

**CEYLON INDEX FUND**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2021**

GSM/DS/AD

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF CEYLON INDEX FUND

### Report on the Financial Statements

#### *Opinion*

We have audited the Financial Statements of Ceylon Index Fund ('the Fund'), which comprise the Statement of Financial Position as at 31 December 2021, 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 2021 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 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 (Continued)*

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/-)

***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.



27 May 2022  
Colombo

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	Notes	2021 Rs.	2020 Rs.
<b>INVESTMENT INCOME</b>			
Dividend Income	5.1	4,956,271	3,838,020
Interest Income	5.2	343,752	81,193
Realised Gain/(Loss) on Financial Assets Held at Fair Value Through Profit or Loss	8.2	56,430,097	(19,240,332)
Unrealised Gain/(Loss) on Financial Assets Held at Fair Value Through Profit or Loss	8.3	71,835,674	3,205,595
Total Investment Income/(Loss)		133,565,794	(12,115,524)
<b>EXPENSES</b>			
Management Fees		(1,576,644)	(1,158,625)
Trustee Fees		(481,243)	(375,395)
Audit Fees		(197,566)	(173,422)
Professional Fees-tax consultancy		(87,319)	(81,173)
Other Expenses		(15,003)	(355,005)
		(2,357,775)	(2,143,620)
<b>NET PROFIT/(LOSS) BEFORE TAX</b>		131,208,019	(14,259,144)
Income Tax Expense	6	-	-
<b>NET PROFIT/(LOSS) AFTER TAX FOR THE YEAR</b>		131,208,019	(14,259,144)
<b>INCREASE /(DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS</b>		131,208,019	(14,259,144)

The accounting policies and notes on pages 07 through 21 form an integral part of the Financial Statements.



# Ceylon Index Fund

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 Rs.	2020 Rs.
<b>ASSETS</b>			
Cash and Cash Equivalents	7	30,000	240,088
Financial Assets at Fair Value Through Profit or Loss	8	333,099,459	129,806,675
Financial Assets at Amortized Cost	9	10,099,495	1,711,449
Other Receivables	10	917,152	2,781,164
		<u>344,146,105</u>	<u>134,539,375</u>
<b>LIABILITIES</b>			
Accrued Expenses and Other Payables	12	1,447,228	418,595
		<u>1,447,228</u>	<u>418,595</u>
<b>NET ASSETS</b>		<u>342,698,877</u>	<u>134,120,781</u>
<b>UNIT HOLDERS' FUNDS</b>			
Net Assets Attributable to Unit Holders		<u>342,698,877</u>	<u>134,120,781</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

The accounting policies and notes on pages 07 through 21 form an integral part of the Financial Statements.



## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

Year ended 31 December 2021

	2021 Rs.	2020 Rs.
<b>UNIT HOLDERS' FUNDS AS AT 01 JANUARY</b>	134,120,780	184,871,893
Total Comprehensive Income/ (Loss) for the Year	131,208,019	(14,259,144)
Received on Creation of Units	213,562,505	46,179,185
Paid on Redemption of Units	(136,192,428)	(82,671,154)
Net (Decrease)/ Increase Due to Unit Holders Transactions	77,370,078	(36,491,968)
<b>UNIT HOLDERS' FUNDS AS AT 31 DECEMBER</b>	<b>342,698,877</b>	<b>134,120,781</b>

The accounting policies and notes on pages 07 through 21 form an integral part of the Financial Statements.



## STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Note	2021 Rs.	2020 Rs.
<b>Cash Flows from Operating Activities</b>			
Interest Received		338,877	81,193
Dividend Received		5,613,851	3,292,910
Purchase of Equity Securities		(229,682,729)	(59,231,967)
Investment in Money Market Deposit Account		614,802	2,021,253
Sale proceeds from Sale of Equity Securities	8.2	155,867,022	89,533,115
Investment in Treasury Repo		(9,002,848,171)	-
Management Fees and Trustee Fees Paid		(1,855,189)	(1,593,534)
Other Expenses Paid		526,048	(606,657)
<b>Net Cash Flow From/(Used in) Operating Activities</b>		<b>(77,580,166)</b>	<b>33,496,314</b>
<b>Net Cash Generated from Financing Activities</b>			
Cash Received on Creation of Units		213,562,505	46,179,185
Cash Paid on Redemption of Units		(136,192,428)	(82,671,154)
<b>Net Cash Generated From/(Used in) Financing Activities</b>		<b>77,370,078</b>	<b>(36,491,968)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents		(210,088)	(2,995,654)
Cash and Cash Equivalents at the beginning of the year		240,088	3,235,743
<b>Cash and Cash Equivalents at the end of the year</b>	<b>7</b>	<b>30,000</b>	<b>240,088</b>

The accounting policies and notes on pages 07 through 21 form an integral part of the Financial Statements.



## STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Note	2021 Rs.	2020 Rs.
<b>Cash Flows from Operating Activities</b>			
Interest Received		338,877	81,193
Dividend Received		5,613,851	3,292,910
Purchase of Equity Securities		(229,682,729)	(59,231,967)
Investment in Money Market Deposit Account		614,802	2,021,253
Sale proceeds from Sale of Equity Securities	8.2	155,867,022	89,533,115
Investment in Treasury Repo		(9,002,848.171)	-
Management Fees and Trustee Fees Paid		(1,855,189)	(1,593,534)
Other Expenses Paid		526,048	(606,657)
<b>Net Cash Flow From/(Used in) Operating Activities</b>		<b>(77,580,166)</b>	<b>33,496,314</b>
<b>Net Cash Generated from Financing Activities</b>			
Cash Received on Creation of Units		213,562,505	46,179,185
Cash Paid on Redemption of Units		(136,192,428)	(82,671,154)
<b>Net Cash Generated From/(Used in) Financing Activities</b>		<b>77,370,078</b>	<b>(36,491,968)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents		(210,088)	(2,995,654)
Cash and Cash Equivalents at the beginning of the year		240,088	3,235,743
<b>Cash and Cash Equivalents at the end of the year</b>	7	<b>30,000</b>	<b>240,088</b>

The accounting policies and notes on pages 07 through 21 form an integral part of the Financial Statements.





**1. GENERAL INFORMATION**

Ceylon Index Fund is an index fund which was launched on 4 May 1999 by a Trust deed executed between Ceylon Asset Management Company Limited as Fund Manager and the Hong Kong & Shanghai Banking Corporation Limited as the Trustee. On 1 April 2009 Deutsche Bank AG, Colombo branch was appointed as Trustee with a revised trust deed executed on 1 April 2009. Consequently, on 1<sup>st</sup> April 2021 Hatton National Bank PLC was appointed with a revised trust deed executed.

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 generate periodic income and to achieve long term capital appreciation through investments in shares of the companies that comprises the Colombo Top 10 Index, under the respective market capitalization.



**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 2021 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 notes 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 Securities 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 Initial recognition**

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.

Debt Instruments at amortised cost in the statement of financial position comprise of investments in treasury money market savings and treasury repo accounts as of 31 December 2021.

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 instrument 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 2021, financial assets at fair value through profit or loss comprise of investment in quoted equity securities.

**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.

#### 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 off-set 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 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.

##### (i) Interest Income

Subsequent to the enactment of the Inland Revenue Act no 24 of 2017, effective 01 April 2019, Notional Tax is not applicable for Treasury Bill/Bond Repurchase Agreements. Interest income from Money Market Savings Deposits has been recognized net of WHT as the Fund considers such income to be 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 note 5.2.1).

##### (ii) Dividend Income

Dividend income is recognised when the fund's right to receive payment is established. Effective 01 January 2020, withholding tax was abolished in respect of dividend received by resident persons. Accordingly, total gross interest has been recognized as investment income.

##### (iii) Unrealised gains/(losses) on financial assets held at fair value through profit or loss

Unrealised gains/(losses) on financial assets held at fair value through profit or loss includes all gains and losses arise from changes in fair value of financial assets held at fair value through profit or loss" as at the reporting date.



**(iv) Realised gains/(losses) on financial assets held at fair value through profit or loss**

Realised gains/(losses) on financial assets held at fair value through profit or loss includes results of buying and selling of quoted equity securities.

**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 is 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 for the current year are 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 fee and trustee fees of the fund as per the trust deed is as follows,

Management fee	-	1% p.a of net asset value of the fund
Trustee fee	-	0.3.% 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 INSTRUMENTS AND RISK MANAGEMENT****(a) Financial Instruments**

The Fund's principal financial assets comprise the investments in quoted equity securities, treasury bill/bond repurchase agreements, money market savings deposits and cash at bank. The main purpose of these financial instruments is to generate a return on the investment made by Unit Holders. The Fund's financial liabilities comprise accrued expenses and other payables which arise directly from its operations.

In accordance with SLFRS 9 Financial Instruments: Recognition and Measurement, the Fund's financial investments in debt securities are classified as 'financial assets at amortised cost'. Investments in Quoted Equity securities are classified as 'fair value through profit or loss', meaning they are valued at fair value. Amounts attributable to Unit Holders are classified as 'Unit Holders Funds' and are carried at the redemption amount being net asset value. Payables are designated as 'Accrued expenses' at amortized cost.

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

The Fund's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

Financial instruments of the Fund comprise investments in quoted equity securities, treasury bill/bond repurchase agreements and money market savings deposits for the purpose of generating a return on the investment made by Unit holders, in addition to cash at bank and other financial instruments such as receivables and payables, which arise directly from its operations.

Risk arising from holding financial instruments is inherent in the Fund's activities, and is managed through a process of ongoing identification, measurement and monitoring. The Manager is responsible for identifying and controlling the risk arising from the financial instruments held in the Fund and has policies for managing each of the risks identified below.

The Manager also monitors information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate and regulatory 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 Manager, Risk and Investment Personnel and ultimately the Trustees of the Fund. Accordingly, as at the reporting date the Fund complied with 15% maximum exposure limit of equity investments in a single listed entity, except for the equity investment in John Keels Holdings PLC for which the Fund has obtained pre-approval from Securities and Exchange Commission of Sri Lanka.

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.

Concentration of risk arises when a number of financial instruments or contracts are entered in to with the same counterparty, or where a number of counterparties are engaged in similar business activities. The Securities and Exchange Commission of Sri Lanka as Regulator has stipulated the level of concentration permitted per counter party. The Fund itself applies and adheres to stringent internal limits.

Further, the Manager has appointed an investment committee which meets weekly to review, evaluate and reassess the investment policies and risk.

**(c) 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.



**(d) 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.

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Paragraph below sets out how this component of price risk is managed and measured. Investments are classified in the statement of financial position at fair value through profit or loss. All securities investments present a risk of loss of capital, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Management Company mitigates price risk through diversification and a careful selection of securities within specified limits set by the management company. Maximum limit of 97% of the net assets attributable to unit holders are invested in equity securities and remaining amount is invested in short term investments.

The Fund also manages its exposure to price risk by analysing the investment portfolio by industrial sector and weighing stocks according to the in-house index, which is constructed based on market capitalisation and liquidity. The Fund's policy is to concentrate the investment portfolio in sectors where management believes that the Fund can maximize the returns derived from the level of risk to which the Fund is exposed. The table below is a summary of the significant sector concentrations within the equity portfolio.

Sector	2021	2020
Capital Goods	33%	27%
Bank	14%	20%
Diversified Finance	15%	9%
Transportation	15%	-
Food & Staples Retailing	5%	7%
Telecommunication	8%	15%
Consumer Durable	-	4%
Food, Beverage & Tobacco	7%	15%
	<b>97%</b>	<b>97%</b>

The table below shows the impact on the statement of profit or loss and other comprehensive income and statement of financial position due to a reasonably possible change in the price of the Fund's investment in financial assets held at fair value through profit or loss in Note 8, with all other variables held constant:

	2021	2020
		Increase/ (decrease) of(loss)/profit before tax and amounts attributable to Unit Holders Rs.
Change in price of the Fund's investments in financial assets held at fair value through profit or loss		
+10%	33,309,946	12,980,668
-10%	(33,309,946)	(12,980,668)



**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 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 repurchase agreements and money market savings deposit 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 2020	Floating interest rate Rs.	Fixed interest rate Rs.	Non- interest bearing Rs.	Total Rs.
<i>Financial assets</i>				
Cash and cash equivalents	-	-	30,000	30,000
Financial Assets at Fair Value Through Profit or Loss	-	-	333,099,459	333,099,459
Financial Assets at amortised cost	-	10,099,495	-	10,099,495
Other receivable	-	-	917,152	917,152
Total Exposure	-	10,099,495	334,046,611	344,146,105
31 December 2021	Floating interest rate Rs.	Fixed interest rate Rs.	Non- interest bearing Rs.	Total Rs.
<i>Financial assets</i>				
Cash and cash equivalents	-	-	240,088	240,088
Financial Assets at Fair Value Through Profit or Loss	-	-	129,806,675	129,806,675
Financial Assets at amortized cost	-	1,711,449	-	1,711,449
Other receivable	-	-	2,781,164	2,781,164
Total Exposure	-	1,711,449	132,827,927	134,539,376

**3.1 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 money market savings deposits and cash and cash equivalents.

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.





**3.2 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.

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 Securities 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.

Furthermore 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.)

**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.

The Management 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 2021.

**I. In term of Value**

	Rs.
Unit Holders' Funds as at 01 January 2021	134,120,781
Creations during the year	213,562,505
Redemptions during the year	(136,192,428)
Increase/(Decrease) in net assets attributable to Unit Holders during the year	131,208,019
Unit Holders' Funds as at 31 December 2021	342,698,877



**II. In term of No of units**

Opening no of units as at 01 January 2021	2,981,681
Unit creations during the year	2,862,354
Unit redemptions during the year	(2,252,642)
Closing no of units as at 31 December 2021	3,591,393

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.



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

5.	INVESTMENT INCOME	2021 Rs.	2020 Rs.
5.1	Dividend Income	4,956,271	3,838,020
5.2	Interest on		
	Money Market Savings Deposits (5.2.1)	210,963	81,193
	Treasury Repo	132,790	-
		343,752	81,193

5.2.1 As detailed under Note 2.2.2 (i), interest income of Money Market Savings Deposits are recognised gross of withholding tax until 31 March 2018. Subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective 01 April 2018, in relation to interest income from Money Market Savings Deposits and Treasury Repo, 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

6.1 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.

6.2	Tax Loss brought Forward	8,161,003	8,161,003
	Adjustments based on prior period income tax returns	-	-
	Tax Losses Carried Forward	8,161,003	8,161,003

The Fund has not recognized deferred tax asset as at 31 December 2021 due to the Fund being unable to assess with reasonable certainty that taxable profits would be available to recover the asset in the foreseeable future, against which the tax losses amounting to Rs. 8,161,003/- (2019 - Rs. 8,161,003/-) can be utilized.

6.3	Income Tax Receivable	2021 Rs.	2020 Rs.
	Income tax receivable	927,940	927,940
	Provision for Income tax receivable	(927,940)	(927,940)
		-	-

As of 31 December 2021, the net Income Tax Recoverable comprises of notional tax credit amounting to Rs.918,762/- and WHT of Rs. 9,178/-. The Fund Manager intends to claim the WHT recoverable by means of a refund. The Notional Tax credit recoverable will be carried forward as per section 138(2) of the Inland Revenue Act No 10 of 2006 to be set off against future income tax liability if any within three consecutive years of assessment commencing from the year of assessment 2018/2019. However, 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. Therefore it is highly unlikely that there will be a future income tax liability to offset these tax credits. Hence an impairment provision is made against the income tax receivable balance amounting to Rs. 927,940/-.

7.	CASH AND CASH EQUIVALENTS	2021 Rs.	2020 Rs.
7.1	Favourable Cash and Cash Equivalents Balances		
	Cash at Bank	30,000	240,088
	Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	30,000	240,088

## 8. FINANCIAL ASSETS - HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

8.1	Quoted Equity Securities	2021 Rs.	2020 Rs.
	Cost at 31 December	253,700,783	121,694,122
	Appreciation/(Depreciation) of Market Value Quoted Equity Securities	79,398,676	8,112,553
	Market Value as at 31 December (8.1.1)	333,099,459	129,806,675

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

## 8. FINANCIAL ASSETS - HELD AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd...)

## 8.1.1 Quoted equity securities

Company	2021			2020		
	No. of shares	Market value Rs.	Holdings as a % of Net Asset Value	No. of shares	Market value Rs.	Holdings as a % of Net Asset Value
<b>Banks, Finance and Insurance</b>						
Commercial Bank of Ceylon PLC	386,393	30,640,965	9%	206,260	16,686,434	12%
Hatton National Bank PLC	142,923	19,294,605	6%	77,149	9,759,349	7%
LOLC Holding PLC	43,925	51,040,850	15%	89,195	12,041,325	9%
The Lion Brewery Ceylon PLC	-	-	0%	15,010	8,780,850	7%
Cargills (Ceylon) PLC	72,571	15,620,908	5%	48,275	9,896,375	7%
John Keells Holdings PLC	335,121	50,268,150	15%	171,238	25,617,205	19%
Melstacorp PLC	400,501	22,468,106	7%	218,779	11,376,508	8%
Hemas Holdings PLC	-	-	0%	111,819	11,170,718	8%
Dialog Axiata PLC	2,815,284	30,686,596	9%	1,570,554	19,474,870	15%
Teejay Lanka PLC	-	-	0%	131,659	5,003,042	4%
Expolanka Holdings PLC	135,982	51,027,246	15%	-	-	4%
Hayleys PLC	258,775	33,640,750	10%	-	-	4%
Vallibale One PLC	391,340	28,411,284	8%	-	-	4%
		<u>333,099,459</u>	<u>97%</u>		<u>129,806,675</u>	<u>4%</u>

## 8.2 Net realised losses on financial assets held at fair value through profit or loss

	2021 Rs.	2020 Rs.
Proceeds on sale of Equity shares	154,655,715	90,598,287
Average cost of Equity Shares Sold	(98,225,618)	(109,838,619)
	<u>56,430,097</u>	<u>(19,240,332)</u>

## 8.3 Net unrealised gains/(losses) on financial assets held at fair value through profit or loss

Equity Securities	<u>71,835,674</u>	<u>2,437,825</u>
-------------------	-------------------	------------------

## 9. FINANCIAL ASSETS HELD AT AMORTISED COST

	2021 Rs.	2020 Rs.
<b>Debt Instruments at Amortised Cost</b>		
Money Market Savings Account (9.1)	1,096,646	1,711,449
Treasury REPO (9.2)	9,002,848	-
	<u>10,099,495</u>	<u>1,711,449</u>

## 9.1 Money Market Savings Deposits

Hatton National Bank PLC	1,079,227	-
Seylan Bank PLC	17,419	3,732,702
	<u>1,096,646</u>	<u>3,732,702</u>

## 9.2 Treasury REPO

Hatton National Bank PLC	9,002,848	-
	<u>9,002,848</u>	<u>-</u>



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

## 10. OTHER RECEIVABLES

	2021 Rs.	2020 Rs.
Receivable on Share Sale	912,277	2,123,584
Dividend Receivable	-	657,580
Interest Income Receivable/Payable	4,875	-
	<u>917,152</u>	<u>2,781,164</u>

## 11. 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 table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2021	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets - Held at Fair Value Through Profit Or Loss				
Quoted Equity Securities	333,099,459	-	-	333,099,459
As at 31 December 2020				
Financial Assets - Held at Fair Value Through Profit Or Loss				
Quoted Equity Securities	129,806,675	-	-	129,806,675

## 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 which carrying amount is a reasonable approximation of fair value.

Assets	Liabilities
Cash and Cash Equivalents	Accrued Expenses and Other Payables
Other Receivables	
Financial Assets Held at Amortised Cost	

## 12. ACCRUED EXPENSES AND OTHER PAYABLES

	2021 Rs.	2020 Rs.
Management Fee Payable	266,902	114,000
Trustee Fee Payable	86,732	36,936
Audit Fees Payable	187,000	182,192
front end fee payable	825,422	5,290
Tax Consultancy Fee Payable	81,173	81,173
other payable	-	(997)
	<u>1,447,228</u>	<u>418,594</u>

## 13. CONTINGENCIES

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

## 14. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.



**15. CAPITAL COMMITMENTS**

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

**16. UNITS IN ISSUE AND UNIT PRICE**

Units in issue and deemed to be in issue as at 31 December 2021 is 3,591,393 (2020 - 2,981,681). The creation and redemption price as at this date were Rs. 98.43 (2020 - Rs. 46.40) and Rs. 94.38 (2020 - Rs. 44.50) respectively.

**17. RELATED PARTY DISCLOSURE**

**17.1 Management Company and Trustee**

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

**17.2 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**

Mr. Dulindra Fernando  
Mr. Michael Preiss  
Mr. Ravindra Ajith Fernando  
Mr. Rajeendra Shashika Ranasinghe  
Mr. R.D.M.U.M.M. Bandara  
Mr. Dinesh Jamnadas Ambani

**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 are given below;

**17.3 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.

**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 any other transactions involving the Fund during the financial year.



## 17. RELATED DISCLOSURES (Contd...)

## 17.5 Related party unit holding and other transactions

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

## 31 December 2021

Unit holder	Relationship	No. of units	Value of units held Rs.	Interest held	Distribution paid or payable by the Fund Rs.
Mr Dulindra Fernando	Managing Director	8,099	364,372	0.23%	-
Mr. Michael Preiss	Director of the Management Company	17,661	794,577	0.49%	-
Ms. Janethri Gurusinghe	Consultant - Compliance	7,939	357,177	0.22%	-

## 31 December 2020

Mr Dulindra Fernando	Managing Director	63,881	2,874,012	2.14%	-
Mr. Michael Preiss	Director of the Management Company	1,677	75,468	0.06%	-

## 17.6 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	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Management fees	1,576,644	1,158,625	266,902	114,000
Trustee fees	481,243	375,395	86,732	36,936

## 17.7 Other transactions with related parties

Investments in Money Market Saving & Treasury REPO have been made in the ordinary course of operations with following related parties. The resulting investment income and outstanding investment balances are given below.

	Charge for the year 31 December		Payable as at 31 December	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Investment in Treasury REPO with Hatton National Bank PLC (Trustee of the fund)	132,790	-	9,002,848	-
Investment in Money Market Saving with Hatton National Bank PLC (Trustee of the fund)	201,750	-	1,079,227	-
The Bank balance held at Hatton National Bank PLC (2021) / Deutsche Bank AG (2020) as at 31 December	-	-	30,000	240,088

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

	2021 Rs.	2020 Rs.
Net Asset Value as per Financial Statements	342,698,877	134,120,781
Audit Fee, Professional Fees and Other Expense Adjustment	(4,808)	12,665
Published Net Asset Value	<u>342,694,069</u>	<u>134,133,446</u>
Number of units outstanding	3,591,393	2,981,681
Published Net Asset Value per Unit	<u>95.42</u>	<u>44.99</u>

