

**CAPITAL ALLIANCE HIGH YIELD FUND  
COLOMBO 02**

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31ST MARCH 2024**



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

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

#### **Opinion**

We have audited the Financial Statements of Capital Alliance High Yield 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 unit holders' 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 page 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.

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : Sujeewa Rajapakse FCA, ACCA, FCMA, MBA. Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H. Sasanka Rathnaweera FCA, ACMA. R. Vasanthakumar Bsc (Acc), ACA. F. Sarah Z. Afker FCA, ACMA (UK), CGMA, MCSI (UK). Dinusha C. Rajapakse FCA, LLB (Hons)(Colombo), CTA, Attorney at Law. Nirosha Vadivel Bsc (Acc), ACA, ACMA.



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 a 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 the 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/kp**



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

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	Notes	2023/2024 Rs.	2022/2023 Rs.
<b>Investment income</b>			
Interest income	4	36,249,704	40,645,159
<b>Total investment income</b>		<u>36,249,704</u>	<u>40,645,159</u>
 (Reversal)/charge of impairment	7.5	5,894,468	(5,268,098)
 <b>Expenses</b>			
Management fees		(1,607,869)	(1,421,505)
Trustee fees		(319,170)	(342,015)
Custodian fees		(285,495)	(274,518)
Bank charges		(208,139)	(152,985)
Audit fees		(10,594)	(10,997)
Tax consultancy fee		(16,374)	-
<b>Total operating expenses</b>		<u>(2,447,641)</u>	<u>(2,202,020)</u>
 <b>Profit from operating activities</b>		<b>39,696,531</b>	<b>33,175,041</b>
 <b>Finance cost</b>			
Interest expense		<u>(350)</u>	<u>(551)</u>
 <b>Profit before tax</b>		<b>39,696,181</b>	<b>33,174,490</b>
 Income tax expenses	5	-	-
 <b>Profit for the year</b>		<u>39,696,181</u>	<u>33,174,490</u>
 <b>Other comprehensive income</b>		-	-
 <b>Total comprehensive income</b>		<u><u>39,696,181</u></u>	<u><u>33,174,490</u></u>
  <b>Increase in net assets attributable to Unitholders</b>		<b>39,696,181</b>	<b>33,174,490</b>

Figures in brackets indicate deductions.

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

Colombo  
29th July 2024



**CAPITAL ALLIANCE HIGH YIELD FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**As AT 31ST MARCH 2024**

Page 2

	Notes	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
<b>Assets</b>			
Cash and cash equivalents	6	361,692	1,811,577
Financial assets at amortised cost	7	228,445,365	177,369,965
Income tax recoverable	8	-	-
Other receivables	9	47	692,832
<b>Total assets</b>		<b>228,807,104</b>	<b>179,874,374</b>
<b>Liabilities</b>			
Accrued expenses	10	331,613	228,962
Other Payables	11	111,476	-
<b>Total liabilities</b>		<b>443,089</b>	<b>228,962</b>
<b>Net assets</b>		<b>228,364,015</b>	<b>179,645,412</b>
<b>Unitholders' fund</b>			
Net assets attributable to unitholders		<b>228,364,015</b>	<b>179,645,412</b>

Figures in brackets indicate deductions.

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

The Management Company and Trustee are responsible for 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/kp



CAPITAL ALLIANCE HIGH YIELD FUND  
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND  
FOR THE YEAR ENDED 31ST MARCH 2024

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	2023/2024 Rs.	2022/2023 Rs.
Unitholders' funds at the beginning of the year	179,645,412	263,277,726
Increase in net assets attributable to Unitholders	39,696,181	33,174,490
Creation of Units	324,377,056	506,789,421
Redemption of Units	(315,354,634)	(623,596,225)
Net increase/ (decrease) due to Unitholders' transactions	9,022,422	(116,806,804)
Unitholders' funds at the end of the year	228,364,015	179,645,412

Figures in brackets indicate deductions.

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

Colombo  
29th July 2024



**CAPITAL ALLIANCE HIGH YIELD 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	29,128,081	40,615,180
Interest paid	(350)	(551)
Net movement in investments	(38,059,310)	82,036,599
Operating expenses paid	(1,540,728)	(4,227,235)
<b>Net cash flows (used in)/generated from operating activities</b>	<b>(10,472,307)</b>	<b>118,423,993</b>
<b>Cash flows from financing activities</b>		
Cash received on creation of Units	324,377,056	506,789,421
Cash Paid on redemption of Units	(315,354,634)	(623,596,225)
<b>Net cash flows generated from / (used in) financing activities</b>	<b>9,022,422</b>	<b>(116,806,804)</b>
Net (decrease)/increase in cash and cash equivalents	(1,449,885)	1,617,189
Cash and cash equivalents at the beginning of the year (Note A)	1,811,577	194,388
<b>Cash and cash equivalents at the end of the year (Note B)</b>	<b>361,692</b>	<b>1,811,577</b>
<b>At the beginning of the year</b>		<b>Note A</b>
Cash and bank balances	1,811,577	194,388
	<b>1,811,577</b>	<b>194,388</b>
<b>At the end of the year</b>		<b>Note B</b>
Cash and bank balances	361,692	1,811,577
	<b>361,692</b>	<b>1,811,577</b>

Figures in brackets indicate deductions.

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

Colombo  
29th July 2024





**1. COPORATE INFORMATION**

**1.1 General information**

Capital Alliance High Yield Fund ("the Fund") is an open-ended fund approved by the Securities and Exchange Commission of Sri Lanka. The Fund was launched on 11<sup>th</sup> May 2012.

The Fund is managed by Capital Alliance Investments Limited which has been incorporated and domiciled in Sri Lanka. The registered office of the management company is located at Level 05, "Millennium House", 46/58, Nawam Mawatha, Colombo 02. The Trustee of the Fund is Hatton National Bank PLC having its place of business 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 provide investors with tax efficiency, relatively low volatility investments with the combined benefit of significantly higher yields than the treasury bills and fixed deposits.

**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 Fund 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. The Financial Statements have been presented in Sri Lankan rupees and the statement of financial position 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' funds and the statement of cash flows for the year then ended, and a summary of material accounting policies 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 under 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.





**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 for a foreseeable future. It is, therefore, assumed that the Fund has neither the intention nor the necessity of liquidation or curtailing materially the scale of its operation.

**2.7 Summary of significant accounting policies**

**2.7.1 Financial instruments**

**2.7.1.1 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 regulation or convention in the marketplace.

**2.7.1.2 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 FVTPL are expensed in the statement of profit or loss.

**2.7.1.3 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.

**2.7.1.4 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 the treasury bill repurchase agreements, commercial papers, fixed deposits and debentures. Any gain or loss arising on de-recognition 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 contractual cash flows and sell or
- (c) at initial recognition, it is irrevocably designated as measured at FVTPL and when doing so it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring 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 FVTPL is recognised in profit or loss and presented net within unrealised gains/(losses) in the period in which it arises. Financial assets at fair value through profit or loss at statement of financial position comprise investment in treasury bills. As of 31<sup>st</sup> March 2024, the Fund had no such investments.

**2.7.1.5 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, borrowings 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 de-recognised as well as through the EIR amortisation process.

**2.7.1.6 Impairment**

The Fund assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. 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, a 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 the 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).





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

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 Fitch Rating and Lanka Rating Agency Limited to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

Consistent with the policies of the Fund, rated below BBB- are considered non-investment grade investments and Fund considers such investments as significant deterioration of credit risk incurred. 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 the two notch downgrade of the external credit rating of the counterparty since the origination of the instrument.

For debt instruments at amortised cost, the Fund applies the low-risk simplification. At every reporting date, the Fund evaluates to ascertain whether the debt instrument is considered to have low credit risk using all reasonable and supportive information that is available without undue cost or effort.

In certain cases, the Fund may also consider a financial asset to be in default when the internal or external information indicates that the Fund is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ECLs are recognised using a provision for impairment account in profit and loss, with the corresponding amount recognised as a reduction in the carrying amount of the asset in the Statement of Financial Position.

Investment in corporate debt securities measured at amortised cost has been considered for 12-month ECL and as at 31<sup>st</sup> March 2024, the impact on the Financial Statements resulting from the same is not significant.

For financial assets carried at amortised cost, the Fund first assesses to ascertain whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income.

**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.





**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.

**2.7.1.7 De-recognition**

A financial asset is de-recognised 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 control of the asset

**2.7.1.8 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.

**2.7.2 Cash and cash equivalents**

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

**2.7.3 Income tax**

Subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective from 01 April 2018, an Eligible Unit Trust would not be liable for income tax on any income which is a 'pass through' to its unitholders. Accordingly, post 31<sup>st</sup> March 2018, the Fund has considered all income as being a 'pass through' to its unitholders.

**2.7.4 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 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

**2.7.5 Expenses**

The management and trustee fees of the Fund as per the trust deed are as follows,

Management fee	-	0.75% p.a. of net asset value of the Fund
Trustee fee	-	0.25% p.a. of net asset value of the Fund from 01.04.2023 to 05.06.2023 and, 0.13% p.a. of net asset value of the Fund from 06.06.2023 to 31.03.2024
Custody fee	-	Flat fee of Rs. 20,000/- per month from 01.04.2023 to 05.06.2023 and, Flat fee of Rs. 20,000/- per month from 06.06.2023 to 31.03.2024

**2.7.6 Unitholders' funds and net assets attributable to Unitholders**

Unitholders' funds have 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****(a) Financial Instruments**

The Fund's principal financial assets comprise investments in repurchase agreements, commercial papers, fixed deposits, debentures and cash at bank. The overall objective of this Fund is to provide investors with tax efficiency, relatively low volatility investments with the combined benefit of significantly higher yields than the treasury bills and fixed deposits, offering the convenience of a Unit Trust. The Fund's principal financial liabilities comprise amounts attributable to Unitholders, which are the amounts owed to Unitholders of the Fund. The Fund also has other financial instruments such as receivables and payables which arise directly from its operations.

In accordance with SLFRS 9 Financial Instruments: Recognition and Measurement, the investments in repurchase agreements, commercial papers fixed deposits, and debentures are classified as 'financial assets at amortised cost' and are valued at amortised cost. Amounts attributable to Unitholders are classified as 'equity' and are carried at the redemption amount being net asset value. Accrued expenses are classified as 'other financial liabilities' at amortised cost.

**(b) Financial risk management objectives, policies and processes**

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 investments in treasury bills/bond repurchase agreements, commercial papers, fixed deposits and debentures for the purpose of generating a return on the investment made by Unitholders, in addition to cash at bank, and other financial instruments such as receivables and payables, which arise directly from its operations.





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

The Fund Management Company is responsible for identifying and controlling the risk that arise from these financial instruments. The Fund 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 Fund Management Company also monitors information about the total fair value of financial instruments exposed to various risks, as well as 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 Fund Management Company on a regular basis as deemed appropriate, including the Fund manager, other key management, Risk and Investment Committees and ultimately the Trustee 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 is engaged in similar business activities, or activities in the same geographic region, or has similar economic features that would cause their ability to meet the contractual obligations to be similarly affected by changes in economics, political or other conditions.

(c) **Credit risk**

Credit risk is the risk that the counterparty to the Financial Statement will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund's exposure to credit risk from its financial assets arises from default of the counterparty. It is the Fund's policy to enter into financial instruments with reputable counterparties. Capital Alliance High Yield Fund's investments are only in repurchase agreements against the Government securities, commercial papers, fixed deposits and debentures.

The Fund is also subject to credit risk on its bank balance and receivables. The carrying value of these assets under SLFRS 9 impairment represents the Fund's maximum exposure to credit risk on financial instruments and are not deemed to be significant. Hence, no separate credit risk disclosure is provided for these instruments.

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

**2024**

<u>Counter party</u>	<u>Credit rating</u>	<u>Rating agency</u>
Softlogic Holdings PLC	BBB-	Fitch Rating
Softlogic Capital PLC	BBB-	LRA
Asiri Hospital Holdings PLC	CCC	Fitch Rating
Capital Alliance PLC	BBB+	ICRA Rating
Asia Asset Finance PLC	A+	LRA
Kotagala Plantations PLC	B+	Fitch Rating





**Risk concentration of credit risk exposure**

Concentration of credit risk is managed by counterparty and by market sector. 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	Maximum exposure	Amortised cost	Maximum exposure
Cash at bank	361,692	361,692	1,811,577	1,811,577
Commercial papers	50,427,941	50,427,941	99,800,090	99,800,090
Fixed deposits	26,324,322	26,324,322	44,310,011	44,310,011
Debentures	24,491,484	24,491,484	38,442,441	38,442,441
Repurchase agreements on Government securities	135,257,579	135,257,579	8,767,852	8,767,852
Other receivables	47	47	692,832	692,832
<b>Total</b>	<b>236,863,065</b>	<b>236,863,065</b>	<b>193,824,803</b>	<b>193,824,803</b>

**(d) 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 the 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.

**(e) Liquidity risk**

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



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

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 Fund Manager 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 no. 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.

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.

31 <sup>st</sup> March 2024	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	More than 1 year Rs.	Total Rs.
Financial Assets	135,960,240	78,497,651	-	23,918,522	238,376,413
Financial Liabilities	443,089	-	-	-	443,089
31 <sup>st</sup> March 2023	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	More than 1 year Rs.	Total Rs.
Financial Assets	93,265,155	41,416,759	27,328,825	37,586,658	199,597,398
Financial Liabilities	228,962	-	-	-	228,962

The contractual amounts disclosed in this analysis are gross undiscounted cashflows and, therefore, may not agree with the carrying amounts in the Statement of Financial Position.

(f) **Capital risk management**

The Fund considers its net assets attributable to Unitholders as capital, notwithstanding 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. In 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.





Following being the disclosures of Unitholders' Funds;

The movement in the Unitholder's Funds as at 31<sup>st</sup> March 2024

I. In terms of Value

	Rs.
Unitholders' Funds as at 01 <sup>st</sup> April 2023	179,645,412
Creations during the year	324,377,056
Redemptions during the year	(315,354,634)
Increase in net asset attributable to unitholders	39,696,181
Unitholders' Funds as at 31 <sup>st</sup> March 2024	<u>228,364,015</u>

II. In terms of No. of units

	Nos.
Opening no of Units as at 01 <sup>st</sup> April 2023	5,572,051
Unit creations during the year	9,228,182
Unit redemptions during the year	(8,984,580)
Closing no of Units as at 31 <sup>st</sup> March 2024	<u>5,815,653</u>

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 attaching to it as all other Units of the Fund.





	2023/2024 Rs.	2022/2023 Rs.
<b>4. INTEREST INCOME</b>		
Treasury bills repurchase agreements	12,159,981	7,341,856
Commercial papers	11,879,110	26,413,078
Fixed deposits	9,343,136	2,131,928
Debentures	2,130,663	3,260,414
Savings deposits and money market interest income	142,859	8,783
Treasury bills	593,955	-
Trust certificates	-	1,489,100
	<u>36,249,704</u>	<u>40,645,159</u>

**5. INCOME TAX EXPENSES**

Following the enactment of the new Inland Revenue Act No. 24 of 2017 effective from 1st April 2018, the Fund is deemed to be conducting an eligible investment business and is treated as a tax pass through vehicle. Hence, no provision for income tax was made in the Financial Statements for the year ended 31st March 2024.

	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
<b>6. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	361,692	1,811,577
	<u>361,692</u>	<u>1,811,577</u>

**7. FINANCIAL ASSETS AT AMORTISED COST**

	Balance as at 31.03.2024		Balance 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
Commercial papers (Note 7.1)	50,427,941	22.1%	99,800,090	55.6%
Fixed deposits (Note 7.2)	26,324,322	11.5%	44,310,011	24.7%
Reverse repurchase agreements on Government Securities (Note 7.3)	135,257,579	59.2%	8,767,852	4.9%
Debentures (Note 7.4)	24,491,484	10.7%	38,442,441	21.4%
Less: Provision for impairment (Note 7.5)	(8,055,961)	-3.5%	(13,950,429)	-7.8%
	<u>228,445,365</u>	<u>100.0%</u>	<u>177,369,965</u>	<u>98.7%</u>

**7.1 Commercial papers**

Asiri Hospital Holdings PLC	15,830,151	6.9%	19,310,922	10.7%
LOLC Holdings PLC	-	-	16,881,600	9.4%
First Capital Holdings PLC	-	-	26,425,000	14.7%
Softlogic Capital PLC	17,384,486	7.6%	18,483,139	10.3%
Softlogic Holding PLC	17,213,304	7.5%	18,699,429	10.4%
	<u>50,427,941</u>	<u>22.1%</u>	<u>99,800,090</u>	<u>55.6%</u>



7. FINANCIAL ASSETS AT AMORTIZED COST (CONTD...)

	Balance as at 31.03.2024		Balance 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>7.2 Fixed deposits</b>				
Alliance Finance Company PLC	-	-	23,189,011	12.9%
Asia Asset Finance PLC	26,324,322	11.5%	21,121,000	11.8%
	<u>26,324,322</u>	<u>11.5%</u>	<u>44,310,011</u>	<u>24.7%</u>

7.3 Repurchase agreements on government securities

Commercial Bank of Ceylon PLC	-	-	8,767,852	4.9%
Capital Alliance PLC	32,427,699	14.2%	-	-
Acuity Securities Limited	102,829,880	45.0%	-	-
	<u>135,257,579</u>	<u>59.2%</u>	<u>8,767,852</u>	<u>4.9%</u>

7.4 Debentures

Kotagala Plantations PLC - Quoted	14,238,967	6.2%	21,354,448	11.9%
Kotagala Plantations PLC - Unquoted	10,252,517	4.5%	17,087,993	9.5%
	<u>24,491,484</u>	<u>10.7%</u>	<u>38,442,441</u>	<u>21.4%</u>

7.5 Provision for impairment

	2023/2024 Rs.	2022/2023 Rs.
Balance at the beginning of the year	13,950,429	8,682,331
Charge/(reversal) to the income statement	(5,894,468)	5,268,098
Balance at the end of the year	<u>8,055,961</u>	<u>13,950,429</u>

7.5.1 - Movement in Impairment during the Year

	2023/2024 Rs.	2022/2023 Rs.
<b>Stage 1</b>		
Balance at the beginning of the year	19,370	21,394
Charge/(Reversal) to income statement	8,029	(2,024)
Balance at the end of the year	<u>27,399</u>	<u>19,370</u>
<b>Stage 2</b>		
Balance at the beginning of the year	13,931,059	8,660,937
Charge/(Reversal) to income statement	(5,902,497)	5,270,122
Balance at the end of the year	<u>8,028,562</u>	<u>13,931,059</u>
<b>Total</b>	<u>8,055,961</u>	<u>13,950,429</u>



	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
<b>8. INCOME TAX RECEIVABLE</b>		
WHT receivable	(9,227,063)	9,227,063
Less: Provision for doubtful WHT receivable	9,227,063	(9,227,063)
	-	-
<b>9. OTHER RECEIVABLES</b>		
Money market interest receivable	47	-
Other receivables	-	692,832
	47	692,832
<b>10. ACCRUED EXPENSES</b>		
Fund management fee	174,820	114,671
Trustee fee	30,302	28,133
Custodian fee	24,602	24,042
Audit fee	11,789	7,088
Consultancy fee	90,100	55,028
	331,613	228,962
<b>11. OTHER PAYABLES</b>		
Payable on units creation	10,000	-
Other payables	101,476	-
	111,476	-
<b>12. CONTINGENCIES</b>		
There are no material contingencies existing as at the reporting date that require adjustments to or disclosures in the financial statements.		
<b>13. EVENTS AFTER THE REPORTING DATE</b>		
There have been no material events occurring after the reporting date that require adjustments to, and/or disclosure in these financial statements.		
<b>14. CAPITAL COMMITMENTS</b>		
The Fund does not have significant capital commitments as at the reporting date.		
<b>15. UNITS IN ISSUE AND UNIT PRICE</b>		
Units in issue and are deemed to be in issue as at 31st March 2024 are 5,815,653.48 (2023 - 5,572,050.54) and unit price as at this date is Rs. 37.8621 (2023 - Rs. 31.9339).		
<b>16. FAIR VALUE OF FINANCIAL INSTRUMENTS</b>		
<b>Assets for which fair value approximates carrying value</b>		
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.		
<b>Assets</b>	<ul style="list-style-type: none"> <li>- Cash and cash equivalents</li> <li>- Financial assets at amortised cost</li> <li>- Other receivables</li> </ul>	
<b>Liabilities</b>	<ul style="list-style-type: none"> <li>- Accrued expenses and other payables</li> </ul>	





**17. RELATED PARTY DISCLOSURE**

**17.1 Management Company and Trustee**

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

**17.2 Key management personnel**

Key management personnel include 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

**17.3 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.

**17.4 Other transactions within the Fund**

Apart from those details disclosed in Note 17.5 and 17.6, key management personnel have not entered into any other transactions involving the Fund during the financial year.

**17.5 Related party unit holding and other transactions**

Name	Relationship	No. of units	Value of unit holding Rs.
<b>As at 31st March 2024</b>			
Capital Alliance Investments Limited	Management Company	27,817	1,053,202
<b>As at 31st March 2023</b>			
Capital Alliance Investments Limited	Management Company	7,607	242,929



17. RELATED PARTY DISCLOSURE (CONTD...)

17.6 Other transactions with and amounts due to related parties

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 Rs.	2022/2023 Rs.	31.03.2024 Rs.	31.03.2023 Rs.
Management fee	1,607,869	1,421,505	174,820	114,671
Trustee fee	319,170	342,015	30,302	28,133
Custodian fee	285,495	274,518	24,602	24,042
The Bank balance held at Hatton National Bank PLC/ Deutsche Bank AG as at 31st March			361,692	1,811,577

Other transactions with related parties

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

	Investment income during the		Balance as at	
	2023/2024 Rs.	2022/2023 Rs.	31.03.2024 Rs.	31.03.2023 Rs.
Investments in Repurchase agreements against Government Securities				
Capital Alliance PLC (Subsidiary of Ultimate Parent Company of Managing Company)	7,537,583	1,270,829	32,427,699	-

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

	As at 31.03.2024 Rs.	As at 31.03.2023 Rs.
Net asset value as per financial statements	228,364,015	179,645,412
Reversal of impairment provision	(8,170,937)	(1,707,911)
Published net asset value	220,193,078	177,937,501
Number of units outstanding	5,815,653	5,572,051
Published net asset value per unit	37.8621	31.9339

