

CEYLON INCOME FUND
FINANCIAL STATEMENTS
31 DECEMBER 2022

GSM/DS/DM

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF CEYLON INCOME FUND

Report on the Financial Statements

Opinion

We have audited the Financial Statements of Ceylon Income Fund ('the Fund'), which comprise the Statement of Financial Position as at 31 December 2022, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Movement in Unit Holders' Funds and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2022 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 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.

Manager's Responsibility for the Financial Statements

The Manager, Ceylon Asset Management Company Limited is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as the Manager 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, the Manager 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 Manager 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.



(Contd...2/)



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Auditor's responsibilities for the audit of the financial statements (continued)

Misstatements can arise from fraud or error and are considered material if, individually or in 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 the Manager.
- Conclude on the appropriateness of Manager'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 those charged with governance 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

The financial statements are prepared and presented in accordance with and comply with the requirements of the Unit Trust Deed and Unit Trust Code of the Securities and Exchange Commission of Sri Lanka.

19 April 2023
Colombo

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 Rs.	2021 Rs.
INVESTMENT INCOME			
Interest Income	5.1	43,279,349	18,715,895
Realised Gain/(Loss) on Financial Assets at Fair Value Through Profit or Loss		(10,963,752)	146,269
Unrealised Gain/(Loss) on Financial Assets at Fair Value Through Profit or Loss	8.2	766,963	(10,146,573)
Total Investment Income		33,082,559	8,715,590
EXPENSES			
Management Fees		(1,903,222)	(940,775)
Trustee Fees		(625,447)	(399,590)
Audit Fees		(338,838)	(233,102)
Professional Fees		(166,619)	(101,060)
Brokerage Fees		(54,713)	(6,919)
Other Expenses		(574,478)	(270,870)
		(3,663,317)	(1,952,316)
NET PROFIT BEFORE INCOME TAX		29,419,242	6,763,275
Income Tax Expense	6	-	-
NET PROFIT AFTER INCOME TAX FOR THE YEAR		29,419,242	6,763,275
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		29,419,242	6,763,275

The accounting policies and notes on pages 07 through 19 form an integral part of the Financial Statements.



STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 Rs.	2021 Rs.
ASSETS			
Cash and Cash Equivalents	7	27,800	29,700
Financial Assets at Fair Value Through Profit or Loss	8	3,096,504	115,095,574
Financial Assets at Amortized Cost	9	9,834,530	29,283,801
Other Receivable-MM saving interest receivable		4,510	2,774
		<u>12,963,344</u>	<u>144,411,849</u>
LIABILITIES			
Accrued Expenses and Other Payables	11	376,830	395,168
		<u>376,830</u>	<u>395,168</u>
NET ASSETS		<u>12,586,515</u>	<u>144,016,681</u>
UNIT HOLDERS' FUNDS			
Net Assets Attributable to Unit Holders		<u>12,586,515</u>	<u>137,253,406</u>

The Manager is responsible for these Financial Statements and these Financial Statements were approved by the Manager.
Signed for and on behalf of the Manager by;


.....
Director
Management Company


.....
Director
Management Company


.....
Trustee

The accounting policies and notes on pages 07 through 19 form an integral part of the Financial Statements.



STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

Year ended 31 December 2022

	2022 Rs.	2021 Rs.
UNIT HOLDERS' FUNDS AS AT 01 JANUARY	144,016,681	219,139,178
Total Comprehensive Income for the Year	29,419,242	6,763,275
Creation of Units	1,233,947,408	5,621,090
Redemption of Units	(1,394,796,816)	(87,506,862)
Net Decrease due to Unit Holders' Transactions	(160,849,408)	(81,885,772)
UNIT HOLDERS' FUNDS AS AT 31 DECEMBER	12,586,515	144,016,681

The accounting policies and notes on pages 07 through 19 form an integral part of the Financial Statements.



STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	2022 Rs.	2021 Rs.
Cash Flows from/(used in) Operating Activities		
Interest Received	53,175,032	14,464,775
Management Fees and Trustee Fees Paid	(2,602,507)	(1,354,149)
Other Expenses Paid	(1,079,148)	(612,445)
Net Investment from Fixed Deposits	-	8,000,000
Net Investment in Money Market Savings Accounts	844,837	45,567,731
Net Investment from Debentures	94,648,093	(64,478,771)
Net Investment from/(in) Commercial Papers	-	70,616,775
Net Investment from/(in) Trust Certificates	25,000,000	9,000,000
Net Investment from/(in) Treasury Bill	(4,638,800)	-
Net Investment from / (in) Reverse Repo	(4,500,000)	-
Net Cash Flow generated from/(used in) Operating Activities	160,847,507	81,203,915
Cash Flows from/(used in) Financing Activities		
Cash Received on Creation of Units	1,233,947,408	5,621,090
Cash Paid on Redemption of Units	(1,394,796,816)	(87,506,862)
Net Cash generated from/(used in) Financing Activities	(160,849,408)	(81,885,772)
Net decrease in Cash and Cash Equivalents	(1,901)	(681,856)
Cash and Cash Equivalents at the beginning of the year	29,700	711,556
Cash and Cash Equivalents at the end of the year	27,800	29,700

The accounting policies and notes on pages 07 through 19 form an integral part of the Financial Statements.



1. GENERAL INFORMATION

Ceylon Income Fund is a fixed income Fund which was launched on 01 April 2009 by a supplementary trust deed executed between Ceylon Asset Management Company Limited as Fund Manager and the Hatton National Bank PLC as the Trustee.

The Fund is managed by Ceylon Asset Management Company Limited which is incorporated and domiciled in Sri Lanka. The registered office of the management company is located at Ground Floor, The Parkland 1, No.33, Park Street, Colombo 02. The Trustee of the Fund is Hatton National Bank PLC having its place of business at Level 15, HNB Tower, Colombo 01.

The objective of the Fund is to enable to earn a highest income in excess of Treasury Bill rates and inflation.



2. ACCOUNTING POLICIES

2.1 Basis of Preparation

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

2.1.1 Statement of Compliance

The financial statements which comprise the statement of financial position as at 31 December 2022, statement of profit or loss and other comprehensive income, statement of movement in unit holders' Funds and statement of cash flows for the year then ended, and a summary of significant 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 Unit Trust Code of the Fund and Exchange Commission of Sri Lanka.

2.1.2 Going Concern

These financial statements are prepared on the assumption that the Fund is a going concern i.e. as continuing in operation for the foreseeable future. It is therefore assumed that the Fund has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operation.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.2.1 Financial instruments

2.2.1.1 Financial assets

All financial assets are initially recognized on the trade date, i.e. the date that the Fund becomes a party to the contractual provisions of the instrument. This includes purchases of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2.2.1.2 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.

2.2.1.3 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.



2.2.1.4 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 payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost in the statement of financial position as at 31 December 2022 comprise of Treasury Bills, Reverse Repos, Money Market Savings Deposits and Trust Certificates. Any gain or loss arising on derecognition is recognised directly in the Statement of Profit or Loss and presented as realised gain/(loss) on debt Instruments held at amortised cost.

FVPL: 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 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 FVPL when doing so eliminate 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 FVPL is recognised in profit or loss and presented net within unrealised gains/(losses) in the period in which it arises. As of 31 December 2022, financial assets at fair value through profit or loss comprise of investment in Quoted Debentures.

2.2.1.5 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, discounted at an approximation of the original effective interest rate.

ECLs are recognized 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 ICRA Lanka 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 life time ECL calculation.

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



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

Investment in Treasury bill repurchase agreements that are obtained from primary dealers with a collateral of either treasury bills or bonds that are graded in the top investment category- AAA rating and, therefore, are considered to be low risk investments.

Investment in corporate debt securities measured at amortised cost has been considered for 12-month ECL and as of 31 December 2022, the impact to the financial statements resulting from the same is not significant.

2.2.1.6 Derecognition

A financial asset is derecognised when,

- a. The rights to receive cash flows from the asset have expired,
- b. 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

2.2.1.7 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 a currently 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.

2.2.2 Recognition of income

Revenue is recognized 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 recognized.

(i) Interest Income

Subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective 01 April 2018, an Eligible Unit Trust would not be liable for Income Tax on any Income which is a pass through to its unit holders. Accordingly, post 31 March 2018, the Fund has considered all income as being a pass through to its unit holders. Effective 01 January 2020, withholding tax was abolished in respect of interest received by resident persons. Accordingly, total gross interest has been recognized as investment income. (Refer Notes 2.2.5 and 5.1.1).

2.2.3 Cash and cash equivalents

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

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.



2.2.4 Distributions

In accordance with the trust deed, the Fund distributes income, to unit holders by cash or reinvestment in units. The distributions are recorded in the statement of movement in unit holders' Funds.

2.2.5 Income tax

Until 31 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. Current tax assets and liabilities were measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective 01 April 2018, an Eligible Unit Trust would not be liable for Income Tax on any Income which is a pass through to its unit holders. Accordingly, post 31 March 2018, the Fund has considered all income as being a pass through to its unit holders.

2.2.6 Expenses

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

Management fee	-	0.5% p.a. of net asset value of the Fund
Trustee fee	-	0.15% p.a. of net asset value of the Fund

2.2.7 Unit holders' Funds

Unit holders' 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 unit holders 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 unit holders.

3. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Trust Deed and seeks to maximize the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the Management Company.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks and ratings analysis for credit risk.

(a) 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. While market risk cannot be eliminated the Fund manager will attempt to reduce this risk by diversifying the Fund's investment portfolio in line with investment objectives of the Fund.



(b) Price risk

Price risk is the risk that the fair value of the Fund's investment in trading securities in fluctuates as a result of changes in the price of the Fund's investments in trading securities. Price risk exposure arises from the Fund's investment portfolios.

(c) 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.

Furthermore, the Fund's exposure to interest rate risk primarily arises from changes in interest rates applicable to quoted debentures since they are valued at fair value.

The following table summarizes the sensitivity of the Funds operating profit and net assets attributable to Unit Holders to interest rate risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, historical correlation of the Fund's investment with the relevant benchmark and market volatility. However, actual movements in the risk variables maybe greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in performances and correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	2022	2021
	Increase/ (decrease) on (loss)/profit before tax and amounts attributable to Unit Holders Rs.	Increase/ (decrease) on (loss)/profit before tax and amounts attributable to Unit Holders Rs.
Change in interest rate of Fund's investment in Trading debentures existing as of reporting date		
+1%	(30,965)	(1,150,956)
-1%	30,965	1,150,956
+2%	(61,930)	(2,301,911)
-2%	61,930	2,301,911
+4%	(123,860)	(4,603,823)
-4%	123,860	4,603,823

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis. However, due to the short term nature of the instruments of investments it is reasonably expected that the fluctuation in interest rate will not materially impact the net assets value of the Fund. The table below summarises the Fund's exposure to interest rate risks.



31 December 2022	Floating interest rate Rs.	Fixed interest rate Rs.	Non- interest bearing Rs.	Total Rs.
Financial assets				
Cash and cash equivalents	-	-	27,800	27,800
Other receivable	-	4,510	-	4,510
Financial assets held at FVTPL	-	3,096,504	-	3,096,504
Financial assets at amortised cost	9,834,530	-	-	9,834,530
Total Exposure	9,834,530	3,101,014	27,800	12,963,344

31 December 2021	Floating interest rate Rs.	Fixed interest rate Rs.	Non- interest bearing Rs.	Total Rs.
Financial assets				
Cash and cash equivalents	-	-	29,700	29,700
Financial assets held at FVTPL	-	115,095,574	-	115,095,574
Financial assets at amortised cost	29,283,801	-	-	29,283,801
Other receivable	-	2,774	-	2,774
Total Exposure	29,283,801	115,098,348	29,700	144,411,849

(d) 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 Fund's exposure to credit risk from its financial assets arises from default of the counterparty, with the current exposure equal to the fair value of financial instruments given in note 8 and 9. It is the Fund's policy to enter into financial instruments with reputable counterparties

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.

(e) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions of units. It therefore primarily holds investments that are traded in an active market and can be readily disposed. Only a limited proportion of its assets are held in investments not actively traded on a stock exchange.

Units are redeemed on demand at the unit holder's option. However, the Fund does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

The time frame for return of cash to investors is six business days in which time equities may be liquidated to realize cash for redemption payouts. In addition, the Fund and Exchange Commission and the Fund require additional 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 unit trust code requires a minimum of 3% of the deposited property to be maintained in cash or near cash. (near cash means investments such as bank/call deposits, repurchase agreements with maturities of less than 3 months, commercial paper endorsed or guaranteed by a Licensed Commercial Bank or Licensed Specialized Bank with maturities of less than 3 months and government securities including government bonds with maturities of less than one year which can be readily convertible into cash.)

As per the Trust Deed, the Fund is required to maintain a minimum investment of 40% of the total Fund in securities with a maturity of 12 months or less. For the above requirement, the fund has invested in investments with original maturity below 12 months and investments in listed debentures designated as held for trading.

4. CAPITAL RISK MANAGEMENT

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

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.

Company has the discretion to reject an application for units.

Following being the disclosures of Unit holders' Funds;

The movement in the Unit holder's Funds as at 31 December 2022

I. In term of Value

	Rs.
Unit Holders' Funds as at 01 January 2022	144,016,681
Creations during the year	1,233,947,408
Redemptions during the year	(1,394,796,816)
Increase in net assets attributable to Unit Holders	29,419,242
Unit Holders' Funds as at 31 December 2022	12,586,515

II. In term of No of units

Opening no of units as at 01 January 2022	6,365,238
Unit creations during the year	54,084,214
Unit redemptions during the year	(59,931,380)
Closing no of units as at 31 December 2022	518,072

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.



5. INVESTMENT INCOME	2022 Rs.	2021 Rs.
5.1 Interest on		
Commercial Papers	13,229,781	2,706,426
Quoted Debentures	2,033,297	12,322,040
Fixed Deposits	2,547,202	453,370
Money Market Savings Deposits	1,208,091	355,087
Trust Certificates	21,914,405	2,514,178
Repo Interest Income	2,309,308	-
Treasury Bill Interest Income	37,265	-
	<u>43,279,349</u>	<u>18,715,895</u>

- 5.1.1 As detailed under Note 2.2.2 (i), subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective 01 April 2018, Notional Tax is not applicable for Treasury Bill Repurchase Agreements. In relation to interest income from Commercial Papers, Quoted Debentures, Fixed Deposits, Debenture Repurchase Agreements and Money Market Savings Deposits interest income has been recognized net of withholding tax as the Fund considers its income to be a pass through to its unit holders. Effective 01 January 2020, withholding tax was abolished in respect of dividend and interest received by resident persons. Accordingly, total gross interest has been recognized as investment income.

6. TAXATION

With effect from 01 April 2018, no income tax is recognised in the financial statements as the Fund has considered all income as being passed through to its Unit Holders.

7. CASH AND CASH EQUIVALENTS	2022 Rs.	2021 Rs.
Favourable Cash and Cash Equivalents Balances		
Cash at Bank	27,800	29,700
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	<u>27,800</u>	<u>29,700</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

8. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS				2022 Rs.	2021 Rs.		
Debt Securities (8.1)				3,096,504	115,095,574		
				<u>3,096,504</u>	<u>115,095,574</u>		
				2022	2021		
8.1 Debt Securities	Quoted Debentures	Amortised Cost	Market value	Holdings as a % of Net Asset Value	Amortised Cost	Market value	Holdings as a % of Net Asset Value
	HNB PLC	3,822,644	3,096,504	24.6%	3,822,644	3,608,925	2.6%
	Ceylon Electricity Board	-	-	-	53,938,563	13,318,236	9.7%
	LOLC Holdings PLC	-	-	-	14,787,764	48,966,075	35.7%
	LOLC Finance PLC	-	-	-	44,024,116	49,202,338	35.8%
		<u>3,822,644</u>	<u>3,096,504</u>	<u>24.6%</u>	<u>116,573,087</u>	<u>115,095,574</u>	<u>83.9%</u>
8.2 Unrealised gains on financial assets held at fair value through profit or loss				2022 Rs.	2021 Rs.		
Debt securities-Quoted Debentures				<u>766,963</u>	<u>10,146,573</u>		
9. FINANCIAL ASSETS AT AMORTISED COST				2022 Rs.	2021 Rs.		
Debt Instruments at Amortised Cost							
Reverse Repo (9.1)				4,506,842	-		
Treasury Bills (9.2)				4,676,065	-		
Money Market Savings (9.3)				651,623	1,496,130		
Trust Certificates (9.4)				-	27,787,671		
				<u>9,834,530</u>	<u>29,283,801</u>		
				2022	2021		
				Carrying Value Rs.	Holding as a % of Net Asset Value	Carrying Value Rs.	Holding as a % of Net Asset Value
9.1 Reverse Repo	Union Bank Of Colombo PLC	4,506,842	36%	-	0%	-	0%
		<u>4,506,842</u>	<u>36%</u>	<u>-</u>	<u>0%</u>	<u>-</u>	<u>0%</u>
9.2 Treasury Bills	First Capital Treasuries PLC	4,676,065	37%	-	0%	-	0%
		<u>4,676,065</u>	<u>37%</u>	<u>-</u>	<u>0%</u>	<u>-</u>	<u>0%</u>
9.3 Money Market Savings	Seylan Bank PLC	14,469	0%	14,608	0%	14,608	0%
	Hatton National Bank PLC	637,154	5%	1,481,522	1%	1,481,522	1%
		<u>651,623</u>	<u>5%</u>	<u>1,496,130</u>	<u>1%</u>	<u>1,496,130</u>	<u>1%</u>
9.4 Trust Certificate Investments	Richard Peiris Finance Ltd	-	0%	27,787,671	20%	27,787,671	20%
		<u>-</u>	<u>0%</u>	<u>27,787,671</u>	<u>20%</u>	<u>27,787,671</u>	<u>20%</u>



10. FAIR VALUE OF FINANCIAL INSTRUMENTS**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 – An investment in a fund is classified in Level 1 of the hierarchy when that investment is quoted in an active market and measured at the unadjusted quoted price at the reporting date.

Level 2 – An investment in a fund is classified in Level 2 of the hierarchy when that investment is measured using inputs that are directly observable at the reporting date.

Level 3 – An investment in a fund is classified in Level 3 of the hierarchy when the investment is measured using unobservable inputs at the reporting date.

The following assumptions used to value the level 2 securities where there is no active trading price is available:

a Quoted Securities

All quoted securities are valued at the last trading price. However, if there is no trades for last 90 calendar days for a particular quoted security (ies), those quoted securities are valued on mark to market basis using the daily yield curve released by the Central Bank of Sri Lanka (CBSL) until the next trading day, including any risk premium attached to the instrument.

b Unquoted securities

All the unquoted securities are valued on mark to market basis by using the daily yield curve released by the CBSL until maturity plus any risk premium attached to the instrument.

c Risk Premium

The risk premium for valuation of quoted and unquoted debt securities shall continue to be calculated as the difference between the yield on the corporate debt and the yield on the government security of a similar maturity at the time of investing.

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

As at 31 December 2022	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets held at fair value through profit or loss				
Debt securities	-	3,096,504	-	3,096,504
As at 31 December 2021				
Financial assets held at fair value through profit or loss				
Debt securities	-	115,095,574	-	115,095,574

Financial Assets and Financial Liabilities not carried at fair 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 of which carrying amount is a reasonable approximation of fair value.

Assets

Cash and Cash Equivalents
Financial Assets- Debt Instruments at Amortised Cost

Liabilities

Accrued Expenses and Other Payables

11. ACCRUED EXPENSES AND OTHER PAYABLES

	2022 Rs.	2021 Rs.
Management Fee Payable	5,339	61,228
Trustee Fee Payable	39,076	57,024
Audit Fee Payable	277,500	222,000
Taxation Fees Payable	50,000	50,000
Other Payable	3,915	3,915
Creation in Advance	1,000	1,000
	<u>376,830</u>	<u>395,168</u>

12. CONTINGENCIES

There are no material contingencies existing as at the reporting date that require adjustments to or disclosure in the Financial Statements.

13. EVENTS OCCURRING AFTER THE REPORTING DATE

Other than above, there have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

14. CAPITAL COMMITMENTS

There were no material capital and financial commitments as at the reporting date.

15. UNITS IN ISSUE AND UNIT PRICE

Units in issue and deemed to be in issue as at 31 December 2022 is 518,072 (2021 - 6,365,238). Unit price as at the reporting date is 24.52 (2021 - Rs.22.62).

16. RELATED PARTY DISCLOSURE

16.1 Management Company and Trustee

The Management Company is Ceylon Asset Management Company Limited.
The Trustee is Hatton National Bank PLC.

16.2 Key management personnel

Key management personnel includes persons who were directors of Ceylon Asset Management Company Limited at any time during the financial year.

i) Directors

i) Directors

Mr. Dulindra Fernando
Mr. Michael Preiss
Mr. Ravindra Ajith Fernando
Mr. Rajendra Shashika Ranasinghe
Mr.R.D.M.U.M.M. Bandara
Mr. Dinesh Jamnadas Ambani
Mr.Danushka Pabodha Samarasinghe (w.e.f.17/08/2022)

ii) Other key management personnel

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

Mr.Thilina Withanage (Senior Consultant-Operations)
Ms.Janethri Gurusinghe(Consultant-Compliance)

16.3 Key management personnel compensation

Key management personnel are paid by Ceylon Asset Management Company Limited. Payments made from the Fund to Ceylon Asset Management Company Limited do not include any amounts directly attributable to the compensation of key management personnel.

16. RELATED PARTY DISCLOSURE (Contd...)**16.4 Other transactions within the Fund**

Apart from those details disclosed in note 16.5 and 16.6, key management personnel have not entered any other transactions involving the Fund during the financial year.

16.5 Related party unit holding and other transactions

The following are the related party unit holdings of Ceylon Income Sector Fund.

31 December 2022

Unit holder	Relationship	No of units held closing	Value of units hold (Rs.)	Interest held	Distribution paid or payable by the fund
Mr.Thilina Withanage	Senior Consultant- Compliance	34.39	840	0%	-
Ms.Janethri Gurusinghe	Consultant-Compliance	218.96	5,346	0.042%	-

31 December 2021

Unit holder	Relationship	No of units held closing	Value of units hold (Rs.)	Interest held	Distribution paid or payable by the fund
Sri Lanka Insurance Corporation Ltd	Affiliate of the Management Company	5,553,376	125,600,220	87%	-
Michael Preiss	The Director of the Management Company	2,715	61,410	0.0427%	-

16.6 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 31 December		Payable as at 31 December	
	2022 Rs.	2021 Rs.	2022 Rs.	2021 Rs.
Management fees	1,903,222	940,775	5,339	61,228
Trustee fees	625,447	399,590	39,076	57,024

16.7 Other transactions with related parties

Investments in Money Market Saving has been made in the ordinary course of operations with following related parties. The resulting

	Charge for the year 31 December		Balance as at 31 December	
	2022 Rs.	2021 Rs.	2022 Rs.	2021 Rs.
Investment in Money Market Saving with Hatton National Bank PLC (Trustee of the fund)	1,204,829	47,684	637,154	1,481,522
The Bank balance held at Hatton National Bank as at 31 December	-	-	25,000	25,000

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

	2022 Rs.	2021 Rs.
Net Asset Value as per Financial Statements	12,586,515	144,016,681
Audit Fee Adjustment	116,020	(54,656)
Other Expense Adjustment	1,900	-
Published Net Asset Value	<u>12,704,435</u>	<u>143,962,025</u>
Number of units outstanding	518,072	6,365,238
Net Asset Value per Unit	<u>24,5225</u>	<u>22,6169</u>

