



Vallibel Power Erathna Ltd





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.



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Who we are?

Vallibel Power Erathna Limited is one of the largest privately owned hydro power companies 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

I am pleased to present the Annual Report and Audited Financial Statements for the year ended March 31, 2007 and welcome you to the Sixth Annual General Meeting.

During the period under review, the Company became a public listed company having got the shares of the Company listed on the Colombo Stock Exchange on May 17, 2006. You will be pleased to note that the company has performed very well during this financial year. The Company has generated 38 Mn kWh of electricity which resulted in a turnover of Rs. 226.8 million. The Company has made a net profit of Rs. 152.8 million for the Financial Year 2006/2007.

During the period under review the Company has declared three interim dividend payments of 15%, 7.5% and 5% respectively, thereby paying a total of 27.5% of tax free dividend. At the Annual General Meeting we are proposing to ratify the Third Interim Dividend paid on May 30, 2007 as the Final Dividend for the Financial Year ending March 31, 2007. Your Company will enjoy the tax free status until July 15, 2014.

As you know, we have entered into a Standardized Power Purchase Agreement (SPPA) with the Ceylon Electricity Board up to July 15, 2019 and as per the terms of the SPPA, tariffs have to be revised annually in January each year, based on avoided cost basis. Your Company, as other small hydro power developers, does not have access to computing of the tariffs by the Ceylon Electricity Board nor does it have any remedy to challenge such computing. However, during the past years, the tariffs have been upwardly revised and the prevailing tariffs are Rs 7.64 during the dry period from February to April and Rs. 6.94 during

the wet period. Unfortunately the Company does not get the full benefit of this tariff increase due to the fact that effective January 2007, the CEB has been exempt from paying the Value Added Tax (VAT). As a result your Company is unable to recover any VAT incurred on the production of energy with effect from January 2007. This has resulted in an increased operating cost of the Company.

In spite of increasing operating cost, we are looking forward to improved performance in the next year by maintaining the hydro plant in excellent operating condition and by having constant dialogue with the CEB transmission division with a view to minimizing transmission down time.

I would like to take this opportunity to thank the officials of the Ceylon Electricity Board for their prompt responsiveness in dealing with the Company. I wish to extend a welcome to Mr. Nilantha Perera, the Chief Financial Officer of L B Finance Ltd, who joined the Board in November 2006.

Finally, I wish to express my sincere appreciation to all my colleagues on the Board for their valuable contribution and to the Managing Director and his able Management Team for their commitment and dedicated efforts. 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.Dhammika Perera
Chairman
14th August 2007

Board of Directors

K D Dhammika Perera - Chairman

Mr. Dhammika Perera is the Chairman/Director General of the Board of Investment of Sri Lanka (BOI). He is a member of the Board of Directors of Strategic Enterprises Management Agency (SEMA) and the Sri Lanka Export Development Board (EDB) as well. Mr Perera is a well known 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 public 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 The Fortress Resorts Ltd, Hotel Reefcomber Ltd, and Didul (Pvt) Ltd. He is Deputy Chairman of Royal Ceramics Lanka Ltd, L B Finance Ltd, Connaissance Holdings Ltd and Vallibel Finance Ltd. He was Deputy Chairman of PABC Bank until his resignation on July 30, 2007 and subsequently has been appointed as a Director of Sampath Bank wef August 1, 2007.

L Wickremarachchi - Managing Director/CEO

Mr. Leel Wickremarachchi is an Engineer with an M.Sc. (Engineering) from the People's Friendship University, Moscow and an MBA (Merit) from the Post Graduate Institute of Management (PIM) 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). He is also a Director of PABC Bank, Didul (Pvt) Ltd and Vallibel Power Limited which owns a few other hydro power developing companies.

MT 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 Ltd, Asian Hotels & Properties Ltd, Royal

Ceramics Lanka Ltd and Lanka Orix Leasing Company Ltd. 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 and currently functioning as Managing Director of Royal Ceramics Lanka Ltd and The Fortress Resorts Ltd and Group Finance Director of Connaissance Holdings Ltd and Hotel Reef Comber Ltd. Mr. Perera is also Director of LB Finance Ltd and Vallibel Finance Ltd and counts over 20 years experience in Finance, Capital Market Operations, Manufacturing, Marketing and Management Services.

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 Chemical Industries (Colombo) Ltd, Connaissance Holdings Ltd, C.W. Mackie & Co. Ltd. and Keells Food Products Ltd. He is also the Chairman of Asia Capital Ltd.

Nilantha Perera

Mr. Nilantha Perera is a Member of the Institute of Chartered Accountants of Sri Lanka with over 10 years experience in the field of finance and accounting. Currently he is functioning as the Chief Financial Officer of LB Finance 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 2007. The Financial Statements have been prepared in accordance with the Revised Sri Lanka Accounting Standards.

Legal Status

The Company was incorporated on 7th November 2001 under the name of "Zyrex Power Company Erathna Limited" and later changed its name to "Power Company Erathna Limited" on 14th October 2004. Thereafter, on 2nd June 2005 the name of the company was changed to "Vallibel Power Erathna Limited". The shares of the Company were listed on the Colombo Stock Exchange on 17th May 2006.

Principal Activity

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

Business Review

The Report of the Chairman covers the activities carried out by the Company during the period under review.

Summarized Financial Position

The summarized financial position of the Company is as follows:

	2006/07 Rs. '000	2005/06 Rs. '000
Profit after Taxation	152,831	139,302
Profit/(loss) brought forward	122,485	(16,817)
Dividend	168,100	-
Transfer of realized surplus on usage	20,356	-
Balance carried forward	127,572	122,485

The Financial Statements of the Company are given in pages 12 to 29.

Share Capital

The authorized share capital of the Company as at 31st March 2007 was Rs. 1,500,000,000/- divided into 1,500,000,000 shares of Rs. 1/- each.

The issued share capital of the Company as at 31st March 2007 was Rs. 747,109,731 divided into 747,109,731 shares of Rs. 1/- each.

The Company invited applications from the general public to purchase 50,000,000 share of Rs. 1/- each, thereby increasing the issued capital of the Company from Rs. 199,036,577 divided into 199,036,577 shares of Rs. 1/- each to Rs. 249,036,577/- divided into 249,036,577 shares of Rs. 1/- each.

Thereafter, on 27th July 2007 the Company allotted bonus shares on the basis of two shares (02) for every one share (01) held as at the Ex-bonus date, thereby increasing the issued capital upto Rs. 747,109,731/- divided into 747,109,731 shares of Rs. 1/- each.

Reserves

The reserves of the Company stand at Rs.620,891,668 comprising capital reserves of Rs. 493,319,811 and revenue reserves of Rs. 127,571,857.

Dividends

The Company made the following dividend payments during the financial year under review;

- 1st Interim dividend of 15% (tax-free) for the year ending 31.03.2007 paid on 25th August 2006
- 2nd Interim dividend of 7.5% (tax -free) for the year ending 31.03.2007 paid on 23rd October 2006.
- 3rd Interim dividend of 5% (tax-free) for the year ended 31.03.2007 paid on 30th May 2007.

The Directors recommend to the shareholders that the 3rd Interim dividend paid on May 30, 2007 be considered as the Final Dividend for the year ended 31st March 2007.

Report of the Directors (Contd.)

Payment of Statutory expenses

The Directors confirm that all payments in respect of statutory liabilities including EPF, ETF, and PAYE tax have been made within the stipulated period during the financial year.

Directorate

The Directors of the Company as at 31st March 2007 were as follows:

Mr. K. D. D. Perera (Chairman)
Mr. L. Wickremarachchi (Managing Director)
Mr. P. K. Sumanasekera
Mr. W. D. N. H. Perera
Mr. S. H. Amarasekera
Mr. M. T. L. Fernando
Mr. M. P. N. Perera (appointed on 20th November 2006)

Mr. W.D.N.H. 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 with the unanimous approval of the Board.

Mr. M. T. L. Fernando retires in terms of Section 210 of the Companies Act No. 7 of 2007. Special Notice has been received from a shareholder pursuant to Section 211 of the Companies Act No. 7 of 2007 of his intention to propose the re-election of Mr. M. T. L. Fernando.

Mr. M. P. N. Perera retires in terms of Article 98 of the Articles of Association of the Company and being eligible offer himself for re-election. With the unanimous approval of the Board.

Directors' interest in shares of the Company

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

	31st March 2007	31st March 2006
Mr. K. D. D. Perera	184,276,750	56,402,900
Mr. L. Wickremarachchi	80,000	-
Mr. P. K. Sumanasekera	150,000	-
Mr. W. D. N. H. Perera	3,000	-
Mr. S. H. Amarasekera	575,000	-
Mr. M. T. L. Fernando	300,000	-
Mr. M. P. N. Perera	-	-

Directors' interest in contracts

Directors' interests in contracts are disclosed in Note 23 to the Financial Statements.

Capital Expenditure

The capital expenditure during the year amounted to Rs. 7.3 Mn.

Property, Plant & Equipment

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

Post Balance Sheet Events

Third Interim Dividend of Rs. 37,355,487 (Rs. 0.05 per share) has been declared after the Balance Sheet date.

Auditors

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

By order of the Board of
Vallibel Power Erathna Limited

(sgd)
Secretaries & Registrars Limited
Secretaries

Colombo

14th August 2007

Corporate Governance

It is the policy of the Company to manage its affairs in accordance with appropriate standards for good corporate governance. The Company supports the Code of Best Practices on matters relating to the financial aspect of corporate governance issued by the Institute of Chartered Accountants of Sri Lanka.

Vallibel Power Erathna Ltd is committed to follow principles of good corporate governance and some of them have been briefly stated below.

Board of Directors

The Board consists of one executive director, two non executive independent directors and four non executive directors. The Board is mindful that the Directors are responsible for protecting the rights and interests of shareholders and accountable to them for the overall management of the Company.

Board Meetings

The Board meets regularly to consider among other things the performance and the financial statements for the period under review and approve major non routine expenditure. The Board meetings are the means of providing strategic directions to the Chief Executive Officer and the senior management of the Company.

Audit Committee

The Board has appointed an Audit Committee consisting of three non executive directors during the period under review. The Members of the Audit Committee are as follows:

Mr. M.T.L. Fernando (Chairman)
Mr. W.D.N.H. Perera
Mr. P.K. Sumanasekera

Remuneration Committee

The Board also appointed a Remuneration Committee consisting of the following non executive directors during the period under review.

Mr. S. H. Amarasekera (Chairman)
Mr. K. D. D. Perera
Mr. M.T.L. Fernando

The Remuneration Committee meets as required to review the compensation payable to the Chief Executive Officer and the Senior Management.

Compliance

The Board places great emphasis on compliance procedures. The financial statements of the Company are prepared strictly in accordance with the Sri Lanka Accounting Standards and financial statements are published in line with the continued listing rules of the Colombo Stock Exchange. The Directors confirm that, to the best of their knowledge, all taxes and duties payable by the Company and all statutory payments in respect of the employees have been paid or provided for as at the Balance Sheet date.

Statement of Directors Responsibilities

As per the provisions of the companies Act No.17 of 1982 the Directors are required to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the Company as at the end of the financial year, and of the results of its operations for the financial year.

The Directors consider that, in preparing these financial statements set out in the Annual Report, appropriate accounting policies have been selected and applied in a consistent manner and supported by reasonable and prudent judgment and that all applicable Accounting Standards, as relevant, have been followed.

The Directors are also confident that the Company has adequate resources to continue in operation and have applied the going concern basis in preparing these financial statements. Further, the Directors have responsibility to ensure that the Company maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company, and to ensure that the financial statements presented, comply with the requirements of the Companies Act No.17 of 1982.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and in this regard have given proper consideration to the establishment of appropriate internal control systems to prevent and detect fraud and other irregularities.

The Directors are confident that they have discharged their responsibilities as set out in the statement. The Directors also confirm that to the best of their knowledge, all statutory payments payable by the Company as at the Balance Sheet date have been paid or where relevant provided for.

By order of the Board of
Vallibel Power Erathna Limited

(sgd)
Secretaries & Registrars Limited
Secretaries

Colombo
14th August 2007



Financial Information

Report of the Auditors



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

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

AUDITORS' REPORT TO THE MEMBERS OF
VALLIBEL POWER ERATHNA LIMITED
(NOW KNOWN AS VALLIBEL POWER ERATHNA PLC)

We have audited the Balance Sheet of Vallibel Power Erathna Limited (Now Known As Vallibel Power Erathna PLC) as at 31st March 2007 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 12 to 29.

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 2007, and to the best of our information and according to the explanations given to us, the said Balance Sheet and related Statements of Income Cash 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 2007 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 2007 except as stated in Note 23 to these financial statements.

Colombo,
26th July 2007.

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

Income Statement

Year ended 31st March 2007

	Note	2007 Rs.	2006 Rs.
Revenue	3	226,784,895	234,464,484
Cost Of Sales		(34,768,844)	(30,838,431)
Gross Profit		192,016,051	203,626,053
Other Income	4	9,881,922	5,609,804
Administration Expenses		(28,449,539)	(28,067,331)
IPO Expenses		(12,614,467)	-
Other Operating Expenses		(79,937)	(940,921)
Finance Cost	5	(5,363,415)	(40,278,873)
Profit Before Taxation	6	155,390,615	139,948,732
Income Tax Expense	7	(2,559,928)	(646,699)
Net Profit For The Year		152,830,687	139,302,033
Basic Earnings Per Share	8	0.21	0.20
Dividend Per Share		0.22	

The Accounting Policies and Notes on pages 16 through 29 form an integral part of the Financial Statements.

Colombo
26th July 2007

Balance Sheet

As at 31st March 2007

	Note	2007 Rs.	2006 Rs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment - At Cost and Valuation	9	1,171,088,357	1,188,683,585
Investments	10	123,818,870	30,546,871
Intangible Assets - Right To Generate Hydro Power	11	19,200,000	20,800,000
		<u>1,314,107,227</u>	<u>1,240,030,456</u>
Current Assets			
Trade & Other Receivables	12	11,680,809	25,320,889
Amount Due from Related Parties	13	886,091	35,312,947
ESC Recoverable		474,484	-
Short Term Investment	10	48,942,054	26,900,000
Cash and Bank Balances		3,266,304	2,707,567
		<u>65,249,742</u>	<u>90,241,403</u>
Total Assets		<u>1,379,356,969</u>	<u>1,330,271,859</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	14	747,109,731	199,036,577
Reserve	15	493,319,811	661,748,901
Accumulated Profit		127,571,857	122,484,923
Total Equity		<u>1,368,001,399</u>	<u>983,270,401</u>
Non Current Liabilities			
Interest Bearing Loans and Borrowings	16	2,648,639	-
Retirement Benefit Obligations	17	918,584	282,047
		<u>3,567,223</u>	<u>282,047</u>
Current Liabilities			
Interest Bearing Loans and Borrowings	16	634,454	338,184,404
Trade and Other Payables	18	3,058,089	6,060,065
Amounts Due to Related Parties	19	233,131	67,453
Dividend Payable		1,629,310	-
VAT Payables		-	2,078,191
Tax Payables		2,233,363	329,298
		<u>7,788,347</u>	<u>346,719,411</u>
Total Equity and Liabilities		<u>1,379,356,969</u>	<u>1,330,271,859</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.



.....
K.D.D. Perera
Chairman



.....
L. Wickremaratchi
Managing Director

The Accounting Policies and Notes on pages 16 through 29 form an integral part of the Financial Statements.

Colombo
26th July 2007

Cash Flow Statement

As at 31st March 2007

	Note	2007 Rs.	2006 Rs.
Cash Flows From / (Used in) Operating Activities			
Net Profit/(Loss) before Income Tax Expense		155,390,615	139,948,732
Adjustments for			
Amortization of Intangible assets	11	1,600,000	1,600,000
Depreciation	6	28,573,744	28,385,365
Retirement Benefits	6	636,537	211,358
Write Back of Creditors		(1,589,805)	(2,371,312)
Write Off Debtors		-	54,730
Interest Income	4	(7,603,749)	(3,233,492)
Finance Costs	5	5,363,415	40,278,873
Operating Profit/(Loss) before Working Capital Changes		182,370,757	204,874,254
(Increase)/ Decrease in Trade and Other Receivables		11,967,497	(7,134,437)
(Increase)/Decrease in Amounts Due from Related Parties		34,426,856	(22,993,573)
Increase /(Decrease) in Trade and Other Payables		(1,412,171)	(7,579,810)
Increase/(Decrease) in Amounts Due to Related Parties		165,678	67,453
Cash Generated from /(used in) Operating Activities		227,518,617	167,233,887
Finance Costs Paid		(5,254,170)	(40,278,873)
Interest Received		9,276,332	1,322,891
VAT Paid		(2,078,191)	-
Taxes Paid		(1,130,346)	(408,839)
Net Cash from/(used in) Operating Activities		228,332,242	127,869,066
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment		(7,337,869)	(5,517,173)
Investment in Ordinary Shares		(93,272,000)	(30,546,871)
Investment in Fixed Deposits		(45,941,106)	-
Net Cash Flows from/(Used in) Investing Activities		(146,550,975)	(36,064,044)
Cash Flows from /(Used in) Financing Activities			
Payment of Term Loans		(333,545,615)	(63,232,940)
Dividend Paid		(166,470,379)	-
Lease Rental		(466,799)	-
Shares Issued		400,000,000	-
Net Cash Flows from/(Used in) Financing Activities		(100,482,793)	(63,232,940)
Net Increase/(Decrease) in Cash and Cash Equivalents		(18,701,526)	28,572,082
Cash and Cash Equivalents at the Beginning of the Period (Note A)		24,968,778	(3,603,304)
Cash and Cash Equivalents at the end of the Period (Note B)		6,267,252	24,968,778
Note A			
Cash and Cash Equivalents at the beginning of the period			
Cash in Hand & at Bank		2,707,567	8,065,615
Call Deposits		26,900,000	4,859,177
Bank Over Draft		(4,638,789)	(16,528,096)
		24,968,778	(3,603,304)
Note B			
Cash and Cash Equivalents at the end of the period			
Cash in Hand & at Bank		3,266,304	2,707,567
REPO		3,000,948	26,900,000
Bank Over Draft		-	(4,638,789)
		6,267,252	24,968,778

The Accounting Policies and Notes on Pages 16 through 29 form an integral part of the Financial Statements.

Colombo
26th July 2007

Statement of Changes in Equity

As at 31st March 2007

	Share Capital Rs.	Revaluation Reserve Rs.	Share Premium Rs.	Accumulated Profit/(Losses) Rs.	Total Rs.
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	199,036,577	584,493,354	77,255,547	122,484,923	983,270,401
Share Premium	-	-	350,000,000	-	350,000,000
Net Profit for the year	-	-	-	152,830,687	152,830,687
Dividends	-	-	-	(168,099,689)	(168,099,689)
Issue of Shares for Cash	50,000,000	-	-	-	50,000,000
Bonus Issue	498,073,154	(498,073,154)	-	-	-
Transfer of realised surplus on usage	-	(20,355,936)	-	20,355,936	-
Balance as at 31 March 2007	747,109,731	66,064,264	427,255,547	127,571,857	1,368,001,399

The Accounting Policies and Notes on Pages 16 through 29 form an integral part of the Financial Statements.

Colombo

26th July 2007

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

Vallibel Power Erathna Limited (Now known as Vallibel Power Erathna PLC) 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 Centre, 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 to the Ceylon Electricity Board.

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 for the year ended 31st March 2007 were authorized for issue in accordance with a resolution of the Board of Directors on July 26, 2007.

2.1 BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis except for certain Property, Plant and Equipment which are stated at revalued amounts. The Financial Statements are presented in Sri Lankan Rupees and all values are rounded to the nearest Rupee.

2.1.1 Statement of Compliance

The Financial Statements of Vallibel Power Erathna Ltd. (Now known as Vallibel Power Erathna PLC) have been prepared in accordance with Sri Lanka Accounting standards. (SLAS)

2.1.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.1.3 Comparative Information

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

2.2 CHANGES IN ACCOUNTING POLICIES

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

The Company has adopted the following new SLAS's during the year.

- SLAS 3 (revised) - Presentation of Financial Statements
- SLAS 5 (revised) - Inventories
- SLAS 10 (revised) - Accounting Policies ,Changes in Accounting Estimates
- SLAS 12 (revised) - Events after the Balance Sheet Date
- SLAS 14 (revised) - Income Taxes
- SLAS 18 (revised) - Property , Plant and Equipment
- SLAS 19 (revised) - Leases
- SLAS 21 (revised) - The Effects of Changes in Foreign Exchange Rates
- SLAS 25 (revised) - Business Combinations
- SLAS 30 (revised) - Related Party Disclosures
- SLAS 34 (revised) - Earnings per Share
- SLAS 41 (revised) - Impairments of Asset

There was no material effect to the financial statements on the adoption of the above revised standards.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.3.1 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.

2.3.2 Borrowing Costs

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

2.3.3 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Research and Development Costs

Research costs are expensed as incurred. An intangible assets arising from development expenditure on an individual project is recognised only when the company can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, its intention to complete and its ability to use or sell the assets, how the assets will generate future economic

benefits, the availability of resources to complete the assets and the ability to measure reliably the expenditure during the development.

During the period of development, the assets are tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the assets to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the assets begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales. During the period of which the asset is not yet in use it is tested for impairments annually.

2.3.4 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.

2.3.5 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.

2.3.6 Property, Plant and Equipment

Except Free Hold Land, Civil Constructions and Plant & Machinery, all other assets are stated at cost less accumulated depreciation and accumulated impairment in value.

Free Hold Land, Civil Constructions and Plant & Machinery are measured at fair value less depreciation on Buildings,

Notes to the Financial Statements (Contd.)

Plant & Machinery and impairment charged subsequent to the date of the revaluation.

Depreciation is calculated on a straight line basis over the useful life of the assets. The useful lives of the assets are as follows.

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
Generator	over 10 years

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the surplus in the revaluation reserve to the Accumulated Profit / (loss).

Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

2.3.7 Leases -Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. the depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned as described in 2.3.6

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term

2.3.8 Investments

a) Initial Recognition:

Cost of investment includes purchase cost and acquisition charges such as brokerages, fees, duties and bank regulatory fees. The company distinguishes and presents current and non current investment in the balance sheet.

b) Measurement

Current Investment:

Current investments are carried at the lower of cost and market value, determined on the basis of aggregate portfolio.

Unrealized losses arising from reduction to market value and reversals of such reduction required to state current investments at lower of cost and market value are included in income statement.

Long Term Investments

Long term investments are stated at cost. Carrying amounts are reduced to recognize a decline other than temporary, determined for each investment individually. These reductions for other than temporary declines in carrying amounts are charged to income statement.

Disposal of Investment

On disposal of an investment, the difference between net disposals and proceeds and the carrying amounts is recognised as income or expense.

2.3.9 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.3.10 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.

2.3.11 Impairment of Non Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their

present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Intangible Assets

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 March either individually or at the cash generating unit level, as appropriate.

2.3.12 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) Sale of Goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

b) Rendering of Services

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

c) Interest

Revenue is recognised on a time proportion basis that takes into account the effective interest rate on asset.

d) Dividends

Dividend Income is recognised when the shareholders' right to receive the payment is established.

e) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms.

f) Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

g) Others

Other income is recognised on an accrual basis.

2.3.13 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	2007 Rs.	2006 Rs.
Sales from Electricity Generation	226,784,895	234,464,484
	<u>226,784,895</u>	<u>234,464,484</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 INCOME	2007 Rs.	2006 Rs.
Interest Income *	7,603,749	3,233,492
Write Back of Creditors	1,589,805	2,371,312
Scrap sales	688,368	5,000
	<u>9,881,922</u>	<u>5,609,804</u>

* The above interest income includes related company interest of Rs. 6,338,565/- (2006 - Rs. 1,910,601/-)

5. FINANCE COST		
Term Loan Interest	3,666,172	38,690,956
Overdraft Interest	2,402	780,038
Debit Tax	1,498,141	734,490
Bank Charges	87,455	31,389
Escrow Charges	-	42,000
Lease Interest	109,245	-
	<u>5,363,415</u>	<u>40,278,873</u>

6. PROFIT / (LOSS) BEFORE TAXATION		
Stated after Charging / (Crediting):		
Directors' Fees	230,000	-
Auditors' Remuneration	265,000	275,000
Depreciation	28,573,744	28,385,365
Retirement Benefits	636,537	211,358
Personnel Costs includes		
- Defined Contribution Plan Costs - EPF & ETF	1,117,084	1,404,812
- Staff Salaries	7,079,952	6,890,242
- Other Staff Costs	3,234,512	3,600,168

7 Income Tax Expenses

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.

Current Income Tax Expense on Interest Income	2,559,928	646,699
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Notes to the Financial Statements (Contd.)

8. EARNINGS/(LOSS) PER SHARE

Basic Earning per Share is calculated by dividing the net profit 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 per Share computation.

Amounts Used as the Numerators:	2007 March Rs.	2006 March Rs.
Profit Attributable to Ordinary Shareholders for basic Earnings Per Share	152,830,687	139,302,033
	2007 March Number	2006 March Number
Number of Ordinary Shares Used as Denominators:		
Weighted Average number of Ordinary Shares in issue	742,943,064	697,109,731

Note:- Consequent to the Bonus Issue of 498,073,154 shares during the year, the EPS of last year recalculated.

9. PROPERTY, PLANT & EQUIPMENT

Gross Carrying Amounts At Cost	Balance As at 01.04.2006 Rs.	Additions for the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2007 Rs.
Civil Constructions - Since Revaluation	4,183,234	759,714	-	4,942,948
Plant & Machinery - Since Revaluation	927,389	4,518,241	-	5,445,630
Project Equipment	325,482	12,650	-	338,132
Tools & Accessories	1,904,730	75,040	-	1,979,770
Motor Vehicles	10,138,779	-	-	10,138,779
Motor Bicycle	359,158	-	-	359,158
Furniture & Fittings	881,864	35,300	-	917,164
Computer	534,617	569,854	-	1,104,471
Container	75,000	-	-	75,000
Office Equipment	170,000	187,070	-	357,070
Fire Extinguisher	524,600	-	-	524,600
Generator	-	1,136,000	-	1,136,000
Site Fixtures & Fittings	-	44,000	-	44,000
	20,024,853	7,337,869	-	27,362,722
Assets on Finance Lease				
Motor Vehicle	-	3,640,647	-	3,640,647
At Valuation	Balance as at 01.04.2006 Rs.	Additions for the Year Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2007 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
	1,225,861,175	-	-	1,225,861,175

Notes to the Financial Statements (Contd.)

Depreciation At Cost	Balance As at 01.04.2006 Rs.	Charge for the period/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2007 Rs.
Civil Constructions - Since Revaluation	-	72,629	-	72,629
Plant & Machinery - Since Revaluation	-	68,843	-	68,843
Project Equipment	147,655	65,522	-	213,177
Tools & Accessories	1,621,985	232,860	-	1,854,845
Motor Vehicles	5,457,180	2,027,760	-	7,484,940
Motor Bicycle	275,144	84,012	-	359,156
Furniture & Fittings	231,855	90,572	-	322,427
Computer	196,290	164,862	-	361,152
Container	75,000	-	-	75,000
Office Equipment	17,000	22,220	-	39,220
Fire Extinguisher	19,460	52,464	-	71,924
Site Fixtures & Fittings	-	1,222	-	1,222
Generator	-	113,600	-	113,600
	8,041,569	2,996,566	-	11,038,135

Assets on Finance Lease

Motor Vehicle	-	223,438	-	223,438
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At Valuation

	Balance as at 01.04.2006 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2007 Rs.
Civil Constructions	16,387,151	8,652,620	-	25,039,771
Plant & Machinery	32,773,723	16,701,120	-	49,474,843
	49,160,874	25,353,740	-	74,514,614

Written Down Value

	1,188,683,585			1,171,088,357
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Cash payments amounting to Rs. 7,337,869/- (Rs.5,517,173/- 31.03.2006) were made during the period 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.

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.

Notes to the Financial Statements (Contd.)

Class of Asset	Cost Rs.	Cumulative Depreciation if Assets were Carried at Cost Rs.	Net Carrying Amount March 2007 Rs.	Net Carrying Amount March 2006 Rs.
Free Hold Land	4,622,387	-	4,622,387	4,622,387
Civil Constructions	273,106,006	(13,163,231)	259,942,775	264,494,542
Plant & Machinery	354,133,484	(31,472,199)	322,661,285	333,285,290
	<u>631,861,877</u>	<u>(44,635,430)</u>	<u>587,226,447</u>	<u>602,402,219</u>
10. INVESTMENTS			2007	2006
Summary			Rs.	Rs.
Non Current				
Investment in Equity Securities (Quoted)				
Fortress Resorts Ltd. (Market Value Rs. 48,950,550/- (2006-Rs. 24,468,000/-)			73,568,870	30,546,871
Investment in Equity Securities (Non Quoted)				
Didul (Pvt) Ltd. (Directors valuation Rs. 50,250,000/- (2006-Rs. Nil)			50,250,000	-
			<u>123,818,870</u>	<u>30,546,871</u>
Current				
Investment in Fixed Deposits			45,941,106	-
REPO			3,000,948	26,900,000
			<u>48,942,054</u>	<u>26,900,000</u>
11. INTANGIBLE ASSET - Right to Generate Hydro Power			2007	2006
			Rs.	Rs.
Cost				
Gross carrying amount B/F			24,000,000	24,000,000
Gross carrying amount C/F			24,000,000	24,000,000
Amortisation				
Accumulated amortisation B/F			3,200,000	1,600,000
Amortization for the period			1,600,000	1,600,000
Accumulated amortisation C/F			4,800,000	3,200,000
Net carrying amount at the end of the period			<u>19,200,000</u>	<u>20,800,000</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

	2007 Rs.	2006 Rs.
Advances & Pre Payments	2,517,778	3,267,580
Trade Receivable	7,089,009	19,472,041
Staff Debtors	752,992	512,442
Other Receivable (Includes interest receivable from L.B.Finance Ltd. Rs 238,018/- (2006-Rs. 1,910,601/- (Didul (Pvt) Ltd)	1,321,030	2,068,826
	<u>11,680,809</u>	<u>25,320,889</u>

13. AMOUNT DUE FROM RELATED PARTIES

	2007 Rs.	2006 Rs.
Didul (Pvt) Limited - Current Account Balance	343,310	724,345
- Loan Balance (Rate of Interest 14% p.a.)	-	34,588,602
- Didul (Pvt) Ltd -Barcaple Project Expenses	31,500	-
Alternate Power Systems (Pvt) Ltd.	152,843	-
Country Energy (Pvt) Ltd.	126,859	-
Rocell Bathware Ltd.	231,579	-
	<u>886,091</u>	<u>35,312,947</u>

14. SHARE CAPITAL

	2007 Rs.	2006 Rs.
Authorised Share Capital 1,500,000,000 Ordinary shares of Rs.1/= each	1,500,000,000	1,500,000,000
Issued and Fully Paid		
199,036,877 Ordinary shares of Rs.1/= each at the beginning of the year	199,036,577	188,000,070
50,000,000 Ordinary shares of Rs 1/= each issued for cash during the year	50,000,000	11,036,507
Bonus Issue - 498,073,154 Ordinary shares of Rs 1/= each	498,073,154	-
At the end of the year	<u>747,109,731</u>	<u>199,036,577</u>

15. RESERVES

	2007 Rs.	2006 Rs.
Summary		
Capital Reserves		
Share Premium (15.1)	427,255,547	77,255,547
Revaluation Reserve (15.2)	66,064,264	584,493,354
	<u>493,319,811</u>	<u>661,748,901</u>

15.1 Share Premium

	2007 Rs.	2006 Rs.
As at 01st April 2006	77,255,547	-
Received During The Year	350,000,000	77,255,547
As at 31st March 2007	<u>427,255,547</u>	<u>77,255,547</u>

Notes to the Financial Statements (Contd.)

15.2 Revaluation Reserve

	2007 Rs.	2006 Rs.
Balance as at the beginning of the year	584,493,354	-
Utilised for bonus Issue	(498,073,154)	584,493,354
Realised Surplus on usage Transferred to Accumulated Profit	(20,355,936)	-
Balance as at the end of the year	<u>66,064,264</u>	<u>584,493,354</u>

The above revaluation surplus consists of net surplus resulting from the revaluation of Free Hold Land, Civil Constructions and Plant & Machinery as described in Note 9.2. The unrealised amount cannot be distributed to shareholders.

16. INTEREST BEARING LOANS AND BORROWINGS

	2007 Repayable Within 1 Year Rs.	2007 Repayable Within 2 to 5 Years Rs.	2007 Repayable after 5 Year Rs.	2007 Total Rs.
DFCC Bank	-	-	-	-
Sampath Bank	-	-	-	-
Commercial Bank	-	-	-	-
Bank Overdraft	-	-	-	-
Finance Lease (16.1)	634,454	2,648,639	-	3,283,093
	<u>634,454</u>	<u>2,648,639</u>	<u>-</u>	<u>3,283,093</u>

	2006 Repayable Within 1 Year Rs.	2006 Repayable Within 2 to 5 Years Rs.	2006 Repayable after 5 Year Rs.	2006 Total 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
	<u>338,184,404</u>	<u>-</u>	<u>-</u>	<u>338,184,404</u>

16.1 Finance Leases (L.B . Finance Ltd)

	As At 31.31.2007 Rs.	Repayable within 1 year Rs.	Repayable within 2-5 years Rs.
Gross Liability	4,222,596	1,027,812	3,194,784
Finance Charges allocated to future periods	(939,503)	(393,358)	(546,145)
Net liability	<u>3,283,093</u>	<u>634,454</u>	<u>2,648,639</u>

17 RETIREMENT BENEFIT OBLIGATION

	2007 Rs.	2006 Rs.
At the beginning of the year	282,047	70,689
Provision made for the year	636,537	211,358
At the end of the year	<u>918,584</u>	<u>282,047</u>

Notes to the Financial Statements (Contd.)

18. TRADE AND OTHER PAYABLES

	2007 Rs.	2006 Rs.
Accrued Expenditure	2,609,402	1,539,975
Retention Money	315,563	375,392
Payable to Contractors	133,124	4,144,698
	<u>3,058,089</u>	<u>6,060,065</u>

19. AMOUNTS DUE TO RELATED PARTIES

	2007 Rs.	2006 Rs.
Vallibel Lanka (Pvt) Ltd	233,131	43,253
Alternate Power Systems (Pvt) Ltd	-	24,200
	<u>233,131</u>	<u>67,453</u>

20. 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.

21. DIVIDENDS PAID AND PROPOSED

	2007 Rs.	2006 Rs.
Declared and paid during the year		
Equity dividends on ordinary shares :		
First Interim dividend for 2006 : Rs 0.15 Per share	112,066,460	-
Second Interim dividend for 2006 : Rs 0.075 per share	56,033,229	
	<u>168,099,689</u>	

22. POST BALANCE SHEET EVENTS

Third Interim dividend of 37,355,487/= (Rs. 0.05 per share) has been declared after the Balance Sheet date.

23. DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Nature of the Transaction

	2007 Rs.	2006 Rs.
1 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 on behalf of the company		
Operating Expenses	3,499,965	5,606,054
Shares issued against the amount due to Vallibel Lanka (Pvt) Ltd.	-	86,116,950
Funds Received from Vallibel Lanka (Pvt) Ltd.	2,939,903	5,562,802

Notes to the Financial Statements (Contd.)

23. DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY (CONT.)

- 2 Mr.K.D.D.Perera ,Mr. L.Wickremarachchi and Mr.PK.Sumanasekera directors of the Company are also directors of Didul (Pvt) Limited with which the Company has had the following transactions.

	2007 Rs.	2006 Rs.
Payments on behalf of Didul (Pvt) Ltd		
Operating Expenses	5,372,988	-
Other Transactions		
Fund Transferred to Didul (Pvt) Ltd.	8,500,000	14,729,136
Funds received from Didul (Pvt) Ltd.	3,660,106	3,134,107
Shares Received For due balance	50,000,000	-
Interest Received from Didul (Pvt) Ltd.	4,735,336	-

- 3 Mr.K.D.D.Perera & Mr. L.Wickremarachchi are directors of the company are also directors of Alternate Power Systems (Pvt) Limited with which the Company has had the following transaction.

Payments on behalf of Alternate Power Systems (Pvt) Limited		
Operating Expenses	1,158,199	-
Other Transactions		
Funds Received for Alternate Power Systems (Pvt) Ltd	1,108,153	-
Fund Transfers to Alternate Power Systems (Pvt) Ltd.	-	75,800
Shares issued against the amount due to Alternate Power Systems (Pvt) Ltd.	-	375,164

- 4 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.

Shares issued against the amount due to Anuradha Traders (Pvt) Ltd.	-	1,800,000
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- 5 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	43,022,000	30,546,870
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	2007 Rs.	2006 Rs.
6 Mr.K.D.D.Perera ,Mr. L.Wickremarachchi and Mr.PK.Sumanasekera directors of the Company are also directors of Country Energy (Pvt) Limited with which the Company has had the following transactions.		
Payments on behalf of Country Energy (Pvt) Ltd		
Operating Expenses	1,252,718	-
Funds Received from Country Energy (Pvt) Limited	1,125,859	-

Notes to the Financial Statements *(Contd.)*

- 7 Mr.K.D.D.Perera and Mr. W.D.N.H. Perera directors of the Company are also directors of LB Finance Limited with which the Company has had the following transactions.

Investment in fixed Deposit	127,000,000	-
Fixed Deposit withdrawals	84,290,373	-
Interest Received	3,231,478	-
Lease Installment Paid	590,994	-

- 8 Mr.K.D.D.Perera, Mr. W.D.N.H. Perera and Mr. M.T.L. Fernando, directors of the Company, are also directors of Royal Ceramics Lanka Limited with which the Company has had the following transactions.

Purchase of Tiles	417,524	-
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24. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 4, 10, 12, 13, 16.1, 19 & 23 to the Financial Statements.

Shareholder and Investor Information

1. General

Authorised Share Capital	Rs.1,500,000,000
Issued & Fully Paid Share Capital	Rs. 747,109,731
Class of Shares	Ordinary shares of Rs.1/- each

2. Stock Exchange Listing

Vallibel Power Erathna PLC., is a quoted public company and the issued ordinary shares of which are listed with the Colombo Stock Exchange of Sri Lanka.

3. Shareholders

There were 3,507 registered shareholders as at 31st March 2007, distributed as follows:

		Number of Shares held	No. of Shareholders	% of Shareholders	Total Holding	% of Total Holding
1	-	1,000	385	10.98	241,220	0.03
1,001	-	5,000	1,541	43.94	4,685,300	0.63
5,001	-	10,000	615	17.54	4,850,150	0.65
10,001	-	50,000	682	19.45	15,710,000	2.10
50,001	-	100,000	125	3.56	9,439,240	1.26
100,001	-	500,000	116	3.31	26,418,200	3.54
500,001	-	1,000,000	20	0.57	15,556,200	2.08
		1,000,001 & over	23	0.65	670,209,421	89.71
		Total	3,507	100.00	747,109,731	100.00

The percentage of shares held by the public as at 31st March 2007 - 24.16%

Category	No. of Shareholders	No. of Shareholders %	Total Holdings	Total Holdings %
Individual	3,413	97.32	298,827,210	40.00
Institutional	94	2.68	448,282,521	60.00
Total	3,507	100.00	747,109,731	100.00

Category	No. of Shareholders	No. of Shareholders %	Total Holdings	Total Holdings %
Residents	3,494	99.63	737,097,931	98.66
Non-residents	13	0.37	10,011,800	1.34
Total	3,507	100.00	747,109,731	100.00

Shareholder and Investor Information *(Contd.)*

4. Twenty Major Shareholders

SHAREHOLDER	NO. OF SHARES AS AT 31.03.2007	%	NO. OF SHARES AS AT 31.03.2006	%
VALLIBEL POWER LIMITED	381,025,971	51.00	127,008,657	63.81
MR. K. D. D. PERERA	184,276,750	24.67	56,402,900	28.34
MR. K. D. A. PERERA	18,750,000	2.51	6,250,000	3.14
MR. K. D. H. PERERA	18,750,000	2.51	6,250,000	3.14
PHOENIX VENTURES LTD	15,000,000	2.01	-	0.00
MS. K. D. C. SAMANTHI	9,375,000	1.25	3,125,000	1.57
DFCC BANK A/C 1	7,500,000	1.00	-	0.00
MERCHANT BANK OF SRI LANKA A/C 1	5,575,000	0.75	-	0.00
THURSTON INVESTMENTS LTD.	5,400,000	0.72	-	0.00
EXPOLANKA COMMODITIES (PVT) LTD.	3,375,000	0.45	-	0.00
MR. BIAK CHYE TAY	3,000,000	0.40	-	0.00
WML/ CEYLINCO SHRIRAM CAPITAL MGT.	2,550,000	0.34	-	0.00
CEYLINCO CAPITAL INVST. CO.	2,550,000	0.34	-	0.00
NETWORK CARGO SERVICES (PVT) LTD	1,582,200	0.21	-	0.00
ASIAN ALLIANCE INSURANCE CO. LTD.	1,500,000	0.20	-	0.00
BRANDIX LANKA LTD.	1,488,800	0.20	-	0.00
AMANA INVESTMENTS LTD.	1,400,000	0.19	-	0.00
SBL/ ADAM LEBBE MOHAMED FARIS	1,339,100	0.18	-	0.00
SBL/HI-LINE TOWERS (PVT) LTD.	1,313,200	0.18	-	0.00
MR. S. R. R. B. SENENAYAKE	1,200,700	0.16	-	0.00
TOTAL	666,951,721	89.27	199,036,577	100

Share Trading Information

	2006/2007	2005/2006
Highest (Rs.)	8.25	N/A
Lowest (Rs.)	1.60	N/A
Closing (Rs.)	1.80	N/A
Turnover (Rs.)	226,734,515	N/A
No. of Share trades	98,434,958	N/A
No. of Trades	10,173	N/A

Equity Information

	2006/2007	2005/2006
Earnings per Share (Rs)	0.21	0.20
Dividend per Share (Rs)	0.22	-
Net Assets Value per Share (Rs)	1.83	1.41

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Sixth Annual General Meeting of Vallibel Power Erathna Ltd will be held at 9.00 a.m on Tuesday the 25th day of September 2007 at the 36th Floor, East Tower, World Trade Center, Colombo 1 for the 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 2007, together with the Report of the Auditors thereon.
2. To re-elect Mr. W.D. N.H. 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 as a Director of the Company. Special Notice has been received from a shareholder pursuant to Section 211 of the Companies Act No. 7 of 2007 of the intention to propose the following resolution as an ordinary resolution.

“RESOLVED that Mr. M. T. L. Fernando who has reached the age of 80 be and is hereby re-elected as a Director of the Company, and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act No. 7 of 2007 shall not apply to the said Director in accordance with Section 211 of the Companies Act No. 7 of 2007.”

4. To re-elect Mr. M. P. N. Perera, who retires by rotation in terms of Article No. 98 of the Articles of Association as a Director of the Company.
5. To ratify the 3rd interim dividend paid on 30.5.2007 as the Final Dividend for the year ended 31st March 2007.
6. To re-appoint M/s Ernst & Young, as Auditors and to authorise the Directors to determine their remuneration
7. **Special Business**

To authorize the Directors to determine and make payments for charitable and other purposes for the year 2007/2008 as set out in the Companies Donation Act (CAP 147.)

By order of the Board
Of Vallibel Power Erathna PLC

(Sgd)
Secretaries & Registrars Limited
Secretaries

Colombo
14th August 2007

Note:

- i) 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.
- ii) A Form of Proxy is enclosed in this Report.
- iii) 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 48 hours before the time appointed for the meeting.
- iv) Shareholders/Proxies attending the meeting are requested to bring their National Identity Card or Passport.

Form of Proxy

*I/We of
being *a member/s of VALLIBEL POWER ERATHNA Ltd do hereby appoint.....of

or failing *him/her

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

as *my/our Proxy to vote for *me/us on my/our behalf at the Sixth Annual General Meeting of the Company to be held at on
, the day of 2007 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 31st March 2007, together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. W. D. N. H. Perera who retires by rotation in terms of Article 91 of the Articles of Association as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. M. T. L. Fernando who retires in terms of Section 210 of the Companies Act No. 7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. M. P. N. Perera, who retires by rotation in terms of Article No. 98 of the Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To ratify the 3rd interim dividend paid on 30.5.2007 as the Final Dividend for the year ended 31st March 2007.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint M/s Ernst & Young, as Auditors and to Authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
7. Special Business To authorize the Directors to determine and make payments for charitable and other purposes for the year 2007/2008 as set out in the Companies Donation Act (CAP 147)	<input type="checkbox"/>	<input type="checkbox"/>

Signed this Day of 2007.

Note

- 1) *Please delete the inappropriate words.
- 2) Instructions as to completion are noted on the reverse hereof.

.....
 * Signature/s

Instructions as to Completion

- a. Kindly perfect the Form of Proxy after filling in legibly your name in full and address and by signing in the space provided. Please fill in the date of signature.
- b. 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.
- c. 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 the Articles of Association.
- d. 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 the Articles of Association.
- e. The completed Form of Proxy should be deposited at the registered office of the Company, #27-2, East Tower, World Trade Center, Colombo 01, not less than forty eight (48) hours before the appointed time for the Meeting.

Corporate Information

Name of the Company

Vallibel Power Erathna Ltd.

Legal Form

A Public Quoted Company with limited liability under the provisions of Companies Act No. 17 of 1982

Date of Incorporation

07th November 2001

Company Registration Number

N (PBS) 951

Nature of Business

Generate and Supply Electric Power to the National grid.

Board of the Directors

K. D. D. Perera - Chairman
L. Wickremarachchi - Managing Director/CEO
M. T. L. Fernando
P. K. Sumanasekera
W. D. N. H. Perera
S. H. Amarasekera
M.P.N. Perera

Head Office and Registered Office

27-2, East Tower, World Trade Center,
Echelon Square, Colombo 01.

Telephone: 011 2381111

Fax: 011 2381115

E-mail: energy@vallibel.com

Company Secretaries

Secretaries & Registrars Ltd.

No. 32, Second Floor, Galle Face Court,
Colombo 03.

Telephone: 011 2472971

Fax: 011 2342047

E-mail: s&r@eureka.lk

Auditors

Ernst and Young,
Chartered Accountants,
No. 201, De Saram Place,
Colombo 10.

Bankers

Commercial Bank of Ceylon Ltd.
DFCC Vardhana Bank Ltd.
Sampath Bank Ltd.