

**CAPITAL ALLIANCE INCOME FUND  
COLOMBO - 02**

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31<sup>ST</sup> MARCH 2024**



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## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF CAPITAL ALLIANCE INCOME FUND**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the Financial Statements of Capital Alliance Income Fund ("The Fund"), which comprise the statement of financial position as at 31<sup>st</sup> March 2024, and the statement of profit or loss and other comprehensive income, the statement of movement in unitholder's fund and the statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of material accounting policy information as set out on pages 05 to 19.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Fund as at 31<sup>st</sup> March 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Code of Ethics for Professional Accountants issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of the Fund Management Company and the Trustee for the Financial Statements**

The Fund Management Company is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Trustee is responsible for overseeing the Fund's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.



As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Report on Other Legal and Regulatory Requirements**

These Financial Statements also comply with the requirements of Rule 50 of the Collective Investment Scheme Code (CIS Code) issued by the Securities and Exchange Commission of Sri Lanka in terms of Section 183 of the Securities and Exchange Commission Act No. 19 of 2021 and the Trust Deed.

BDO Partners

**CHARTERED ACCOUNTANTS**

Colombo

29<sup>th</sup> July 2024

NV/cc



**CAPITAL ALLIANCE INCOME FUND**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31ST MARCH 2024**

	Notes	2023/2024 Rs.	2022/2023 Rs.
<b>Investment income</b>			
Interest income	4	313,476,015	810,486,142
Realised gain on financial asset at amortised cost		-	741,952
Change in unrealised gain/ (loss) on financial asset at fair value through profit or loss	7	4,849,750	(4,849,750)
Realised gain on financial asset at fair value through profit or loss		35,019,750	295,500
<b>Total investment income</b>		<b>353,345,515</b>	<b>806,673,844</b>
 Other income		 1,549,181	 8,924,955
 <b>Expenses</b>			
Management fees		(7,930,074)	(25,189,472)
Trustee fees		(2,470,102)	(8,943,900)
Custodian fees		(272,892)	(205,888)
Bank charges		(277,054)	(351,848)
Audit fees		(441,468)	(120,659)
Other expenses		(16,456)	(17)
(Charge)/reversal of impairment of Financial Assets at amortised cost	9.4	(15,538,435)	1,385,831
<b>Total operating expenses</b>		<b>(26,946,481)</b>	<b>(33,425,953)</b>
 <b>Profit before tax</b>		 <b>327,948,215</b>	 <b>782,172,846</b>
 Income tax expense	5	 -	 -
 <b>Net profit after tax for the year</b>		 <b>327,948,215</b>	 <b>782,172,846</b>
 <b>Total comprehensive income for the year</b>		 <b>327,948,215</b>	 <b>782,172,846</b>
 <b>Increase in net assets attributable to unitholders</b>		 <b>327,948,215</b>	 <b>782,172,846</b>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 19 form an integral part of these Financial Statements.

Colombo  
29th July 2024



CAPITAL ALLIANCE INCOME FUND  
STATEMENT OF FINANCIAL POSITION  
AS AT 31ST MARCH 2024

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	Notes	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
<b>Assets</b>			
Cash and cash equivalents	6	8,402,092	12,961,103
Financial assets fair value through profit or loss	7	-	1,024,918,500
Financial assets at amortised cost	9	719,780,455	1,525,274,726
Other receivables	11	15,478,205	1,870,758
Income tax receivable	10	-	-
<b>Total assets</b>		<u>743,660,752</u>	<u>2,565,025,087</u>
<b>Liabilities</b>			
Accrued expenses	12	1,094,337	1,467,913
<b>Total liabilities</b>		<u>1,094,337</u>	<u>1,467,913</u>
<b>Net assets</b>		<u>742,566,415</u>	<u>2,563,557,174</u>
<b>Unitholders' fund</b>			
Net assets attributable to unitholders		<u>742,566,415</u>	<u>2,563,557,174</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 19 form an integral part of these Financial Statements.

The Management Company and Trustee are responsible for the preparation and presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards.


Signed for and on behalf of the Management Company by:

  
.....  
Director  
Mr. K. P. Mannakkara  
Capital Alliance Investments Limited  
Management Company

  
.....  
Director  
Ms. H. M. S. Perera  
Capital Alliance Investments Limited  
Management Company

Signed for and on behalf of the Trustee by:

  
.....  
Hatton National Bank PLC  
Trustee

  
.....  
Hatton National Bank PLC  
Trustee

Colombo  
29th July 2024  
NV/cc



CAPITAL ALLIANCE INCOME FUND  
STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND  
FOR THE YEAR ENDED 31ST MARCH 2024

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	2023/2024 Rs.	2022/2023 Rs.
Unitholders' fund at the beginning of the year	2,563,557,174	24,173,469,101
Increase in net assets attributable to unitholders	327,948,215	782,172,846
Creation of units	2,048,888,214	22,483,031,158
Redemption of units	(4,197,827,188)	(44,875,115,931)
Net decrease due to unitholders' transactions	(2,148,938,974)	(22,392,084,773)
Unitholders' fund at the end of the year	742,566,415	2,563,557,174

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 19 form an integral part of these Financial Statements.

Colombo  
29th July 2024





**CAPITAL ALLIANCE INCOME FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31ST MARCH 2024**

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	2023/2024 Rs.	2022/2023 Rs.
<b>Cash flows from operating activities</b>		
Interest received	414,938,328	1,313,641,723
Other income received	1,549,181	8,924,955
Management fees, Trustee fees and Custodian fees paid	(11,538,714)	(47,309,701)
Net (increase)/ decrease other receivables	(13,607,447)	33,673,395
Other expenses paid	(242,908)	(787,270)
Net uplift of treasury bills/bonds repurchase agreements	28,140,000	911,177,999
Net investment in/uplift of debenture repurchase agreements	-	996,741,952
Net investment in/uplift of fixed deposits	-	5,604,989,187
Net investment in/uplift of commercial papers	1,058,412,734	11,565,197,020
Net investment in/uplift of trust certificates	(352,467,461)	2,939,629,267
Net investment in treasury bonds	984,176,500	(984,176,500)
Realised gain on financial assets at fair value through profit or loss	35,019,750	295,500
<b>Net cash generated from operating activities</b>	<b>2,144,379,963</b>	<b>22,341,997,527</b>
<b>Cash flows from financing activities</b>		
Cash received on creation of units	2,048,888,214	22,483,031,158
Cash paid on redemption of units	(4,197,827,188)	(44,875,115,931)
<b>Net cash used in financing activities</b>	<b>(2,148,938,974)</b>	<b>(22,392,084,773)</b>
Net decrease in cash and cash equivalents	(4,559,011)	(50,087,246)
Cash and cash equivalents at the beginning of the year (Note A)	12,961,103	63,048,349
<b>Cash and cash equivalents at the end of the year (Note B)</b>	<b>8,402,092</b>	<b>12,961,103</b>
<b>At the beginning of the year</b>		<b>Note A</b>
Cash and cash equivalents	12,961,103	63,048,349
	<b>12,961,103</b>	<b>63,048,349</b>
<b>At the end of the year</b>		<b>Note B</b>
Cash and cash equivalents	8,402,092	12,961,103
	<b>8,402,092</b>	<b>12,961,103</b>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 19 form an integral part of these Financial Statements.

Colombo  
29th July 2024



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**1. CORPORATE INFORMATION****1.1 General information**

Capital Alliance Income Fund is an open ended Unit Trust Fund approved by the Securities and Exchange Commission of Sri Lanka. The Fund was launched on 10<sup>th</sup> March 2014.

The Fund is managed by Capital Alliance Investments Limited which is incorporated and domiciled in Sri Lanka. The registered office of the Management Company is located at Level 5, "Mellenium House", No.46/58, Nawam Mawatha, Colombo 02. The Trustee of the Fund is Hatton National Bank PLC whose place of business is at "HNB Towers", No. 479, T. B. Jayah Mawatha (Darley Road), Colombo 10.

**1.2 Operating activities**

The investment objective of the Fund is to optimise the income and mitigate the levels of risks over medium to long-term.

**1.3 Date of authorisation for issue**

The Financial Statement of the Fund for the year ended 31<sup>st</sup> March 2024 were authorised for issue by the Management Company and the Trustee on 29<sup>th</sup> July 2024.

**2. PREPARATION OF FINANCIAL STATEMENTS****2.1 Basis of preparation**

The Financial Statements have been prepared on the historical cost basis unless otherwise it is indicated and the Financial Statements are presented in Sri Lankan rupees. The statement of financial position has been presented on a liquidity basis.

**2.2 Statement of compliance**

The Financial Statements which comprise the statement of financial position as at 31<sup>st</sup> March 2024, statement of profit or loss and other comprehensive income, statement of movement in unitholders' fund and statement of cash flows for the year then ended, and a summary of material accounting policy information and other explanatory information have been prepared and presented in accordance with Sri Lanka Accounting Standards and the requirements of the Unit Trust Deed and Collective Investment Scheme Code of the Securities and Exchange Commission of Sri Lanka.

**2.3 Basis of measurement**

The Financial Statements have been prepared on the historical cost convention with the exception of certain assets and liabilities at fair value.

**2.4 Functional and presentation currency**

The Financial Statements have been presented in Sri Lankan Rupees, the Fund's functional and presentation currency, which is the primary economic environment in which the Fund operates.

**2.5 Materiality aggregation**

Each material class of similar items is presented separately in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**2.6 Going Concern**

These Financial Statements are prepared on the assumption that the Fund is a going concern i.e. as continuing in operation into a foreseeable future. It is, therefore, assumed that the Fund has neither the intention nor the necessity of liquidation.

**2.7 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of Financial Statements in conformity with SLFRSs/LKASs requires management to make judgments, estimates and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In the selection and application of the Fund's accounting policies, which are described below, the Fund Management Company is required to make judgments and assumptions and use assumptions in measuring items reported in the Financial Statements. These estimates are based on management's knowledge of current facts and circumstances, and assumptions based on such knowledge and expectations of future events. Actual results may differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised if the revision affects only that year, or the year of the revision and future years as well, if the revision affects both the current and the future years.

The management considers credit, liquidity and market risk and assesses the impact on valuation of investments when determining the fair value.

Management uses its judgment in determining the appropriate valuation technique for financial instruments that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Other financial instruments are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates.

**Determination of Fair Value and Fair Value Hierarchy**

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: techniques which use inputs other than quoted prices included within Level 1, that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: techniques which use inputs that are not based on observable market data

**2.8 Summary of significant accounting policies****2.8.1 Financial instruments****2.8.1.1 Initial recognition**

Financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Fund becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally, established by regulations or convention in the marketplace.



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**2.8.1.2 Initial measurement of financial instrument**

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. At initial recognition, the Fund measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the statement of profit or loss.

**2.8.1.3 Measurement categories of financial assets and liabilities**

The Fund classifies all of its financial assets in the following measurement categories.

- those to be measured at amortised cost
- those to be measured at fair value through profit or loss

Financial liabilities of the Fund are measured at amortised cost, and includes all financial liabilities, other than those measured at fair value through profit or loss. The financial liabilities of the Fund include accrued expenses and other payables.

**2.8.1.4 Subsequent measurement****Amortised cost**

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise to cash flows that are solely the payments of principal and interest on the principal amount outstanding.

Debt instruments at amortised cost in the statement of financial position comprise investments in treasury bill repurchase agreements, fixed deposits, commercial papers, and trust certificates. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in realised gain/(loss) on debt instruments held at amortised cost.

**Fair value through profit or loss:**

A financial asset is measured at fair value through profit or loss if:

- (a) its contractual terms do not give rise to cash flows on specified dates that are solely the payments of principal and interest on the principal amount outstanding,  
or
- (b) it is not held within a business model whose objective is either to collect contractual cash flows, or to both collect the contractual cash flows and sell,  
or
- (c) at initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or liabilities or recognising the gains and losses on them on different bases.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within unrealised gains/(losses) in the period in which it arises. As of 31<sup>st</sup> March 2024, the Fund has no such investments.





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

## 2.8.1.5 Financial liabilities

## a) Initial recognition and measurement

The Fund determines the classification of its financial liabilities at initial recognition.

The Fund's financial liabilities comprise accrued expenses and other payables in the Statement of Financial Position.

## b) Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

**Other financial liabilities**

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the profit or loss and other comprehensive income statement when the liabilities are derecognised as well as through the EIR amortisation process.

## 2.8.1.6 Impairment

The Fund assesses on a forward-looking basis, the expected credit losses (ECLs) associated with its debt instruments not held at fair value through profit or loss. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, are discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures from which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Fund uses the ratings from either Fitch Rating Lanka Limited or Lanka Rating Agency Limited as applicable to determine the significant deterioration in credit risk and to estimate the ECLs.

Consistent with the policies of the Fund, investments when rated below BBB- are considered as non-investment grade investments and the Fund considers such investments as having incurred significantly deteriorated credit risk. Such investments are considered for lifetime ECL calculation.

Further, movements within the ratings of the investment grade stipulate significant deterioration of credit risk. Significant deterioration is measured through a two notch downgrade of the external credit rating of the counterparty since the origination of the instrument.

For debt instruments at amortised cost issued by the Sovereign, the Fund applies the low-risk simplification.

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the financial assets.





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**Write-offs**

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

**2.8.1.7 Derecognition**

A financial asset is derecognised when,

- 1) the rights to receive cash flows from the asset have expired,
- 2) the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,
  - the Fund has transferred substantially all the risks and rewards of the asset or
  - the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

**2.8.1.8 Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- there is currently an enforceable legal right to offset the recognised amounts, and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**2.8.2 Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position and statement of cash flows comprise cash at bank.

**2.8.3 Income tax**

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from, or paid to the taxation authorities. Until 31<sup>st</sup> March 2018, the Fund was liable to pay income tax at the rate of 10% in accordance with the Inland Revenue Act No. 10 of 2006. Subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective from 01<sup>st</sup> April 2018, an eligible Unit Trust is not liable for income tax on any income which is a pass through to its unitholders. Accordingly, after 31<sup>st</sup> March 2018, the Fund has considered all income as being a pass through its unitholders.

**2.8.4 Recognition of income**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised.

**Interest Income**

For all the financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**2.8.5 Expenses**

The Management and the Trustee's fees of the Fund as per the Trust Deed are as follows.

Management fee	- 0.5% p.a of Net Asset Value of the Fund
Trustee fee	- 0.25% p.a. of Net Asset Value (NAV) of the Fund from 01.04.2023 to 05.07.2023 - 0.13% p.a. of Net Asset Value (NAV) of the Fund from 06.07.2023 to 31.03.2024
Custody fee	- Flat fee of Rs.15,000 per month from 01.04.2023 to 06.07.2023 - Flat fee of Rs. 20,000 per month from 06.07.2023 to 31.03.2024

**2.8.6 Unitholders' funds and net assets attributable to unitholders**

Unitholders' Funds has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities, other than those due to unitholders as at the reporting date.

Units can be issued and redeemed based on the Fund's net asset value per unit, calculated by dividing the net assets of the Fund as described in the Trust Deed and directives issued by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue. Income not distributed is included in net assets attributable to unitholders.

**3. FINANCIAL RISK MANAGEMENT**

Risks arising from holding financial instruments are inherent in the Fund's activities, and are managed through a process of ongoing identification, measurement and monitoring. The Fund is exposed to credit risk, market risk and liquidity risk.

Financial instruments of the Fund comprise Repurchase agreements against Treasury Bills/Bonds/ Debentures, Fixed Deposits, Commercial Papers and Trust Certificates.

The Management Company is responsible for identifying and controlling the risk that arise from these financial instruments. The Management Company agrees to policies for managing each of the risks identified below. The risks are measured using a method that reflects the expected impact on the statement of profit or loss and other comprehensive Income and Statement of Financial Position of the Fund from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below.

The Management Company also monitors information about the total fair value of financial instruments exposed to various risks, as well as the compliance with established investment mandate limits. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Fund is willing to accept, with additional emphasis on selected industries. This information is prepared and reported to relevant parties within the Management Company on a regular basis as deemed appropriate, including the Fund Management Company, other key management, Risk and Investment Committees and ultimately the Trustees of the Fund.

Concentration of risk arises when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions.





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

## a. Credit risk

Credit risk is the risk that the counterparty to the financial instruments will fail to discharge an obligation and cause the Fund to incur a financial loss of interest and/or principal. The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in debt securities, cash and cash equivalents and other receivables.

## Debt securities

The credit risk exposure on these instruments is not deemed to be significant. It is the Fund's policy to enter into financial instruments with reputable counterparties with high credit quality.

The credit ratings of the counterparties with which the Fund places investments are as set out below:

Counterparty	Credit Rating	Rating Agency
Softlogic Capital PLC	BBB-	LRA
Fixed Income Investments I (Pvt) Ltd	A	LRA
Fixed Income Investments II (Pvt) Ltd	A	LRA
Fixed Income Investments III (Pvt) Ltd	A	LRA
Fixed Income Investments V (Pvt) Ltd	A	LRA
Janashakthi Limited	BB-	LRA
Vallibel Finance PLC	BBB+	LRA
HNB Finance PLC	BBB+	Fitch Rating

The exposure to credit risk for Treasury Bills/Bonds Repurchase agreements is extremely low as the Fund has considered the collateral that the primary dealers provided.

The Fund is also subject to credit risk on its bank balance and receivables. The credit risk exposure on these instruments is not deemed to be significant.

The Fund's maximum exposure to credit risk can be analysed as follows:

	Balance as at 31.03.2024 Rs.		Balance as at 31.03.2023 Rs.	
	Amortised Cost/ Fair Value	Maximum Exposure	Amortised Cost/ Fair Value	Maximum Exposure
Cash and cash equivalents	8,402,092	8,402,092	12,961,103	12,961,103
Financial assets at fair value through profit or loss	-	-	1,024,918,500	1,024,918,500
Financial assets at amortised cost	719,780,455	719,780,455	1,535,500,868	1,535,500,868
Other receivable	15,478,205	15,478,205	1,870,758	1,870,758
	743,660,752	743,660,752	2,575,251,229	2,575,251,229





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**b. Market risk**

Market risk represents the risk that the value of the Fund's investments portfolios will fluctuate as a result of changes in market prices.

This risk is managed by ensuring that all investment activities are undertaken in accordance with established mandate limits and investments strategies. As such, unitholders can manage this risk through their choices of which investment portfolios to participate in.

The Fund uses a range of different fund arrangements for investment assets. Where a Unitholder has invested in more than one investment portfolio, this reduces the impact of a particular manager underperforming. Within the underlying investment portfolio, diversification is achieved at a number of levels. The diversified portfolios are invested across a range of investment sectors. Within each sector of the diversified portfolios, the Fund managers invest in a variety of securities.

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates.

The Fund's interest-bearing financial assets are exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The risk is measured using the sensitivity analysis. However, due to the short-term nature of the instruments, it is reasonably expected that the fluctuation in interest rate will not materially impact the net assets value of the Fund.

**c. Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet its obligation to pay unitholders.

Due to the nature of a unit trust, it is unlikely that a significant number of unitholders would exit at the same time. However, to control the liquidity risk, the Fund invests in financial instruments which are readily convertible into cash under normal market conditions. In addition, the Fund invests within established limits to ensure that there is no concentration of risk.

The Management Company ensures that a minimum liquidity level of 3% of the total NAV of the Fund is available in cash or near cash form at any given time as required by the Unit Trust Code, reducing the liquidity risk to its investors.

In addition, the Security and Exchange Commission and the Fund require additional number of business days' notice to the Fund from large investors redeeming over 3% of the Fund and the Fund is also permitted to borrow up to 15% of the deposited property for redemption payouts. No such borrowings have arisen during the period.

The table below analyses the Fund's non-derivative financial assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

31 <sup>st</sup> March 2024	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	More than One Year Rs.	Total Rs.
Financial Assets	169,685,497	353,396,635	50,000,000	180,000,000	753,082,132
Financial Liabilities	1,094,337	-	-	-	1,094,337

31 <sup>st</sup> March 2023	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	More than One Year Rs.	Total Rs.
Financial Assets	686,598,093	926,086,965	-	1,250,000,000	2,862,685,058
Financial Liabilities	1,467,913	-	-	-	1,467,913

The contractual amounts disclosed in this analysis are gross undiscounted cash flows and, therefore, may not agree with the carrying amounts in the statement of financial position.

d. **Capital risk management**

The Fund considers its net assets attributable to unitholders as capital, notwithstanding that net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Management Company. Under the terms of the Unit Trust Code, the Management Company has the discretion to reject an application for units and to defer redemption of units if the exercise of such discretion is in the best interests of unitholders.

The disclosures of unitholders' fund are as follows.

**The movement in the Unitholders' Fund as at 31<sup>st</sup> March 2024**

**I. In terms of Value**

	Rs.
Unitholders' Funds as at 01 <sup>st</sup> April 2023	2,563,557,174
Creations during the year	2,048,888,214
Redemptions during the year	(4,197,827,188)
Increase in net assets attributable to unitholders	327,948,215
Unitholders' funds as at 31 <sup>st</sup> March 2024	742,566,415

**II. In terms of number of units**

Opening number of units as at 01 <sup>st</sup> April 2023	94,329,858
Unit creations during the year	67,416,125
Unit redemptions during the year	(138,651,709)
Closing number of units as at 31 <sup>st</sup> March 2024	23,094,274

As stipulated within the Trust Deed, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attached to it as all other units of the Fund.





	2023/2024 Rs.	2022/2023 Rs.
<b>4. INTEREST INCOME</b>		
Treasury bills/bonds re-purchase agreements	23,569,583	132,785,626
Debentures	-	25,694,438
Trust certificates	110,832,973	63,826,444
Commercial papers	127,432,759	442,838,940
Fixed deposits	-	88,082,844
Treasury bills	-	48,649,350
Treasury bonds	51,640,700	8,608,500
	<u>313,476,015</u>	<u>810,486,142</u>

**5. INCOME TAX EXPENSE**

From 01st April 2018, no income tax has not been recognised in the Financial Statements as the Fund has considered all income as being passed through to its unitholders.

	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
<b>6. CASH AND CASH EQUIVALENTS</b>		
Savings account - Hatton National Bank PLC/ Deutsche Bank	8,312,461	12,874,913
People's Leasing and Finance PLC - savings account	61,964	59,365
Sanasa Development Bank PLC	27,667	26,825
	<u>8,402,092</u>	<u>12,961,103</u>

**7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
Balance as at the beginning of the year	1,024,918,500	-
Purchases during the year	278,707,700	984,176,500
Sales during the year	(1,350,136,400)	-
Accrued interest during the year	6,640,700	45,591,750
Change in unrealised gain/(loss) on financial assets at fair value through profit or	4,849,750	(4,849,750)
Realised gain on sales of financial assets at fair value through profit or loss	35,019,750	-
	<u>-</u>	<u>1,024,918,500</u>

	As at 31.03.2024		As at 31.03.2023	
	Carrying value Rs.	Holding as a % of net asset value	Carrying value Rs.	Holding as a % of net asset value
<b>7.1 Treasury bonds</b>				
Capital Alliance PLC	-	-	1,024,918,500	40%
	<u>-</u>	<u>-</u>	<u>1,024,918,500</u>	<u>40%</u>





		As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
<b>9. FINANCIAL ASSETS - AT AMORTISED COST</b>			
Treasury bills/bonds repurchase agreements	9.1	87,698,011	115,772,867
Commercial papers	9.2	293,699,701	1,419,728,001
Trust certificates	9.3	364,147,320	-
Less: Impairment	9.4	(25,764,577)	(10,226,142)
		<u>719,780,455</u>	<u>1,525,274,726</u>

	As at 31.03.2024		As at 31.03.2023	
	Carrying value Rs.	Holding as a % of net asset value	Carrying value Rs.	Holding as a % of net asset value
<b>9.1 Treasury bills/bonds repurchase agreements</b>				
Commercial Bank of Ceylon PLC	-	-	115,772,867	5%
Acuity Securities Limited	87,698,011	12%	-	-
	<u>87,698,011</u>	<u>12%</u>	<u>115,772,867</u>	<u>5%</u>
<b>9.2 Commercial papers</b>				
CIC Holdings PLC	-	-	255,718,901	10%
Asiri Hospital Holdings PLC	73,373,237	10%	17,294,139	1%
Softlogic Holdings PLC	74,851,238	10%	840,126,373	33%
Softlogic Capital PLC	93,773,776	13%	6,135,712	0%
Janashakthi Insurance PLC	-	-	300,452,876	12%
Janashakthi PLC	51,701,450	7%	-	-
	<u>293,699,701</u>	<u>40%</u>	<u>1,419,728,001</u>	<u>55%</u>
<b>9.3 Trust certificates</b>				
HNB Finance PLC	85,270,361	11%	-	-
Vallibel Finance PLC	101,407,562	14%	-	-
Fixed Income Investments III (Private) Limited	87,754,191	12%	-	-
Fixed Income Investments V (Private) Limited	89,715,206	12%	-	-
	<u>364,147,320</u>	<u>49%</u>	<u>-</u>	<u>-</u>
	<u>745,545,032</u>	<u>100%</u>	<u>1,535,500,868</u>	<u>60%</u>

	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
<b>9. FINANCIAL ASSETS - AT AMORTISED COST (CONTD...)</b>		
<b>9.4 Movement of impairment during the year</b>		
Opening balance	10,226,142	11,611,973
Impairment charge/(reversal) to the income statement	15,538,435	(1,385,831)
Closing balance	<u>25,764,577</u>	<u>10,226,142</u>
<b>10. INCOME TAX RECEIVABLE</b>		
Income tax receivable	2,765,580	2,765,580
Provision for doubtful income tax receivable	<u>(2,765,580)</u>	<u>(2,765,580)</u>
	<u>-</u>	<u>-</u>
<b>11. OTHER RECEIVABLES</b>		
Miscellaneous receivable	15,478,205	1,870,758
	<u>15,478,205</u>	<u>1,870,758</u>
<b>12. ACCRUED EXPENSES</b>		
Management fee	386,699	993,756
Trustee fee	100,542	365,702
Custodian fee	24,602	18,031
Audit fee	440,556	81,601
Other fees	25,894	8,823
Payable on units creations	116,044	-
	<u>1,094,337</u>	<u>1,467,913</u>
<b>13. CONTINGENCIES</b>		
There are no material contingencies existing as at the reporting date that require adjustments or disclosures in the Financial Statements.		
<b>14. EVENTS AFTER THE REPORTING DATE</b>		
There have been no material events occurring after the reporting date that require adjustments or disclosure in these Financial Statements.		
<b>15. CAPITAL COMMITMENTS</b>		
The Fund does not have significant capital commitments as at the reporting date.		
<b>16. UNITS IN ISSUE AND UNIT PRICE</b>		
Units in issue and deemed to be in issue as at 31st March 2024 are 23,094,274.77 (2023 - 94,329,856.66) and the unit price as at this date is Rs. 33.2884 (2023 - Rs. 27.2849).		



## 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Financial assets carried at fair value

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
As at 31st March 2024				
Financial assets at fair value through profit or loss	-	-	-	-
As at 31st March 2023				
Financial assets at fair value through profit or loss	1,024,918,500	-	-	1,024,918,500

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

Accordingly, the following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value.

Assets	Liabilities
Cash and cash equivalents	Accrued expenses
Financial assets at amortised cost	
Other receivables	

## 18. RELATED PARTY DISCLOSURE

### 18.1 Management Company and Trustee

The Management Company is Capital Alliance Investments Limited.  
The Trustee is Hatton National Bank PLC.

### 18.2 Key management personnel

Key management personnel includes the persons who were Directors of Capital Alliance Investments Limited at any time during the financial year.

#### i) Directors

Mr. W. A. T. Fernando (Resigned with effect from 30th November 2023)  
Ms. H. M. S. Perera  
Mr. K. S. C. P. K. Gunasinghe (Resigned with effect from 01st February 2024)  
Dr. (Mrs.) M. De Zoysa (Appointed with effect from 01st December 2023)  
Mr. K P Mannakkara

#### ii) Other key management personnel

Other KMPs include the persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

### 18.3 Key management personnel compensation

Key management personnel are paid by Capital Alliance Investments Limited. Payments made from the Fund to Capital Alliance Investments Limited do not include any amounts directly attributable to the compensation of key management personnel.

### 18.4 Other transactions within the Fund

Apart from those details disclosed in Note 18.5, 18.6 and 18.7, key management personnel have not entered into any other transactions involving the Fund during the financial year.





18. RELATED PARTY DISCLOSURE (CONTD...)

18.5 Related party unitholdings and other transactions

Name of related party	Relationship	As at 31 March 2024		As at 31 March 2023	
		No of Units held	Value of investment	No of Units held	Value of investment
Mr. K.P. Mannakkara	Director of Capital Alliance Investments Limited - Management Company	78.86	2,625	78.86	2,152
Capital Alliance Securities (Private) Limited	A subsidiary of the parent of the Management Company	1,353,578.86	45,058,474.52	-	-

18.6 Other transactions with related parties and amounts due

The fees were charged by the Management Company and Trustee for services provided during the year and the balances outstanding from such dues as at year end are as disclosed below:

	Charge for the year ended		Balance as at	
	2023/2024	2022/2023	31.03.2024	31.03.2023
Fund Management fee	7,930,074	25,189,472	386,699	993,756
Trustee fees	2,470,102	8,943,900	100,542	365,702
Custodian fees	272,892	205,888	24,602	18,031
The Bank balance held at Hatton National Bank PLC/ Deutsche Bank AG as at 31st March			8,312,461	12,874,913

In addition to the above, certain administrative expenses were borne by the Management Company.

18.7 Other transactions with related parties

Investments in Treasury bill / bond repurchase agreements, Treasury bond, Commercial papers have been made in the ordinary course of operations with the following related parties. The resulting investment income and outstanding investment balances are given below.

	Investment income during the year		Balance as at	
	2023/2024	2022/2023	31.03.2024	31.03.2023
	Rs.	Rs.	Rs.	Rs.
Investments in treasury bond repurchase agreements with Capital Alliance PLC - (Subsidiary of Ultimate Parent Company of the Management Company)	6,956,634	65,895,785	-	-
Investments in Commercial Papers with Capital Alliance Holdings Limited - (Ultimate Parent Company of the Management Company)	-	978,205	-	-
Investments in treasury bonds with Capital Alliance PLC - (Subsidiary of Ultimate Parent Company of the Management Company)	51,640,700	8,608,500	-	1,024,918,500
Investments in treasury bills with Capital Alliance PLC - (Subsidiary of Ultimate Parent Company of the Management Company)	-	48,649,350	-	-



	Investment income during the year		Balance as at	
	2023/2024	2022/2023	31.03.2024	31.03.2023
	Rs.	Rs.	Rs.	Rs.
Investments in trust certificates with Fixed Income Investment I (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	15,084,401	-	-	-
Investments in trust certificates with Fixed Income Investment II (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	10,056,147	-	-	-
Investments in trust certificates with Fixed Income Investment III (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	8,317,671	-	87,754,191	-
Investments in trust certificates with Fixed Income Investment V (Pvt) Ltd - (Subsidiary of Ultimate Parent Company of the Management Company)	28,996,302	-	89,715,206	-

18. RECONCILIATION BETWEEN THE NET ASSET VALUE AS PER FINANCIAL STATEMENTS AND THE PUBLISHED NET ASSET VALUE

	As at 31.03.2024	As at 31.03.2023
	Rs.	Rs.
Net asset value as per Financial Statements	742,566,415	2,563,557,174
Provision for impairment	25,764,577	10,226,142
Under provision adjustment of audit fee	440,556	-
Published net asset value	768,771,548	2,573,783,316
Number of units outstanding	23,094,274.77	94,329,856.66
Published net asset value per unit	33.2884	27.2849

