meters. This provides a total energy head of 463 meters. Before reaching the Powerhouse, the Penstock bifurcates into two pipelines that feed twin Pelton turbines. The turbines drive the synchronous electric generators. The expended water is then released along the Tailrace channel to the Kuru Ganga.

The generated power is fed through two primary transformers and transmitted via an 18 km long interconnection line connecting to the Kosgama-Ratnapura 33 kV power line. The plant consists of turbine machinery manufactured by Voith Siemens, a reputed German producer of turbine machinery. The entire plant is operated, regulated and monitored from water intake to power generation by means of a computerized control system.

We are a BOI approved company with a 10 year tax holiday from the date of commercial operation. The other incentives include free transferability of shares of the Company to residents or non-residents without being subject to exchange control and other tax levies. In terms of Section 17(2) of the Board of Investment of Sri Lanka Law No. 4 of 1978 the business, capital or assets belonging to the Company are not liable to acquisition, expropriation and/or nationalization.

Chairman's Review

It is with great pleasure that I welcome you to the Fifth Annual General Meeting and present the Annual Report and Audited Financial Statements of the Company for the year ended March 31, 2006.

Your Company has its hydro power generation plant at Erathna, Kuruwita and it is the single largest small hydro power project with an installed capacity of 9.9 MW. The Company has entered into a Power Purchase Agreement with the Ceylon Electricity Board to sell the entire energy output of the Erathna Power Plant and the Company commenced the commercial operation on 15th July 2004.

You will be pleased to note that the company has performed very well during this financial year. As with any hydro power project, the first two years are the most crucial due to various technical reasons, and your Hydro Plant as well as the dedicated staff have performed exceptionally well during this crucial period. Overall, plant efficiency has been very high, and outages have been maintained at bare minimum levels.

During the period under review the Company has generated 43.1 million kWh, which resulted in a turnover of Rs. 234.5 million. The Company has made a net profit of Rs. 139.3 million after incurring a sum of Rs. 40.3 million as finance cost. The state of the art machinery installed at the plant will help generate energy without interruption so long the area gets the expected rainfall. You may also note that the company is projecting much higher profits for the Financial Year 2006/7, due to retirement of the total debt component of the Company,

and also due to the fact that the South-West monsoon, which brings a major portion of the rainfall in the project area, is very active this year. In this context I am pleased to inform you that the Board of Directors has recommended an interim dividend of 15% for the Financial Year ending March 31, 2007.

Mr. J.A.S. Piyawardane who served as a Director resigned from the Board in March 2006. I wish to express our grateful thanks to him for his invaluable services extended to the Company. I also wish to welcome Mr. M.T.L. Fernando who joined the Board in March 2006.

Finally, I sincerely acknowledge and appreciate the efforts of my colleagues on the Board, and staff at the Head Office and the Power Plant, without whose efforts these results could not have been achieved. I also take this opportunity to thank the officials of the Ceylon Electricity Board for their prompt responsiveness in dealing with the Company. In conclusion, let me also thank you, our valued shareholders, whose patronage and support have been a great source of inspiration for the Company.



K.D.D.Perera
Chairman
07th July 2006

Board of Directors

K D D Perera – Chairman

Mr. Dhammika Perera is a prominent entrepreneur and investor whose business interests include Hydropower Generation, Shipping, Manufacturing, Hospitality Entertainment, Banking and Finance. He is the Chairman of Vallibel Holdings (Pvt) Ltd through which Mr. Perera has invested in various quoted and non quoted companies in the above sectors. He is well known for his expertise and ability for reviving and re-engineering of poorly performing corporate entities. He is also Chairman of Didul (Pvt) Ltd and Deputy Chairman of Royal Ceramics Lanka Ltd., Pan Asia Banking Corporation Ltd., L B Finance Ltd., Connaissance Holdings Ltd and Vallibel Finance Ltd. Mr. Perera is also a Director of The Fortress Resorts Ltd and Hotel Reefcomber Ltd, He also serves as Director of BOI and SEMA.

L Wickremarachchi – Managing Director/CEO

Mr. Leelananda Wickremarachchi is an Engineer with an M.Sc. from the People's Friendship University, Moscow and an MBA (Merit) from the Post Graduate Institute of Management of the University of Sri Jayawardenepura. He has over 30 years experience in the fields of engineering, marketing, project financing and privatization. Immediately before assuming duties as Managing Director of the Company, he was the Director General of The Public Enterprises Reform Commission (PERC), which post he held for 2 years. He was also the General Manager/CEO of Private Sector Infrastructure Development Company Ltd. (PSIDC) for over seven years. Earlier, he functioned as the Senior Project Management Specialist (Finance and Infrastructure) of USAID/Sri Lanka. He is also a Director of PABC Bank and Didul (Pvt) Ltd.

M T L Fernando

Mr. Fernando is a Fellow of the Institute of Chartered Accountants, England & Wales and Sri Lanka. He was the Precedent Partner of Ernst & Young, Sri Lanka for over 30 years. He serves on many directorates of public listed and unlisted companies, such as Caltex Lubricants Limited, Asian Hotels & Properties Limited and Royal Ceramics Lanka Limited. He has also served on the Board of the Colombo Stock Exchange and was a Member of the Council of the Institute of Chartered Accountants of Sri Lanka, past Chairman - Taxation Committee and a Committee Member of the Ceylon Chamber of Commerce.

P K Sumanasekera

Mr. Prabodha Sumanasekera holds B.Sc. in Physics from the Colombo University and has 15 years experience in the small hydro power sector. He has been involved in formulating and developing 15 small/mini hydropower projects, including the ground breaking Dick-Oya mini hydro power project which is the first grid connected mini hydropower project in Sri Lanka. He is also a shareholder director in several companies owning, developing and operating hydropower projects.

W D N H Perera

Mr. Nimal Perera is a member of the Sri Lanka Institute of Marketing. He counts over 20 years experience in Finance, Capital Market Operations, Manufacturing, Marketing and Management Services. He was instrumental in structuring several investment transactions for the Vallibel Group of Companies. These include the acquisition of Connaissance Holdings Ltd., Royal Ceramics Lanka Ltd., LB Finance Ltd., The Fortress Resorts Ltd., Hotel Reefcomber Ltd., and Vallibel Finance Ltd.

S H Amarasekera

Mr. Harsha Amarasekera is an Attorney-at-Law by profession specializing in Commercial Banking and Securities Law. He is an Independent Director in a number of quoted companies including Asia Capital Ltd, Asia Growth Fund 1 (Pvt) Ltd, Asia Securities (Pvt) Ltd, Chemical Industries (Colombo) Ltd, Connaissance Holdings Ltd, C.W. Mackie & Co. Ltd. and Keells Food Products Ltd.

Report of the Directors

The Directors of Vallibel Power Erathna Limited have pleasure in presenting to the members their report together with the Financial Statements for the year ended 31st March 2006.

Principal Activities

The principal activity of the Company is generation and distribution of electricity using hydro resources.

Summarized Financial Position

The summarized financial position of the Company is as follows:

	2005/06 Rs.'000	2004/05 Rs.'000
Profit after Taxation	139,302	30,290
Profit/(Loss) brought forward	(16,817)	(47,107)
Dividend	NIL	NIL
Balance carried forward	122,485	(16,817)

Share Capital

The authorized share capital of the Company is Rs. 1,500,000,000/- divided into 1,500,000,000 shares of Rs. 1/- each and the issued Share Capital as at 31st March 2006 was Rs. 199,036,577/- divided into 199,036,577 shares of Rs. 1/- each.

The Company sub-divided the par value of its share from Rs. 10/- to Rs. 1/- during the financial year under review.

Directorate

The Directors of the Company as at 31st March 2006 were as follows:

Mr. K. D. D. Perera (Chairman)
Mr. P. K. Sumanasekera
Mr. W. D. N. H. Perera
Mr. S. H. Amarasekera
Mr. M. T. L. Fernando (appointed on 28th March 2006)

Mr. J. A. S. Piyawardane resigned from the Board of Directors of the Company on 21st March 2006

Mr. Leelananda Wickremarachchi was appointed as Managing Director/Chief Executive Officer with effect from 13th July 2006.

Mr K. D. D. Perera retires by rotation in terms of Article 91 of the Articles of Association of the Company and being eligible offer himself for re-election.

Messrs M. T. L. Fernando and L. Wickremarachchi retires in terms of Article 98 of the Articles of Association of the Company and being eligible offer themselves for re-election.

Directors' interest in shares of the Company

The Directors interest in shares of the Company as at Balance Sheet date are as follows:

	31 st March 2006	31 st March 2005
Mr. K. D. D. Perera (Chairman)	56,402,900	*12,610,002
Mr. P. K. Sumanasekera	Nil	Nil
Mr. W. D. N. H. Perera	Nil	Nil
Mr. S. H. Amarasekera	Nil	Nil
Mr. M. T. L. Fernando	Nil	Nil

* Par value of Rs. 10/- each

Directors' Interest in Contracts

Directors' interest in contracts are disclosed in Note 24 to the Financial Statements.

Property, Plant & Equipment

The movement in Property, Plant & Equipment during the year is given in Note 9 to the Financial Statements.

Report of the Directors (Contd.)

Post Balance Sheet Events

The Company invited application from the general public to purchase 50 million shares of its Ordinary Shares with a par value of Rupee one (Rs. 1/-) each at the offer subscription price of Rupees eight (Rs. 8/-) inclusive of a premium of Rupees seven (Rs. 7/- per share) on 6th April 2006.

The Directors of the Company on 26th May 2006 recommended to shareholders an issue of Bonus shares in the proportion of Two new (2) ordinary shares to every One (1) share held as at the Ex-Bonus date. The shareholders at the Extraordinary General Meeting held on 5th July 2006 approved the recommended Bonus Issue

and the Bonus shares were allotted to the shareholders on 07th August 2006.

Auditors

The Accounts for the year have been audited by M/s Ernst & Young, Chartered Accountants, who offer themselves for re-appointment.

By Order of the Board

(Sgd)

Secretaries & Registrars Ltd

Secretaries

31st August, 2006

Financial Information



Tailrace



Powerhouse



Penstock

Financial Information



■ **Chartered Accountants**
201 De Saram Place
P. O. Box 101
Colombo 10
Sri Lanka

■ Telephone : (0) 11 2463500
Fax Gen : (0) 11 2697369
Fax : (0) 11 5578180
E-Mail : eysl@lk.ey.com

AUDITORS' REPORT TO THE MEMBERS OF VALLIBEL POWER ERATHNA LIMITED

We have audited the balance sheet of Vallibel Power Erathna Limited (Formerly registered as Power Company Erathna Ltd) as at 31st March 2006 and the related Statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the accounting policies and notes as set out on pages 10 to 28.

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 has maintained proper books of account for the year ended 31 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 Flows and Changes in Equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act, No.17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 March 2006 and its profit and cash flows for the year then ended.

Directors' Interest 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 24 to these financial statements.

Colombo,
07th July 2006

■ **Partners** : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray ACA FCMA
Ms. Y A De Silva ACA W R H Fernando FCA FCMA A P A Gunasekera FCA FCMA
A Herath FCA D K Hulangamuwa ACA FCMA LLB (Lond) A S M Ismail ACA FCMA
H M A Jayasinghe ACA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA

Income Statement

Year Ended 31st March 2006

	Note	2006 Rs.	2005 Rs.
Revenue	3	234,464,484	128,116,749
Cost of Sales		(30,838,431)	17,399,129
Gross Profit		203,626,053	110,717,620
Other Operating Income	4	5,609,804	831,636
Administration Expenses		(28,067,331)	(27,643,776)
Other Operating Expenses		(940,921)	(1,550,977)
Profit/(Loss) from Operating Activities	5	180,227,605	82,354,503
Finance Cost	6	(40,278,873)	(51,897,831)
Profit/(Loss) from Ordinary Activities Before Taxation		139,948,732	30,456,672
Income Tax Expense	7	(646,699)	(166,327)
Net Profit/(Loss) for the Year		139,302,033	30,290,345
Basic Earnings / (Loss) per Share	8	0.73	0.16

The Accounting Policies and notes on Pages 14 through 28 form an integral part of the Financial Statements.

Colombo
07th July 2006

Balance Sheet

As at 31st March 2006

	Note	2006 Rs.	2005 Rs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment - At Cost and Valuation	9	1,188,683,585	1,211,551,777
Investments	10	30,546,871	-
Intangible Assets - Right To Generate Hydro Power	11	20,800,000	22,400,000
		<u>1,240,030,456</u>	<u>1,233,951,777</u>
Current Assets			
Trade & Other Receivables	12	25,320,889	16,330,581
Amount Due from Related Parties	13	35,312,947	12,319,374
Investment in Repurchase Agreements		26,900,000	-
Call Deposits		-	4,859,177
Cash and Bank Balances		2,707,567	8,065,615
		<u>90,241,403</u>	<u>41,574,747</u>
Total Assets		<u>1,330,271,859</u>	<u>1,275,526,524</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	14	199,036,577	188,000,070
Revaluation Reserve	15	584,493,354	584,493,354
Share Premium	16	77,255,547	-
Accumulated Profits/ (Losses)		122,484,923	(16,817,110)
Total Equity		<u>983,270,401</u>	<u>755,676,314</u>
Non Current Liabilities			
Interest Bearing Loans and Borrowings	17	-	331,759,900
Retirement Benefit Obligations	18	282,047	70,689
		<u>282,047</u>	<u>331,830,589</u>
Current Liabilities			
Interest Bearing Loans and Borrowings	17	338,184,404	81,546,751
Trade and Other Payables	19	6,060,065	17,663,401
Amounts Due to Related Parties	20	67,453	88,292,054
VAT Payables		2,078,191	425,977
Tax Payables		329,298	91,438
		<u>346,719,411</u>	<u>188,019,621</u>
Total Equity and Liabilities		<u>1,330,271,859</u>	<u>1,275,526,524</u>

The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the board by.


Chairman


Director

The Accounting Policies and notes on pages 14 through 28 form an integral part of the Financial Statements.

Colombo
07th July 2006

Cash Flow Statement

Year Ended 31st March 2006

	Note	2006 Rs.	2005 Rs.
Cash Flows From / (Used in) Operating Activities			
Net Profit/(Loss) before Income Tax Expense		139,948,732	30,456,672
Adjustments for			
Amortization of Intangible assets	11	1,600,000	1,600,000
Depreciation	5	28,385,365	16,800,081
Retirement Benefits	5	211,358	41,939
Write Back of Creditors		(2,371,312)	-
Write Off Debtors		54,730	-
Interest Income	4	(3,233,492)	(831,636)
Finance Costs	6	40,278,873	51,897,831
Operating Profit/(Loss) before Working Capital Changes		204,874,254	99,964,887
(Increase)/ Decrease in Trade and Other Receivables		(7,134,437)	(5,101,435)
(Increase)/Decrease in Amounts Due from Related Parties		(22,993,573)	(651,263)
Increase /(Decrease) in Trade and Other Payables		(7,579,810)	(28,378,645)
Increase/(Decrease) in Amounts Due to Related Parties		67,453	59,669,333
Cash Generated from /(used in) Operating Activities		167,233,887	125,502,877
Finance Costs Paid		(40,278,873)	(51,897,831)
Interest Received		1,322,891	831,636
Taxes Paid		(408,839)	(74,889)
Net Cash from/(used in) Operating Activities		127,869,066	74,361,793
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment		(5,517,173)	(48,348,408)
Investment in Ordinary Shares		(30,546,871)	-
Net Cash Flows from/(Used in) Investing Activities		(36,064,044)	(48,348,408)
Cash Flows from /(Used in) Financing Activities			
Payment of Term Loans		(63,232,940)	(23,221,445)
Receipt of Term Loans		-	7,890,744
Shares Issued		-	8,000,000
Net Cash Flows from/(Used in) Financing Activities		(63,232,940)	(7,330,701)
Net Increase/(Decrease) in Cash and Cash Equivalents		28,572,082	18,682,684
Cash and Cash Equivalents at the Beginning of the Period (Note A)		(3,603,304)	(22,285,988)
Cash and Cash Equivalents at the end of the Period (Note B)		24,968,778	(3,603,304)
Note A			
Cash and Cash Equivalents at the beginning of the period			
Cash in Hand & at Bank		8,065,615	2,411,891
Call Deposits		4,859,177	-
Bank Over Draft		(16,528,096)	(24,697,879)
		(3,603,304)	(22,285,988)
Note B			
Cash and Cash Equivalents at the end of the period			
Cash in Hand & at Bank		2,707,567	8,065,615
REPO & Call Deposits		26,900,000	4,859,177
Bank Over Draft		(4,638,789)	(16,528,096)
		24,968,778	(3,603,304)

The Accounting Policies and notes on pages 14 through 28 form an integral part of the Financial Statements.

Colombo
07th July 2006

Statement of Changes in Equity

Year Ended 31st March 2006

	Share Capital Rs.	Revaluation Reserve Rs.	Share Premium Rs.	Accumulated Profit/(Losses) Rs.	Total Rs.
Balance as at 31 March 2004	180,000,070	-	-	(47,107,455)	132,892,615
Revaluation	-	584,493,354	-	-	584,493,354
Net Profit for the year	-	-	-	30,290,345	30,290,345
Issue of Shares	8,000,000	-	-	-	8,000,000
Balance as at 31 March 2005	188,000,070	584,493,354	-	(16,817,110)	755,676,314
Share Premium	-	-	77,255,547	-	77,255,547
Net Profit for the year	-	-	-	139,302,033	139,302,033
Issue of Shares	11,036,507	-	-	-	11,036,507
Balance as at 31 March 2006	<u>199,036,577</u>	<u>584,493,354</u>	<u>77,255,547</u>	<u>122,484,923</u>	<u>983,270,401</u>

The Accounting Policies and notes on pages 14 through 28 form an integral part of the Financial Statements.

Colombo
07th July 2006

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

Vallibel Power Erathna Limited (Formerly registered as Power Company Erathna Ltd) is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No 27 – 02, East Tower, World Trade Center, Echelon Square, Colombo 01 and the Company's power generating plant is situated at Erathna Rathnapura.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the company were generation and sale of hydro electric energy.

1.3 Parent Enterprise

The company's parent undertaking is Vallibel Power Ltd

1.4 Date of Authorisation for Issue

The financial statements of Vallibel Power Erathna Ltd (Formerly registered as Power Company Erathna Ltd) for the year ended 31st March 2006 were authorized for issue in accordance with a resolution of the Board of Directors on 07th July 2006.

1.5 Number of Employees

The number of employees at the end of the year was 50 (2005 - 45)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Policies

2.1.1 Basis of Preparation

The Balance Sheet, Statements of Income, Changes in Equity and Cash Flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31st March 2006 and for the Year then ended comply with the Sri Lanka Accounting Standards.

These financial statements presented in Sri Lanka Rupees have been prepared on a historical cost basis.

2.1.2 Comparative Information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

2.1.3 Segmental Reporting

There are no identifiable different segments of the company.

2.1.4 Taxation

a) Current Taxes

Pursuant to the supplementary agreement dated 08th October 2002 entered into with Board of Investment under section 17 of the Board of Investment Law, the Company is exempt from income tax arising from the business of the generation of hydropower, for a period of 10 years commencing from 15th July 2004. After the expiration of the aforesaid period the provisions of the Inland Revenue Laws for the time being in force shall apply to the company. However, other income is taxed at the applicable tax rate.

b) Deferred Taxation

Deferred taxation is not provided for since the company enjoys a tax holiday period of 10 years.

2.1.5 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.1.6 Research and Development Costs

Research and development costs are expensed as incurred, except for development costs, which are recognised as an asset to the extent that it is expected that such asset will generate future economic benefits. Where development costs are recognised as an asset, such cost are amortized on a straight-line basis over the period of expected future benefits. At each Balance Sheet date, the Company assesses whether there is any indication of impairment of development costs recognised as assets i.e. whether it is no longer probable of recovering further economic benefits. If any such indication exists, only the estimated recoverable amount is further deferred.

Notes to the Financial Statements (Contd.)

2.2 Valuation of Assets and their Measurement Bases

2.2.1 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of provisions for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognised at cost less provision for bad and doubtful receivables.

2.2.2 Cash and Cash Equivalents

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

For the purpose of Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short-term maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.2.3 Property, Plant and Equipment

(a) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Where items of Property, Plant and Equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the balance sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant and Equipment are carried at revalued amounts less any subsequent depreciation thereon. All other Property, Plant and Equipment are stated at historical cost less depreciation.

(b) Restoration Costs

Expenditure incurred on repairs or maintenance of Property, Plant and Equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance, is recognised as an expense when incurred.

(c) Depreciation

The provision for depreciation is calculated by using a straight line method on the cost or valuation of all Property, Plant and Equipment other than freehold land, in order to write off such amounts over the following estimated useful lives by equal installments.

Civil Constructions	over 60 years
Plant & Machinery	over 33 1/3 years
Project Equipment	over 05 years
Tools & Accessories – Site	over 03 years
Motor Cycle	over 03 years
Motor vehicle	over 05 years
Computers	over 04 years
Furniture, Fittings & Other Equipment	over 10 years
Container	over 02 years

Full year's provision is made in the year of sale and none in the year of purchase or revaluation. Estimated useful lives of Civil Constructions and Plant & Machinery determined in accordance with the advice of a professional Valuer.

2.2.4 Intangible Assets

Company recognises intangible assets if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an intangible asset, at the time of its acquisition can be measured reliably.

Company policy is to amortise its intangible assets over 15 years on a straight-line basis.

Notes to the Financial Statements (Contd.)

2.2.5 Investments

Investments are stated at cost

2.2.6 Leases

Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the lease term are classified as operating leases.

Lease payments paid under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

Finance Leases

Property, Plant & Equipment on finance leases, (which effectively transfer to the company substantially all of the risks and benefits incidental to ownership of the leased item) are capitalised at their cash price, and depreciated/amortised over the period the company is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor is shown as a liability.

The interest element of the rental obligation applicable to each financial year is charged to the Income Statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The cost of improvements to or on leased property is capitalised, and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

2.3 Liabilities and Provisions

2.3.1 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the Balance Sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt with in the income statement.

The gratuity liability is not funded nor actuarially valued. This item is grouped under Non Current Liabilities in the Balance Sheet.

b) Defined Contribution Plans – Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

Notes to the Financial Statements (Contd.)

2.4 Income Statements

2.4.1 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

a) Rendering of Services

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

b) Interest

Interest Income is recognised as the interest accrues.

c) Others

Other income is recognised on an accrual basis

Net Gains and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non current assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

Gains and losses arising from incidental activities to the main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

2.4.2 Expenditure Recognition

a) Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the Profit / (Loss) for the year.

b) For the purpose of presentation of Income Statement the directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

Notes to the Financial Statements (Contd.)

3. REVENUE	2006 Rs.	2005 Rs.
Sales from Electricity Generation	234,464,484	128,116,749
	<u>234,464,484</u>	<u>128,116,749</u>

Company has entered into an agreement (Power Purchase Agreement) with the Ceylon Electricity Board to sell energy output generated from the power project. This agreement shall continue for a period of 15 years beginning on the commercial operations date. The commercial operations of the project was started on 15th July 2004. Further extension of this agreement will have to be agreed with the Ceylon Electricity Board after the expiry of the aforesaid 15 years. As per the Article 11 of the Power Purchase Agreement, Ceylon Electricity Board shall have the right of first refusal on terms identical to those offered by a third party to the company, to purchase any electrical energy to be sold from the project

4. OTHER OPERATING INCOME	2006 Rs.	2005 Rs.
Interest Income *	3,233,492	831,636
Write Back of Creditors	2,371,312	-
Scrap Sales	5,000	-
	<u>5,609,804</u>	<u>831,636</u>

* The above interest income includes related company interest of Rs 1,910,601/-.

5. PROFIT / (LOSS) FROM OPERATING ACTIVITIES

Stated after Charging / (Crediting):

Directors' Emoluments	-	-
Auditors' Remuneration	275,000	200,000
Depreciation	28,385,365	16,800,081
Retirement Benefits	211,358	41,939
Personnel Costs includes		
- Defined Contribution Plan Costs - EPF & ETF	1,404,812	1,530,436
- Staff Salaries	6,890,242	3,036,690
- Other Staff Costs	3,600,168	3,312,348

6 FINANCE COST

Term Loan Interest	38,690,956	48,637,765
Overdrft Interest	780,038	2,671,769
Debit Tax	734,490	471,466
Bank Charges	31,389	74,831
Escrow Charges	42,000	42,000
	<u>40,278,873</u>	<u>51,897,831</u>

7. INCOME TAX EXPENSE

Pursuant to the supplementary agreement dated 08th October 2002 entered into with Board of Investment under section 17 of the Board of Investment Law, the company is exempt from income tax arising from the business of the generation of hydropower, for a period of 10 years commencing from 15th July 2004. After the expiration of the aforesaid period the provisions of the Inland Revenue Laws for the time being in force shall apply to the company. However, other income is taxable at the applicable tax rate.

7.1 Current Income Tax Expense on Interest Income	<u>646,699</u>	<u>166,327</u>
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Notes to the Financial Statements (Contd.)

8. EARNINGS/(LOSS) PER SHARE

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

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

Amounts Used as the Numerators:	2006 March Rs.	2005 March Rs.
Profit/(Loss) Attributable to Ordinary Shareholders for basic Earnings Per Share	139,302,033	30,290,345
Number of Ordinary Shares Used as Denominators:	2006 March Number	2005 March Number
Weighted Average number of Ordinary Shares in issue	191,678,905	184,666,740

9. PROPERTY, PLANT & EQUIPMENT

Gross Carrying Amounts At Cost	Balance As at 01.04.2005 Rs.	Additions for the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2006 Rs.
Civil Constructions - Since Revaluation	-	4,183,234	-	4,183,234
Plant & Machinery - Since Revaluation	-	927,389	-	927,389
Project Equipment	325,482	-	-	325,482
Tools & Accessories	1,904,730	-	-	1,904,730
Motor Vehicles	10,138,779	-	-	10,138,779
Motor Bicycle	359,158	-	-	359,158
Furniture & Fittings	861,814	20,050	-	881,864
Computer	478,117	56,500	-	534,617
Container	75,000	-	-	75,000
Office Equipment	170,000	-	-	170,000
Fire Extinguisher	194,600	330,000	-	524,600
	<u>14,507,680</u>	<u>5,517,173</u>	<u>-</u>	<u>20,024,853</u>
At Valuation	Balance as at 01.04.2005 Rs.	Additions for the Year Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2006 Rs.
Free Hold Land	150,000,000	-	-	150,000,000
Civil Constructions	519,157,179	-	-	519,157,179
Plant & Machinery	556,703,996	-	-	556,703,996
	<u>1,225,861,175</u>	<u>-</u>	<u>-</u>	<u>1,225,861,175</u>

Notes to the Financial Statements (Contd.)

9. PROPERTY, PLANT & EQUIPMENT (Contd.)

Depreciation At Cost	Balance As at 01.04.2005 Rs.	Charge for the period/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2006 Rs.
Civil Constructions - Since Revaluation	-	-	-	-
Plant & Machinery - Since Revaluation	-	-	-	-
Project Equipment	82,559	65,096	-	147,655
Tools & Accessories	1,047,738	574,247	-	1,621,985
Motor Vehicles	3,429,424	2,027,756	-	5,457,180
Motor Bicycle	170,090	105,054	-	275,144
Furniture & Fittings	145,675	86,180	-	231,855
Computer	76,762	119,528	-	196,290
Container	75,000	-	-	75,000
Office Equipment	-	17,000	-	17,000
Fire Extinguisher	-	19,460	-	19,460
	<u>5,027,248</u>	<u>3,014,321</u>	<u>-</u>	<u>8,041,569</u>
At Valuation	Balance as at 01.04.2005 Rs.	Additions for the year Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2006 Rs.
Civil Constructions	7,717,227	8,669,924	-	16,387,151
Plant & Machinery	16,072,603	16,701,120	-	32,773,723
	<u>23,789,830</u>	<u>25,371,044</u>	<u>-</u>	<u>49,160,874</u>
Written Down Value	<u>1,211,551,777</u>			<u>1,188,683,585</u>

Cash payments amounting to Rs. 5,517,173/- (Rs.48,348,408/- 31.03.2005) were made during the year for purchase and construction of Property, Plant and Equipment.

9.1 Certain civil constructions of the hydro power project of the company constructed on a land leased from the Land Reform Commission. The lease period is 30 years commencing from 19th February 2003. Following are the significant conditions contained in the lease agreement among other conditions.

- 1) The tentative lease rental will be Rs. 62,676/= per year
- 2) The tentative lease rental is subject to revision based on the Government Chief Valuer's valuation on the land. The revised rental has not yet been determined.
- 3) Lessor reserves the right to review the rental contained in the agreement at the lapse of every five years (05) from the date of the commencement of this lease and in such event a fresh agreement should be entered in to in respect of revised rental, the other conditions of this agreement remain unchanged.

9.2 The Freehold Land, Civil Constructions and Plant & Machinery were revalued by M/s Sunil Fernando & Associates (Pvt) Ltd., Chartered Valuation Surveyors, Property Managers and Property Consultants which is an independent firm of professional valuers as of 31.03.2005 and the results of such valuation were incorporated in these financial statements as at that date. Such assets were valued on the basis of Depreciated Replacement Cost (DRC) method. The surplus arising from the revaluation was transferred to a revaluation reserve.

Notes to the Financial Statements (Contd.)

9. PROPERTY, PLANT & EQUIPMENT (Contd.)

The carrying amounts of revalued assets that would have been included in the financial statements had the assets been carried at cost less depreciation, is as follows.

Class of Asset	Cost Rs.	Cumulative Depreciation if Assets were Carried at Cost Rs.	Net Carrying Amount March 2006 Rs.	Net Carrying Amount March 2005 Rs.
Free Hold Land	4,622,387	-	4,622,387	4,622,387
Civil Constructions	273,106,006	(8,611,464)	264,494,542	269,046,309
Plant & Machinery	354,133,484	(20,848,194)	333,285,290	343,909,295
	<u>631,861,877</u>	<u>(29,459,658)</u>	<u>602,402,219</u>	<u>617,577,991</u>

10. INVESTMENTS	Num of Shares	2006	2005	Market Value
Fortress Resorts Ltd	5%	March	March	31.03.2006
		Rs.	Rs.	Rs.
Ordinary Shares	1,631,200	30,546,871	-	24,468,000
		<u>30,546,871</u>	<u>-</u>	<u>24,468,000</u>

11. INTANGIBLE ASSET - Right to Generate Hydro Power

	2006 Rs.	2005 Rs.
Cost		
Gross carrying amount B/F	24,000,000	24,000,000
Gross carrying amount C/F	<u>24,000,000</u>	<u>24,000,000</u>
Amortisation		
Accumulated amortisation B/F	1,600,000	1,600,000
Amortization for the year	1,600,000	-
Accumulated amortisation C/F	<u>3,200,000</u>	<u>1,600,000</u>
Net carrying amount at the end of the year	<u>20,800,000</u>	<u>22,400,000</u>

The above balance represents amount paid to purchase an exclusive right to generate hydro electric power. Company expects to amortise this right over 15 years on a straight line basis beginning from the year of commercial operations.

Notes to the Financial Statements (Contd.)

12. TRADE AND OTHER RECEIVABLES	2006 Rs.	2005 Rs.
Advances & Pre Payments	3,267,580	2,200,620
Trade Receivable`	19,472,041	13,679,141
Staff Debtors	512,442	144,820
Other Receivable (Includes interest receivable from Didul Rs 1,910,601/-)	2,068,826	306,000
	<u>25,320,889</u>	<u>16,330,581</u>

13. AMOUNT DUE FROM RELATED PARTIES	2006 Rs.	2005 Rs.
Didul (Pvt) Limited - Current Account Balance	724,345	12,319,374
- Loan Balance (Rate of Interest 14% p.a.)	34,588,602	-
	<u>35,312,947</u>	<u>12,319,374</u>

Note: Didul (Pvt) Ltd is a related company of the company engaged in the business of Hydro Power Generation. Amounts receivable represents the short term loans and net inter company transaction balance.

Notes to the Financial Statements (Contd.)

14 SHARE CAPITAL	2006	2005
	Rs.	Rs.
Authorised Share Capital		
1,500,000,000 Ordinary shares of Rs.1/= each	1,500,000,000	750,000,000
Issued and Fully Paid		
188,000,007 Ordinary shares of Rs.1/= each at the beginning of the year	188,000,070	180,000,070
11,036,507 Ordinary shares of Rs 1/= each issued during the year	11,036,507	8,000,000
At the end of the year	199,036,577	188,000,070

On 24th October 2005 company has increased its authorised share capital to Rs 1,500,000,000/-divided into 150,000,000 ordinary shares of Rs 10/- each from Rs 750,000,000/- divided into 75,000,000 shares. Further, on 18th November 2005, company has sub divided its Ten Rupee shares to One Rupee shares.

15. REVALUATION RESERVE	2006	2005
	Rs.	Rs.
Balance B/F	584,493,354	-
Increase on revaluation	-	584,493,354
Balance C/F	584,493,354	584,493,354

The above balance represents reserve arisen due to revaluation of Land, Civil Constructions & Plant & Machinery.


16. SHARE PREMIUM	2006	2005
	Rs.	Rs.
Increase in Share Premium during the year	77,255,547	-
	77,255,547	-

On 21st November 2005 the company has converted the amounts due to related companies amounting to Rs. 88,292,054/- outstanding as at 31st March 2005 (Refer Note 20) into 11,036,507 ordinary shares at a conversion rate of Rs 8/- and transferred the shares to Vallible Power Limited. The above balance represents the share premium on such conversion.

17. INTEREST BEARING LOANS AND BORROWINGS	2006	2006	2006	2006
	Repayable	Repayable	Repayable	Total
	Within	Within	after	
	1 Year	2 to 5 Years	5 Year	
	Rs.	Rs.	Rs.	Rs.
DFCC Bank *	116,071,415	-	-	116,071,415
Sampath Bank *	94,260,000	-	-	94,260,000
Commercial Bank *	123,214,200	-	-	123,214,200
Bank Overdraft	4,638,789	-	-	4,638,789
	338,184,404	-	-	338,184,404

Notes to the Financial Statements (Contd.)

17. INTEREST BEARING LOANS AND BORROWINGS (Contd.)

	2005 Repayable Within 1 Year Rs.	2005 Repayable Within 2 to 5 Years Rs.	2005 Repayable after 5 Year Rs.	2005 Total Rs.
DFCC Bank *	23,214,295	85,714,320	28,571,380	137,499,995
Sampath Bank *	18,590,000	68,640,000	25,620,000	112,850,000
Commercial Bank *	23,214,360	85,714,560	37,499,640	146,428,560
Bank Overdraft	16,528,096	-	-	16,528,096
	<u>81,546,751</u>	<u>240,068,880</u>	<u>91,691,020</u>	<u>413,306,651</u>
				
		331,759,900		

* Rate of interest is AWDR Plus 5% p.a.

In April 2006, company has offered its Ordinary Shares to general public by way of an initial public offering with the objective of redeeming its long term loans. Accordingly, company has fully settled its long term loans during April / May 2006 out of funds received from public offering. Therefore, the entire long term loan amount has been classified under current liabilities.

18. RETIREMENT BENEFIT OBLIGATIONS

	2006 Rs.	2005 Rs.
At the beginning of the year	70,689	28,750
Provision made for the year	211,358	41,939
At the end of the year	<u>282,047</u>	<u>70,689</u>

19. TRADE AND OTHER PAYABLES

	2006 Rs.	2005 Rs.
Accrued Expenditure	1,539,975	6,771,195
Retention Money	375,392	2,335,842
Payable to Contractors	4,144,698	7,673,117
Trade Creditors	-	883,247
	<u>6,060,065</u>	<u>17,663,401</u>

Notes to the Financial Statements (Contd.)

20. AMOUNTS DUE TO RELATED PARTIES	2006 Rs.	2005 Rs.
Vallibel Lanka (Pvt) Ltd	43,253	86,116,950
Alternate Power Systems (Pvt) Ltd	24,200	375,104
Anuradha Traders (Pvt) Ltd.	-	1,800,000
	<u>67,453</u>	<u>88,292,054</u>

21 COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

There are no capital commitments as at the balance sheet date.

Contingencies

No known contingent liabilities exist as at the Balance Sheet date other than the matter disclosed in Note 9.1 (2) and (3) to the financial statements

Notes to the Financial Statements (Contd.)

22. SECURITIES PLEDGED

Following assets have been pledged as security for liabilities.

Nature of Liability	Loan/ Facility Rs.	Loan Outstanding Rs.	Lender	Security
Overdraft	15,000,000	4,638,789	DFCC Vardhana	Personal Guarantee of Director Mr. Dhammika Perera for Rs. 15 Mn and a Certified Board Resolution of the company
Term Loan	150,000,000	116,071,415	DFCC Bank	<ol style="list-style-type: none"> 1. Primary concurrent mortgage for Rs.115 Million with other banks in the loan syndication over project assets, land together with the buildings, 9.9 MW hydropower plant complete with civil structures, Turbines, Generators and Electrical Grid Station and everything else standing thereon. 2. Primary concurrent mortgage for Rs. 35 Million with other banks in the loan syndication over 180,000,000 shares of Rs. 1/= each of the company held by Mr. Dhammika Perera and Vallibel Power Ltd. 3. Assignment of all project documents in favour of DFCC bank and other banks in the loan syndication.
Term Loan	120,000,000	94,260,000	Sampath Bank	<ol style="list-style-type: none"> 1. Primary concurrent mortgage between DFCC bank, Commercial Bank and Sampath Bank for Rs. 420 Million over the Land, Buildings, Power Generating Plant, Civil Structures and Machinery & Equipment of the project at Erathna securing Sampath Bank for Rs. 120 Million. 2. Syndicate Loan Agreement

Notes to the Financial Statements (Contd.)

22. SECURITIES PLEDGED (Contd.)

Nature of Liability	Loan/ Facility Rs.	Loan Outstanding Rs.	Lender	Security
Term Loan	150,000,000	123,214,200	Commercial Bank	<ol style="list-style-type: none"> 1. Primary concurrent mortgage between DFCC bank, Commercial Bank and Sampath Bank for Rs. 420 Million over the Land, Buildings, Power Generating Plant, Civil Structures and Machinery & Equipment of the project at Erathna securing Commercial Bank for Rs. 150 Million. 2. Primary concurrent mortgage for Rs. 150 Million executed by the shareholders over 180,000,000 shares of Rs.1/- each in the company held by Mr. Dhammika Perera and Vallibel Power Ltd. 3. Assignment of all project documents in the names of the participating banks. 4. Personal Guarantee of Mr. Dhammika Perera to the extent of Rs. 150 Million.

23. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 06th April 2006, company has invited applications from the general public to purchase fifty million (50,000,000) of its Ordinary Shares with a par value of Rupees one (Rs 1/-) each at the offer subscription price of Rupees eight (Rs 8/-) each inclusive of a premium of Rupees seven (Rs 7/-) per share. Subscribers to the offering was eligible to participate in the Bonus Issue together with the existing shareholders and thereby be entitled to Two (2) Bonus Shares for every one (1) share so allotted in terms of the offering.

24. DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Nature of the Transaction	2006 Rs.	2005 Rs.
Mr.K.D.D.Perera is a director of the company is also a director of Vallibel Lanka (Pvt) limited with which the company has had the following transactions.		
Payments onbehalf of the company		
Staff Salaries & Allowances	-	5,310,873
EPF,ETF & PAYE for Office staff	283,843	298,774
EPF,ETF & PAYE for Site staff	556,508	579,264
Office Rent, Electricity,Stationary Etc	2,055,009	2,125,692
Other Expenses	2,710,694	29,581,765
Shares issued against the amount due to Vallible Lanka (Pvt) Ltd	86,116,950	-
Funds Received from Vallible Lanka (Pvt) Ltd	5,562,802	20,062,000

Notes to the Financial Statements (Contd.)

24. DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY (Contd.)

Nature of the Transaction	2006 Rs.	2005 Rs.
Mr.K.D.D.Perera and Mr.P.K.Sumanasekera directors of the company are also directors of Didul (Pvt) Limited with which the company has had the following transactions.		
Fund Transfers to Didul (Pvt) Ltd	14,729,136	1,080,260
Funds received from Didul (Pvt) Ltd	3,134,107	374,765
Interest Income from Didul (Pvt) Ltd	1,910,601	-
Mr.K.D.D.Perera is a director of the company is also a director of Alternate Power Systems (Pvt) Limited with which the company has had the following transaction.		
Funds Received from Alternate Power Systems (Pvt) Ltd	100,000	465,596
Fund Transfers to Alternate Power Systems (Pvt) Ltd	75,800	413,671
Shares issued against the amount due to Alternate Power Systems (Pvt) Ltd	375,164	-
Mr.K.D.D.Perera is a director of the company is also a director of Anuradha Traders (Pvt) Limited with which the company has had the following transactions.		
Purchase of Motor Vehicle	-	1,800,000
Shares issued against the amount due to Anuradha Traders (Pvt) Ltd	1,800,000	-
Mr.K.D.D.Perera and Mr. W.D.N.H. Perera are directors of the company are also directors of The Fortress Resorts Limited with which the company has had the following transactions		
Investment in Ordinary Shares	30,546,870	-

25. PRICING POLICIES

Purchase of goods and services from related parties were made at normal trading terms under an arms' length basis.

26. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 4,10,12,13, 20 & 24 to the financial statements.

Shareholder and Investor Information

Shareholders

The shareholders of the Company as at 31st March 2006 were as follows:

Name	As at 31st March 2006		As at 31st March 2005	
	No. of shares	Percentage	No. of shares	Percentage
Vallibel Power Ltd.	127,008,657	63.81%	-	-
K. D. D. Perera	56,402,900	28.34%	12,610,002	67.07%
K. D. A. Perera	6,250,000	3.14%	119,999	0.64%
K. D. H. Perera	6,250,000	3.14%	119,999	0.64%
K. D. C. Samanthi	3,125,000	1.57%	50,000	0.27%
I. P. Perera	10	0.00%	01	0.00%
S. Munasinghe	10	0.00%	01	0.00%

Analysis of Shareholders as at 31st March 2006

No. of shares held		No. of shareholders	Shareholding	%
1	- 1,000	02	20	0.00
1,001	- 5,000	-	-	-
5,001	- 10,000	-	-	-
10,001	- 50,000	-	-	-
50,001	- 100,000	-	-	-
100,001	- 500,000	-	-	-
500,001	- 1,000,000	-	-	-
Over 1,000,000		05	199,036,557	100.00
TOTAL		07	199,036,577	100.00

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Fifth Annual General Meeting of Vallibel Power Erathna Limited will be held at 9.00 am on Tuesday, 26th of September 2006, at the 36th Floor, East Tower, World Trade Center, Colombo 1 for following purposes:

1. To receive and consider the Report of the Directors, Statement of Accounts and the Balance Sheet of the Company, for the year ended 31st March 2006, together with the Report of the Auditors therein.
2. To re-elect Mr. K. D. D. Perera who retires by rotation in terms of Article No.91 of the Articles of Association as a Director of the Company.
3. To re-elect Mr. M. T. L. Fernando who retires in terms of Article No. 98 of the Articles of Association as a Director of the Company.
4. To re-elect Mr. L. Wickremaratchi who retires in terms of Article No. 98 of the Articles of Association as a Director of the Company.
5. To re-appoint M/s Ernst & Young, Chartered Accountants as Auditors for the ensuring year and the Directors to determine their remuneration.
6. **Special Business**
 - a) To authorize the Directors to determine payments for charitable and other purposes for the year 2006/2007 as set out in the Companies Donation Act (CAP 147).
 - b) To amend the Articles of Association of the Company as required by the Colombo Stock Exchange.

RESOLVED that, the Articles of Association of the Company be amended by the inclusion of the following Article numbered 1(a) immediately following Article no. 1 under the caption "Preliminary".

"Where provision in these Articles dealing with or relating in any manner to quoted shares is inconsistent with any Rule of the Colombo Stock Exchange or the Central Depository Systems, such Rule shall prevail over the provision in the Articles."

By Order of the Board
(Sgd.)
Secretaries & Registrars Ltd.
Secretaries
31st August, 2006

Note:

1. A member entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a member, to attend instead of him/her. A proxy may vote on a poll (and join in demanding a poll) but not on a show of hands.
2. A Form of Proxy is enclosed in this Report.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 27-2, East Tower, World Trade Centre, Echelon Square, Colombo 01 not less than 48 hours before the time for holding the meeting.
4. Shareholders/Proxies attending the meeting are requested to bring their National Identity Card or Passport.

Form of Proxy

*I/We.....of
being *a member/members of **VALLIBEL POWER ERATHNA LIMITED**, do
 hereby appoint.....
of
or failing *him/her

- | | |
|------------------------|----------------|
| Mr. K. D. D. Perera | or failing him |
| Mr. P. K. Sumanasekera | or failing him |
| Ms. W. D N. H. Perera | or failing him |
| Mr. S. H. Amarasekera | or failing him |
| Mr. M. T. L. Fernando | or failing him |
| Mr. L. Wickremarachchi | |

as *my/our Proxy to vote (Refer Note 3) for *me/us on *my/our behalf at the 05TH ANNUAL GENERAL MEETING OF THE COMPANY to be held at the 36th Floor East Tower World Trade Center, Colombo 1 at 9.00 a.m. on Tuesday the 26th of September 2006 and at any adjournment thereof, and at every poll, which may be taken in consequence thereof.

	FOR	AGAINST
1. To receive and consider the Report of the Directors, Statement of Accounts and the Balance Sheet of the Company for the year ended 31 st March 2006 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Re-election of Mr. K. D. D. Perera as a Director	<input type="checkbox"/>	<input type="checkbox"/>
3. Re-election of Mr. M. T. L. Fernando as a Director	<input type="checkbox"/>	<input type="checkbox"/>
4. Re-election of Mr. L. Wickremarachchi as a Director	<input type="checkbox"/>	<input type="checkbox"/>
5. Re-appointment of M/s Ernst & Young as Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
6. a) To authorize The Directors to determine payments for charitable and other purposes for the year 2006/07	<input type="checkbox"/>	<input type="checkbox"/>
b) To amend the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>

Signed thisday of Two Thousand and Six.

.....
 * Signature/s

- Note :
1. * Please delete the inappropriate words.
 2. Instructions as to completion are noted on the reverse hereof.
 3. If you wish your proxy to speak at the meeting you should interpolate the words "and to speak" immediately after the words "to vote"

Instructions as to Completion

1. Kindly perfect the Form of Proxy after filling in legibly your full name, address and sign in the space provided. Please fill in the date of signature.
2. A Member entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a member, to attend and vote instead of him. The Proxy may not speak at the Meeting unless expressly authorised by the instrument appointing him.
3. In the case of a Corporate Member, the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association.
4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy, in the manner prescribed by Articles of Association.
5. The completed Form of Proxy should be deposited at the Registered Office of the Company, 27-2, East Tower, World Trade Center, Echelon Square, Colombo 01 not less than forty eight (48) hours before the appointed time for the Meeting.