

# MUTUAL FUND

## ANNUAL REPORT 2018



ASSETLINE

Assetline Capital (Pvt) Limited

# **ASSETLINE MUTUAL FUNDS ANNUAL REPORT 2018**

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# Corporate Information

**Assetline Mutual Funds:** *Assetline Income Fund*  
*Assetline Gilt Edged Fund*  
*Assetline Income Plus Growth Fund*

## MANAGEMENT COMPANY & REGISTRAR

Assetline Capital (Private) Limited

## BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Ms. R.M.A.S. Parakrama (Chairperson)

Mr. K.G. Vairavanathan

Mr. A.Y.D. De Silva

## BANKERS

Commercial Bank of Ceylon PLC Commercial House No. 21 Sir Razik Fareed Mawatha Colombo 01 Sri Lanka	National Development Bank PLC No. 40 Navam Mawatha Colombo 02 Sri Lanka	Sampath Bank PLC No. 110 Sir James Peiris Mawatha Colombo 02 Sri Lanka
Deutsche Bank AG No. 86 Galle Road Colombo 03 Sri Lanka	Nations Trust Bank PLC No. 242 Union Place Colombo 02 Sri Lanka	Seylan Bank PLC Seylan Towers No. 90 Galle Road Colombo 03 Sri Lanka
Hatton National Bank PLC HNB Towers No. 479 T. B. Jayah Mawatha Colombo 10 Sri Lanka	People's Bank No. 75 Sir Chittampalam A. Gardiner Mawatha Colombo 02 Sri Lanka	

## **Assetline Capital (Private) Limited - Corporate Profile**

Assetline Capital (Private) Limited (ACPL) is a licensed Unit Trust and Investment Manager approved by the Securities and Exchange Commission of Sri Lanka (SEC).

The ultimate parent company of ACPL is David Pieris Holdings (Private) Limited (Formerly known as David Pieris Motor Company Limited). The David Pieris Group, through its subsidiary DPMC Assetline Holdings (Private) Limited, has diversified in to financial services which include leasing, hire purchase, loans, insurance broking, stock broking and corporate services. Further, the Group has subsidiaries that have ventured in to logistics, information technology and agriculture.

ACPL, since its incorporation in 2001 has been in capital market operations, initially as a margin provider. This business was later transferred to another group company and ACPL expanded its horizons in 2013 by offering investment management to high net-worth individuals and corporate entities. In July 2014, the Company stepped into the unit trust industry with the launch of Assetline Mutual Funds (AMF).



# Profile of Assetline Mutual Funds

**Assetline Income Fund (AINF)** is an open ended fund investing in corporate debt instruments and government securities for tenures of one year or less. It is suitable for investors with a low to moderate risk profile and a short term investment horizon.

**Assetline Gilt Edged Fund (AGEF)** is an open ended fund investing exclusively in government securities. Most suited to investors with a very low risk profile, this fund caters to investors with differing time horizons.

**Assetline Income Plus Growth Fund (AIGF)** is an open ended fund investing in equity and fixed income securities. This fund is suitable for investors with a high risk profile and medium to longer term time horizon.

	Assetline Income Fund	Assetline Gilt Edged Fund	Assetline Income Plus Growth Fund
Inception Date	11-07-2014	11-07-2014	11-07-2014
Dividend Pattern	Irregular	Irregular	Irregular
Front-end Fee	NIL	NIL	2%
Trustee Fee	0.225% p.a.	0.18% p.a.	0.22% p.a.
Management Fee	0.65% p.a.	0.5% p.a.	1.5% p.a.
Custodian Fee for the Total Fund	Rs. 25,000/- per month	Rs. 25,000/- per month	Rs. 25,000/- per month
Exit Fee	NIL	NIL	<ul style="list-style-type: none"> <li>• For withdrawals within 1 Year : 2.00%</li> <li>• For withdrawals between 1-2 years : 1.00%</li> <li>• For withdrawals after 2 years : NIL</li> </ul>

# Board of Directors of Assetline Capital (Private) Limited

## **Ms. Romany Parakrama, Chairperson**



Ms. Romany Parakrama has been functioning as the Chairperson of the Board of Directors of Assetline Capital (Private) Limited, from February 01, 2017. Ms. Parakrama is the Executive Director Group Corporate Communications, David Pieris Holdings (Private) Limited (Formerly known as David Pieris Motor Company Limited) and also holds directorship positions in several other companies in the David Pieris Group.

Ms. Parakrama counts over 26 years' experience in the banking industry with multi-national banks such as Amro Bank, American Express, Societe Generale and Standard Chartered. Before joining the David Pieris Group in June 2015, she was the Regional Head, Internal Communications for South East Asia and the Head of Sustainability, Brand and Sponsorship for Standard Chartered Bank Singapore. In Sri Lanka, she has held a range of diverse roles including Head of Corporate Affairs, Head of Priority Banking and Head of Cash Management at Standard Chartered Bank.

Ms. Parakrama holds a Bachelor's Degree in Liberal Arts & Science (Magna cum Laude, Phi Beta Kappa) from Smith College USA and is an accredited Credit & Risk Professional with both Standard Chartered Bank and American Express.

**Mr. Kishan Vairavanathan, Managing Director and Chief Executive Officer**



Mr. Kishan Vairavanathan has been functioning as the Managing Director of Assetline Capital (Private) Limited from September 29, 2017 and as the Chief Executive Officer of Assetline Capital (Private) Limited from November 15, 2016. Mr. Vairavanathan also holds directorship positions in two other companies in the David Pieris Group, namely DPMC Assetline Holdings (Private) Limited and Assetline Securities (Private) Limited.

Prior to joining Assetline Capital, Mr. Vairavanathan was Director and CEO at Capital Alliance Partners. He was Director at Janashakthi Limited, General Manager Investments at Janashakthi Insurance and Chief Executive Officer at NDB Stockbrokers.

Mr. Vairavanathan holds a Master in Business Administration (Finance and Investments) from Golden Gate University, USA and a Bachelor of Science in Mathematics from the University of Sussex UK.

**Mr. Dhanika De Silva, Director**



Mr. Dhanika De Silva has been functioning as a member of the Board of Directors of Assetline Capital (Private) Limited, from May 01, 2016. Mr. De Silva also holds directorship positions in several other companies of the David Pieris Group and is currently General Manager, Treasury Operations at David Pieris Holdings (Private) Limited (Formerly known as David Pieris Motor Company Limited).

Mr. De Silva joined David Pieris Holdings (Private) Limited in 2006 as Manager, Treasury and Investment and subsequently was promoted to Divisional Manager, Planning and Development and Deputy General Manager, Planning and Development. Before joining David Pieris Holdings (Private) Limited he worked as an Executive Officer, Treasury Dealing Room at Commercial Bank of Ceylon PLC.

Mr. De Silva has a Master of Arts in Financial Economics and an LL.B. (Honours) Degree from the University of Colombo. He is an Associate Member of Chartered Institute of Management Accountants UK and Institute of Certified Management Accountants of Sri Lanka.

## **Key Management Personnel of Assetline Capital (Private) Limited**

### **Mr. Wishan Perera, Divisional Manager**

Mr. Wishan Perera is the Divisional Manager of Assetline Capital (Private) Limited, from June 01, 2016 and brings wealth of financial and treasury expertise to the company.

Mr. Perera has unparalleled track record of the Financial Markets with nearly 20 years of experience in the areas of Treasury Management, Investment Management, treasury audits, bank operations and credit. Prior to joining Assetline Capital, he held the position of Chief Manager Treasury at Axis Bank Colombo while heading the overall operation for over two years where he enhanced his capacity of asset and liability management & risk management. He also worked for Seylan Bank PLC and gained extensive experience in fund management, FX operations, speculative trading and also held the position of the Dealer of Primary Dealer Unit of the bank involved in G-Sec trading.

During his career, Mr. Perera has attended local and foreign training programs and workshops, covering various aspects of treasury operations including International Treasury Management program conducted by EuroFinance UK.

Mr. Perera is an Associate Member of Institute of Bankers of Sri Lanka and holds ACI (Paris) Dealing Certificate. He also has the Post Graduate Executive Diploma in Bank Management and Diploma in Treasury & Risk Management (IBSL).

# **Chief Executive Officer's Report**

Dear Unit holders,

It is with pleasure that we forward the annual report for the year ended 31<sup>st</sup> March 2018.

Pending tax legislation which would remove the tax advantage for investing in unit trusts cast a shadow over the industry through the entire year. Falling interest rates and a lackluster equity market also contributed to a lack of growth and direction throughout the industry. The lack of coherence and uncertainty meant that fund managers were forced to invest in mostly short term fixed income liquid investments with the resultant fall in yields.

All this in a market which saw GDP fall to an almost historically low level of 3.1%, the third consecutive subpar year of below 5.0%. Weak growth and an absence of a commitment to grow capital markets more than offset strong foreign inflows into the share market in 2017.

The three funds managed by Assetline Capital (Private) Limited, all recorded positive returns with Assetline Income Fund growing 9.05% Year-on-Year, Assetline Gilt Edged Fund growing 7.35% Year-on-Year, and Assetline Income Plus Growth Fund growing 10.80% Year-on-Year. The Company is proud that despite its relatively short history it managed one of the largest quantum of funds in unit trusts in the country.

The year ahead will continue to be challenging as political events unfold and new tax legislation comes into effect. However, we are optimistic about the long term prospects for the capital markets of this country and remain committed to delivering superior returns to our stakeholders.

I wish to thank our staff, Auditors, the Securities and Exchange Commission of Sri Lanka and the Trustees for their contribution. Most importantly, I wish to extend our sincere appreciation to our loyal unit holders and look forward to rewarding their trust in the coming year.

**Kishan Vairavanathan**

Chief Executive Officer

## Fund Manager's Report

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We are pleased to present the annual report for Assetline Mutual Funds (AMF) for the financial year ended 31<sup>st</sup> March 2018. AMF continued to deliver performance in an environment rife with regulatory uncertainty, poor macro-economic indicators and an anemic stock market. Investors withdrew funds from AMF and the broader unit trust industry in the latter part of the financial year as a prudent response to changes in tax policies on unit trusts, some of which have not been clearly defined.

Our strategy of investing in A and above rated banks, in mixed tenors up to one year has paid dividends to unit holders in this environment. Investments in tax effective products and trading in government securities realized capital gains which maximized returns.

## Our Funds

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Assetline Mutual Funds comprise of three fund types namely Assetline Income Fund (AINF), Assetline Gilt Edge Fund (AGEF) & Assetline Income Plus Growth Fund (AIGF), each designed to cater to different investor requirements. AINF is designed for investors with low to moderate risk appetite with a short-term investment horizon. The asset classes include corporate debt, fixed income securities and government securities for tenors less than one year. AGEF is set up to provide zero risk returns for investors with different time horizons and AIGF caters to investors with high risk appetite and medium to longer time horizon. All three funds are open ended and both AINF and AGEF do not have front end or exit fees.

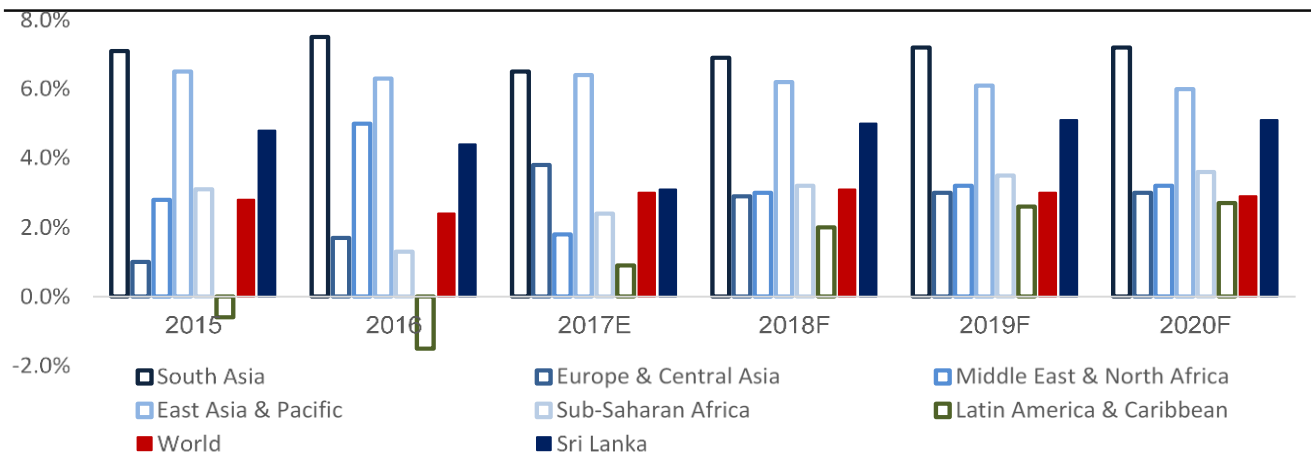
We were able to improve the yield of AINF from 8.46% (as at 31<sup>st</sup> March 2017) to 9.05% (as at 31<sup>st</sup> March 2018) and of AIGF from 8.35% (as at 31<sup>st</sup> March 2017) to 10.80% (as at 31<sup>st</sup> March 2018). AIGF continued to deliver double digit return consistently throughout the year. However, the yield on AINF dropped towards the end of March 2018, due to fund withdrawals. Total number of unit holders and fund size of AMF dropped from 2096 to 2000 (-4.58%) and from Rs. 7,877.50 million to Rs. 232.09 million respectively. However, we are optimistic that these statistics will improve once clear guidance is published by the authorities.

# ECONOMIC EXPECTAIONS FOR 2018

## Strong Global growth expected

Overall global growth went through a tough period of economic transition post global financial crisis (average GDP growth of 2.3%) compared to the NICE (Non-Inflationary Continuous Growth) decade (average GDP growth between Asian financial crisis in 1997 and global financial crisis in 2007 was 3.4%). The South Asian region and the East Asian and Pacific regions were more resilient on average compared to the rest of the world during the last three decades whilst growing at around 6.4% in 2017. However, ten years after the great recession, the global economies started to show more synchronized growth in 2017. This resulted in most economies in the world opting for a tightening monetary policy stance letting go of near zero interest rate environment that prevailed for nearly a decade in developed regions. US logged the lowest unemployment since 2000 whilst registering a GDP growth of 2.6% in 2017 accelerating from 1.5% in 2016. The Eurozone (19 countries sharing the Euro) was a bright spot where GDP clocked a ten-year high, rising by 2.5% in 2017 whilst unemployment reached a nine-year low. China continued to show robust growth of 6.9% in 2017 which was the highest since 2015 whilst policy makers showed signs of making headway towards curbing debt growth build up in the country whilst streamlining global expansions and investments of Chinese corporates. Even Russia which was struggling for nearly a decade due to low oil prices and global sanctions due to geo political disputes has shown signs of some growth in 2017. The World Bank forecasts the global GDP growth momentum to continue in 2018 to reach 3.1% from 3.0% (expected) in 2017.

## Region Wise: Real GDP Growth



Source: World Bank

## Asian growth dynamics are expected to help Sri Lanka to restart its growth engine

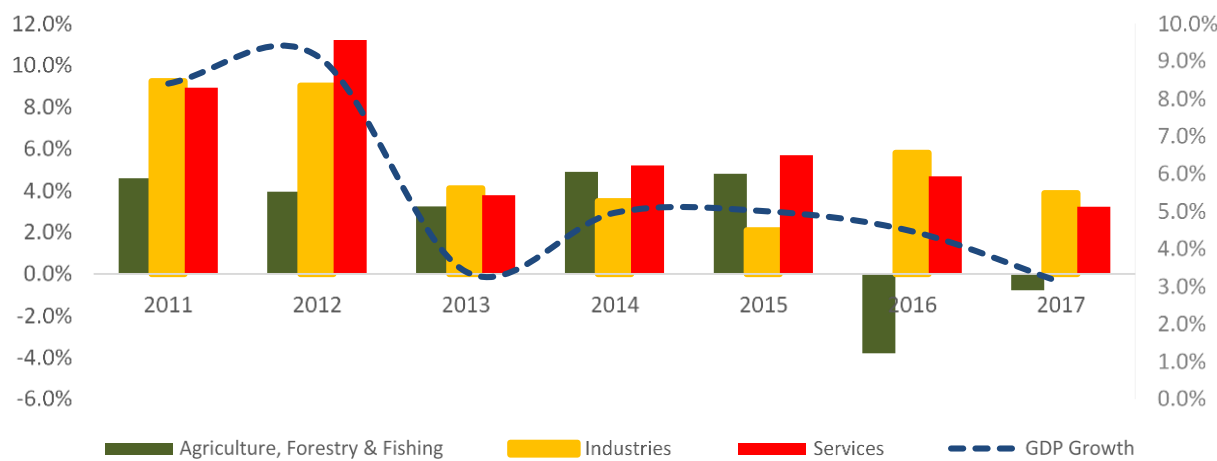
The Asian region continues to be buoyant on expected economic growth over the next decade. The region dominates the global market place on consumption (more than 50% of the global population live in the region) and economic output (close to 1/3rd of global GDP). Further, traditionally manufacturing and export dominant region has shifted gears in terms of economic consumption. Sri Lanka's economic prospects are no different as the economic structures have already aligned towards consumption heavy growth. Further, disciplined fiscal policy framework



supported by an independent and forward looking monetary policy is expected to provide the required economic stability for Sri Lanka over the next decade. However, because of the restrictive monetary and fiscal framework that prevailed in the country, the GDP growth in 2017 hit a low of 3.1% in comparison to 4.5% logged in 2016. The LKR 13,289 Bn economy (at current market prices) is expected to grow at 5.0% in 2018 as per the Central Bank of Sri Lanka and World Bank estimates.

The services sector continued to dominate the economy with a contribution of 56.8% to GDP in 2017 whilst industry and agriculture sector contributions were at 26.8% and 6.9% respectively. The agriculture sector contribution reduced further in 2017 from 7.1% witnessed in 2016. However, despite the adverse weather patterns prevailed in 2017 as well, the agriculture sector growth improved in 2017 to -0.8% from -3.8% in 2016. Industry sector continued to be the fastest growing sector in the country in 2017 as well with 3.9% YoY growth (in comparison to 5.8% YoY growth in 2016) whilst services sector registered a growth of 3.2% (in comparison to 4.7% in 2016). 2018 will be indifferent as far as the sectorial economic value addition is concerned since agriculture sector is expected to face continuous challenges due to potential cyclical adverse weather patterns prevailing in the country. Despite the challenges both on political and economic fronts during the last two years, Sri Lanka has gradually reached a per capita income of USD 4,065 by 2017, establishing itself as a middle-income economy.

**GDP and Sectorial Growth from 2011 - 2017**



Source: CBSL

**Fiscal discipline will continue to drive economic stability**

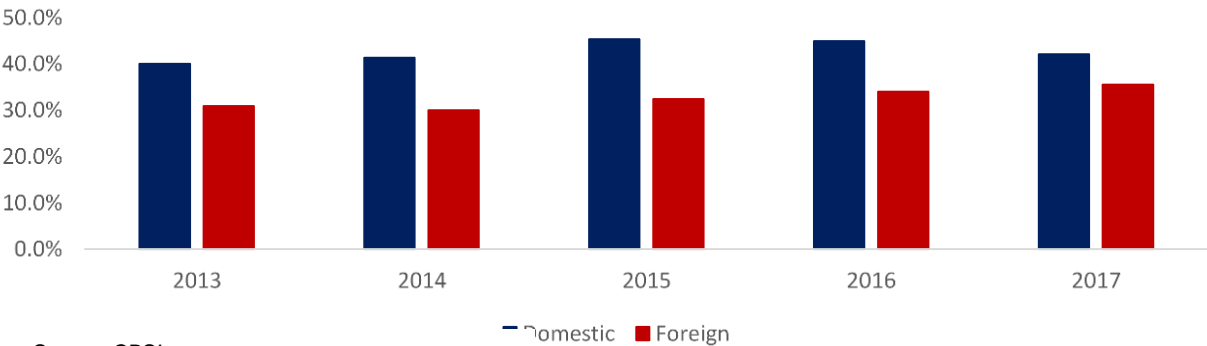
The revenue enhancement led fiscal consolidation program in Sri Lanka has given the economy the much-needed stability as well as the discipline which were lacking since post partial liberalization of the economy in the late 1970's. Whilst being disciplined on the expense side, Government of Sri Lanka (GoSL) hopes to increase its revenue to 17.0% (of GDP) by 2021 compared to the 2017 revised estimate of 14.6% of GDP. Thereby, the GoSL expects to narrow its fiscal deficit to 3.5% of GDP by 2021 (3.5% by 2020 which is also the IMF country target) compared to the 2017 provisional budget deficit of 5.5% of GDP. The overall budget revised deficit in 2016 stood at 5.4%. The main reason behind the deterioration of the budget deficit in 2017 was owing to the fiscal slippage that occurred due to the adverse weather that impacted

most parts of the country last year. This is expected to improve to 4.8% in 2018 as per the government projections.

**Debt burden remains a key challenge**

Sri Lanka’s debt to GDP ratio has improved post war. Further, domestic borrowing maturity tenors moved towards the long end of the yield curve whilst foreign borrowing contribution improved significantly. However, in comparison to similar sovereign rated peer average of 38.1%, Sri Lanka’s debt to GDP ratio of 77.6% (in 2017 in comparison to 78.8% in 2016) falls behind in terms of foreign investor attractiveness. Further, the local debt maturities are expected to peak in 2018 whilst total foreign debt repayments (interest and capital) up to 2022 stand at USD 17.8 Bn. Therefore, the debt burden remains a key short term challenge the economy must overcome to realize its true development potential. The new active liability management act is expected to help the government to manage the debt maturities and cost of funds better as per the central bank, whilst giving much needed flexibility to the government to raise money more than what is needed for the year.

**Central Government Debt as a % of GDP**



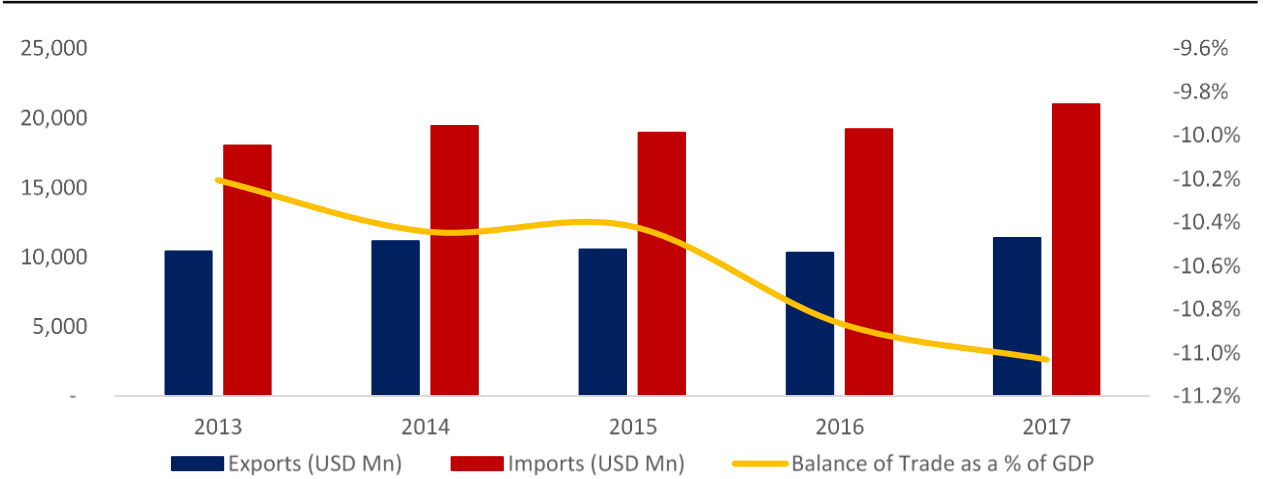
**External sector is expected to improve due to global growth pick up**

After nearly a decade, the world has shown concurrent growth in US, Europe and Asia Pacific region including Japan. Therefore, the next decade of global growth is expected to be stronger than the post global financial crisis period. This should auger well for the export markets in the Asian region including Sri Lanka where the terms of trade have already shown improvements in 2015 and 2016. The terms of trade continued to improve further in 2017 to 105.5 index points from 104.3 index points registered in 2016. Total imports in 2017 increased to USD 20.98 Bn increasing by 9.4% whilst total exports increased to a record high of USD 11.36 Bn (YoY increase of 10.2%). However, the trade gap as a % of GDP deteriorated marginally to 11.0% in 2017 from 10.9% registered in 2016.

In addition to continuous growth in the import basket despite export sector challenges, continuous drop in foreign workers remittances remains a key economic threat to the country in the short to medium term. Workers remittances reduced by 1.1% to USD 7.164 Bn from USD 7.242 Bn recorded in 2016. The significant slowdown of the economic growth in the Middle Eastern region along with the increased security concerns in several countries were the main contributing factors to the declining remittances trend. As per the World Bank, the estimated

growth in the Middle East and North African region dipped to 1.8% in 2017 from 5.0% clocked in 2016. However, the expectations are for the region is to improve in terms of economic output in 2018, where the expected GDP growth as per the World Bank is 3.0%, which would auger well for the remittance income of Sri Lanka in 2018.

Balance of Trade as a % GDP

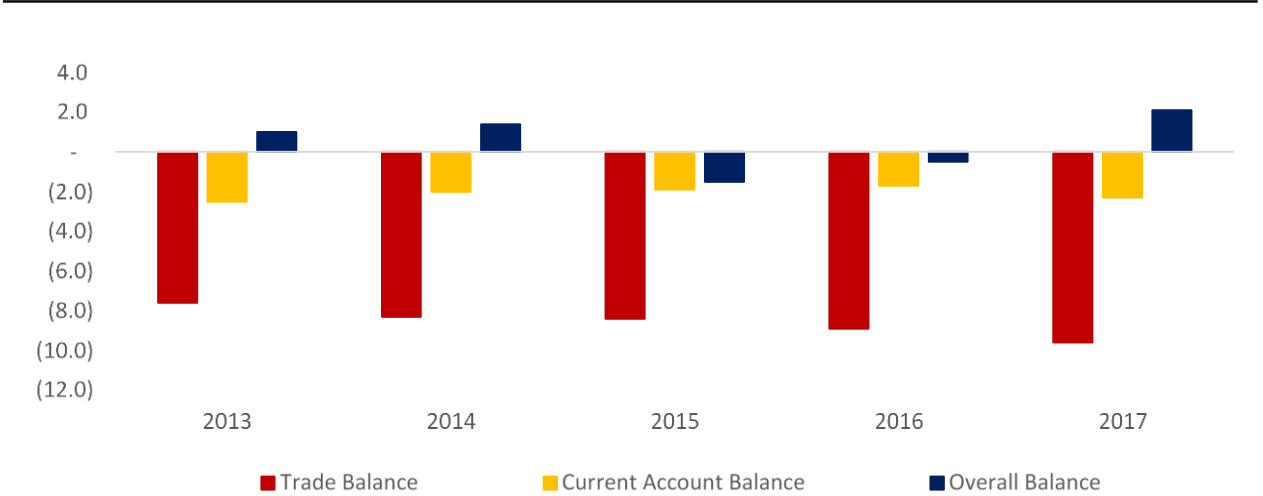


Source: CBSL

Strong BOP position may sustain despite external pressures building up

Better fiscal management along with the independent monetary policy prevailing, helped Sri Lanka to secure record dollar inflows to the capital market which exceeded LKR 67.7 Bn in 2017. Further, CBSL purchased more than USD 1.4 Bn worth of foreign currencies from the market strengthening the gross official reserves of Sri Lanka that closed at USD 8.0 Bn by the end of 2017. The income to the financial account reached record levels with FDIs (Foreign Direct Investments) hitting all time high of USD 1.7 Bn (total FDIs including loans to BOI companies) in 2017 in comparison to USD 0.8 Bn in 2016. Major receipts were recorded under the Hambanthota port project and Colombo port city projects. Both these projects are expected to attract further FDIs in 2018, as per the CBSL expectations. Further, Balance of Payment (BOP) recorded a surplus of 2.1 Bn by the end of 2017 after two consecutive years of deficits.

BOP Position, USD Bn

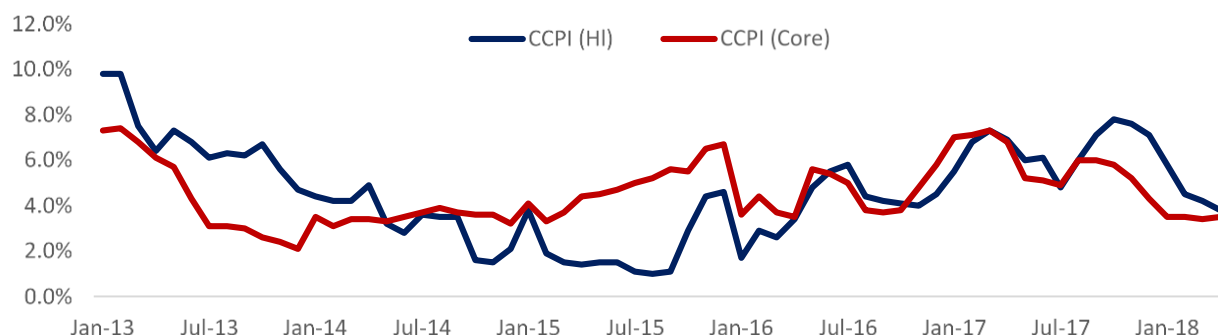


Source: CBSL

## **Inflation is expected to remain within the target range**

The CCPI headline inflation recorded twin peaks in 2017 (7.3% in March 2017 and 7.6% in October 2017) maintaining levels above the CBSL target range of 4.0% – 6.0%, whilst ending the year at 7.1%. This was mainly due to the double-digit food inflation witnessed stemming from the adverse weather patterns and the resultant supply side disruptions witnessed in 2017. However, the core inflation moderated towards the second half of 2017 ending the year at 4.3% after seeing a high of 7.3% in March 2017. Both headline and core CCPI inflation indexes have moderated further in first quarter of 2018 falling well below the comfort zone of CBSL. Further, as part of the structural reforms, CBSL has laid the initial foundation required to move towards a flexible inflation targeting regime by 2020.

### **CCPI Inflation of Headline and Core, YoY Basis**



Source: Department of Census and Statistics

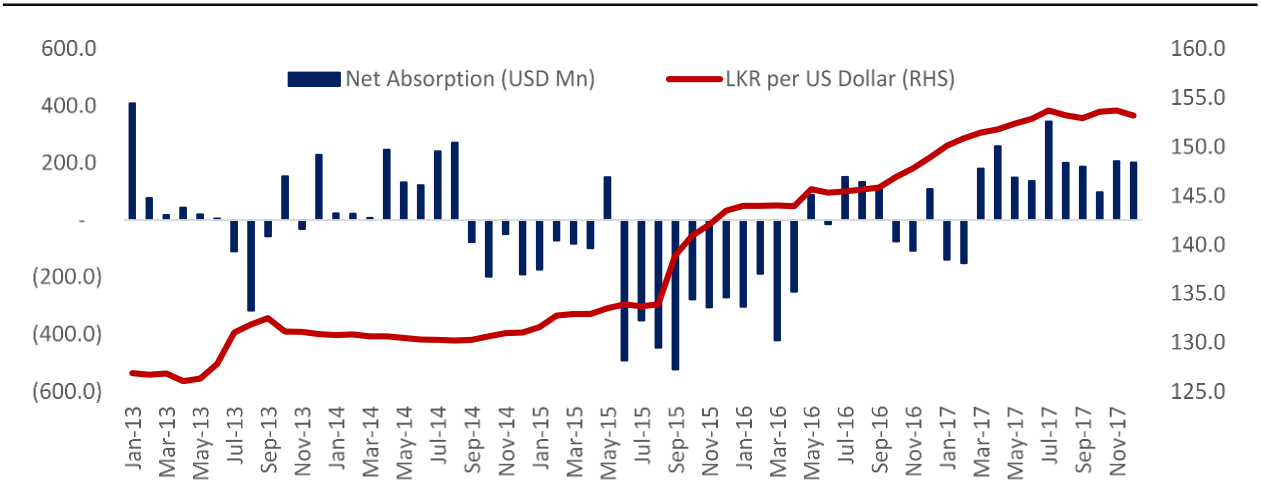
## **Low interest rate regime and flexible exchange rate policy may come under pressure in 2018**

Due to the above target inflation and high credit growth witnessed during 2016 and early 2017, tighter monetary policy was maintained throughout 2017. The policy rates of the central bank were increased by 25 bps in March 2017. This adjustment was made further to the 100 bps increase in policy rates and 150 bps increase in statutory reserve ratio (SRR) that happened in 2016. As a result, the average credit growth decelerated to 17.7% in 2017 from 23.0% in 2016. YoY credit growth clocked 14.6% by end of 2017, declining to a more sustainable level as per CBSL, in comparison to YoY credit growth of 20.6% witnessed in the end of 2016.

The resultant slowdown in the consumption demand eased the pressures on the import led inflation which too subsided in 2017. Hence, the unsustainable pressure on the exchange rate that was evident during 2014 – 2015 period moderated significantly by the end of 2017. As a result, the Sri Lankan rupee depreciated by a moderate 2.0% during 2017.

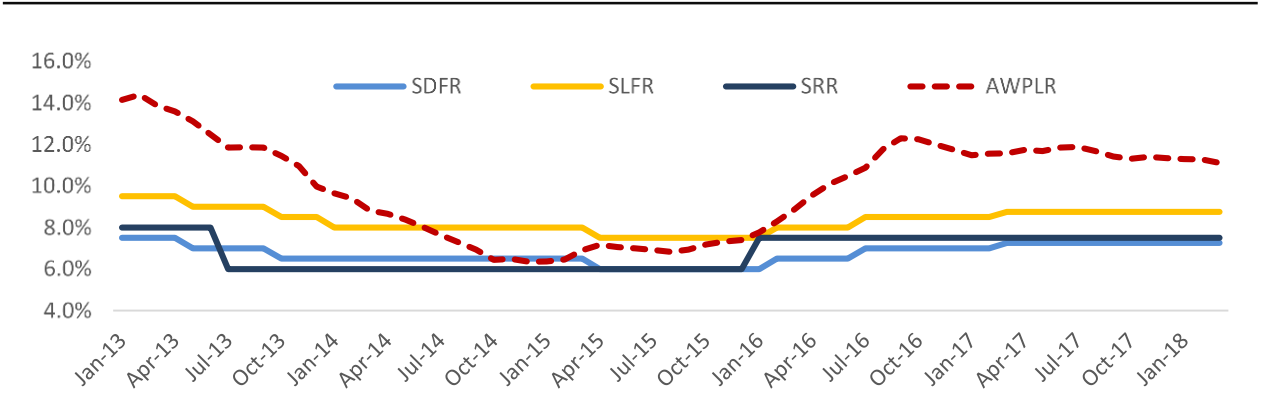
Due to the low inflation, low credit growth and below expected economic growth, the CBSL decreased the policy rates by 25 bps in April 2018 with the intention of fueling the growth drivers of the economy. However, increasing interest rate environment globally led by US where the 10-year treasury bond yield is closing on a 3.0% mark (highest since 2014) is a sign that the low local interest rate regime sustainability may well be numbered unless the monetary policy is supplemented by adequate and transparent policy measures that can lure in foreign investors and businessman to the country (both passive and active investors alike).

### Net Absorption Vs Exchange Rate



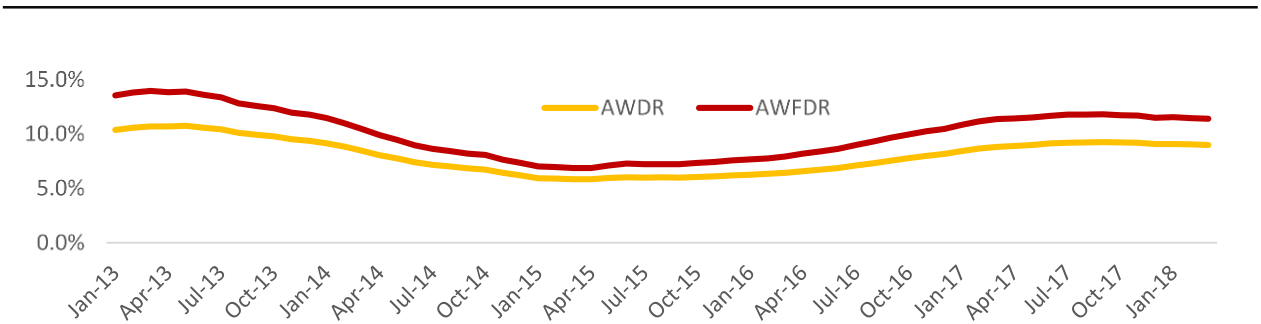
Source: CBSL

### Policy Rates Movements Vs AWPLR



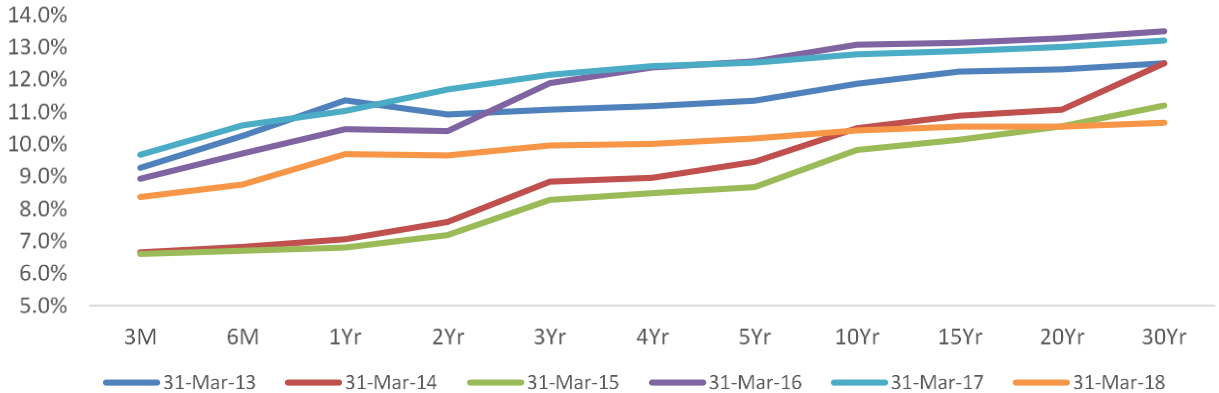
Source: CBSL

### Movements in AWDR and AWFDR



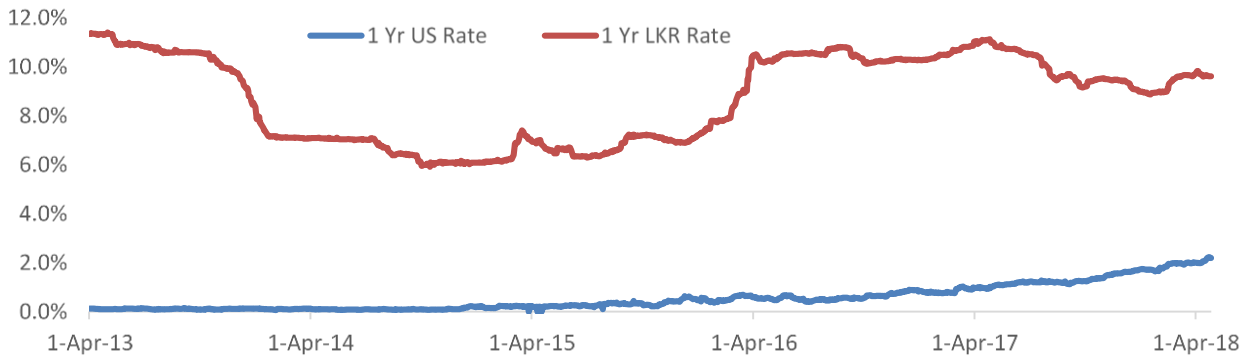
Source: CBSL

## Yield Curve Movement as of 31<sup>st</sup> March



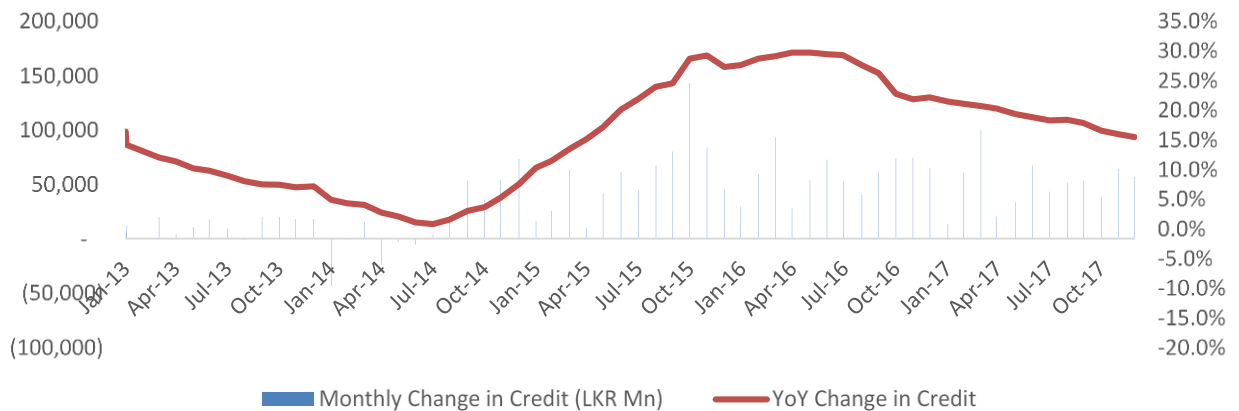
Source: CBSL, Bloomberg

## 1 Yr T-Bill Rate Vs 1 Yr US Rate



Source: Bloomberg

## Credit Granted by Commercial Banks to Private Sector



Source: CBSL

Fund Management Team , Assetline Capital (Pvt) Ltd, Management Company

**Fund Performance – Assetline Income Fund (AINF)**

The NAV of the Assetline Income Fund (AINF) dropped to LKR 40.89 mn as at 31<sup>st</sup> March 2018 from LKR 7,690.99 mn as at 31<sup>st</sup> March 2017, a reduction of 99.47% Year-on-Year.

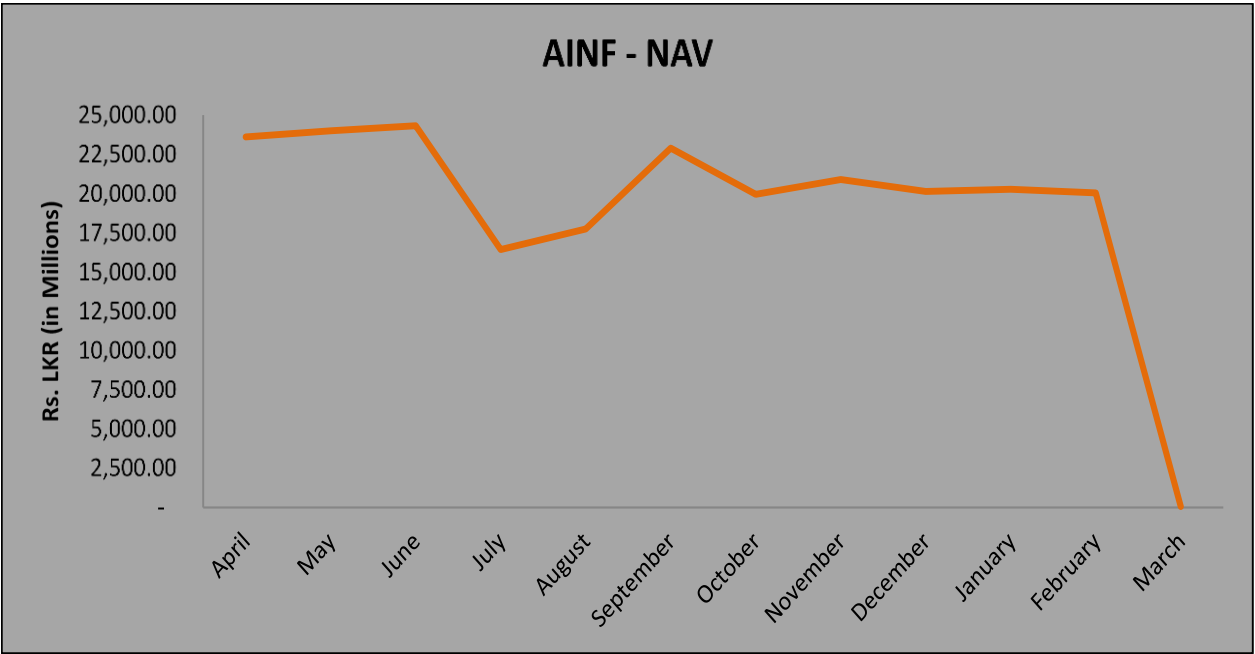
The uncertainty created by recently implemented tax changes which was effective from April 2018/19 had a negative impact on investors, with the withdrawal of tax exemptions for unit trusts increasing investor redemptions. This resulted in the NAV decreasing to LKR 40.89 mn by the end of the financial year, while the NAV was at its highest during the financial year at LKR 24,314 mn as at 30<sup>th</sup> June 2017.

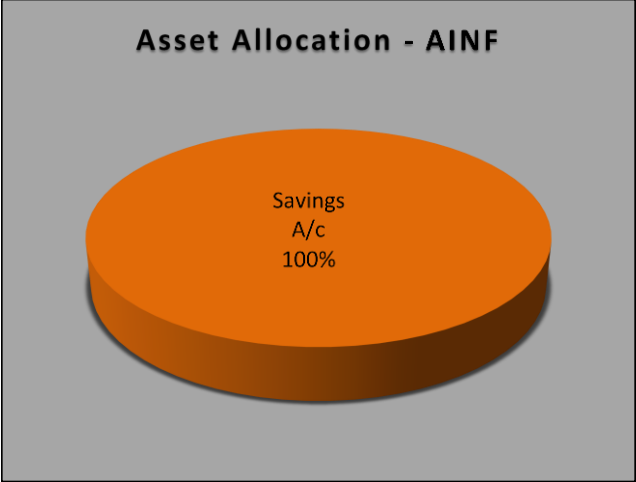
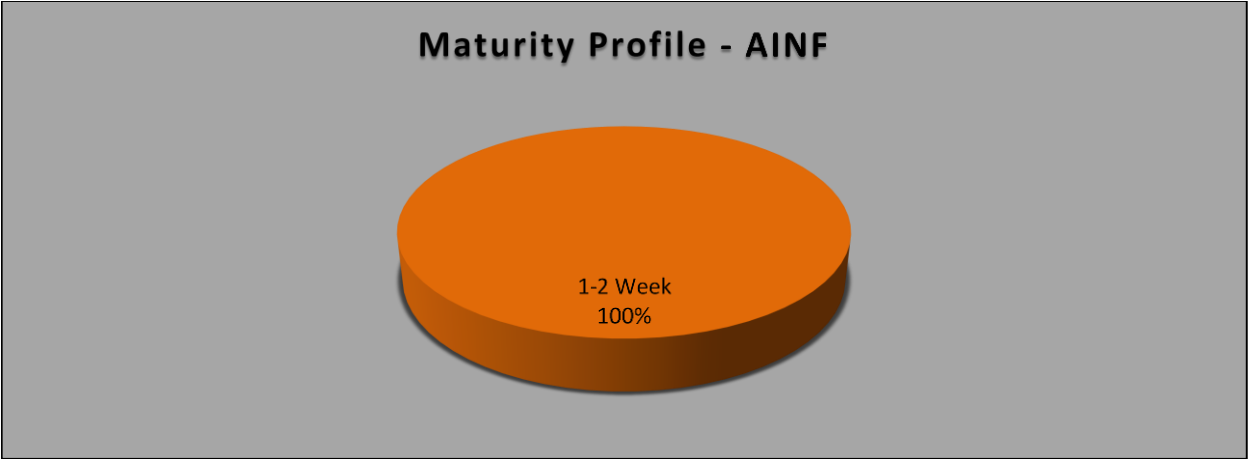
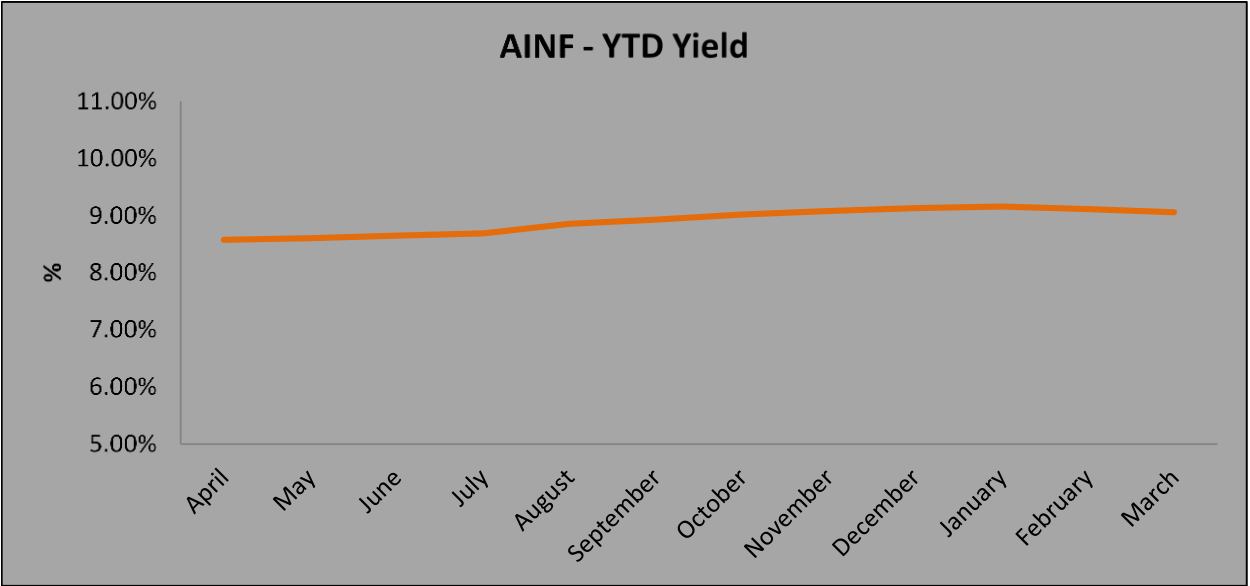
The number of unit holders on 31<sup>st</sup> March 2018 was 1,323, a 1.28% Year-on-Year

reduction compared to 1,340 unit holders as at 31<sup>st</sup> March 2017.

All the AINF funds were kept in money market savings account awaiting a clear direction on the new tax implementation manual to be issued by the Inland Revenue Department. This resulted in 100% of the funds being classified as being kept in a “1-2 weeks” maturity profile as funds in money market savings account are highly liquid.

The YTD yield of the fund was 9.05% as at 31<sup>st</sup> March 2018 which has been reducing since February 2018; due to investments in short-term instruments anticipating fund redemptions. Hence, the reinvestment rates were much lower than the initial interest yields. The fund reached its highest YTD yield at 9.15% during January 2018.







# **ASSETLINE INCOME FUND**

**FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2018**



Private &amp; Confidential

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE UNITHOLDERS OF ASSETLINE INCOME FUND**

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

We have audited the financial statements of Assetline Income Fund, which comprise the statement of financial position as at 31<sup>st</sup> March, 2018, and the statement of comprehensive income, statement of changes in unit holder's fund 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<sup>st</sup> March 2018, and 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 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.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note No. 2.2 (Page 06) of this financial Statements which describe the existence of an uncertainty that may cast doubt on the fund's ability to continue as a going concern.

**Other Information**

The Managements are responsible for the other information presented in the annual report together with financial statements. Our opinion on the financial statements does not cover this other information and accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

We have nothing to report in this respect.





### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management 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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Fund.

The financial statements of Assetline Income Fund is complied with the requirements of the Unit Trust Code issued by Securities and Exchange Commission of Sri Lanka and the Trust Deed.



**B. R. DE SILVA & CO.**

Chartered Accountants

Colombo 05.

Date.....

LW/SA/sn (18/05)

4/11/06/2018



**ASSETLINE INCOME FUND****STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31ST MARCH**

		<b>2018</b>	<b>2017</b>
		<b>Rs.</b>	<b>Rs.</b>
<b><u>Income</u></b>			
Interest income from loans and receivables	(04)	2,196,262,089	1,584,914,909
<b>Total net investment income</b>		<u>2,196,262,089</u>	<u>1,584,914,909</u>
<b><u>Expenses</u></b>			
Management fee	10 (g)	(133,974,426)	(100,715,840)
Trustee and custodian fee	10 (g)	(53,682,417)	(40,017,292)
Audit fee		(189,749)	(198,389)
Professional fee		(47,362)	(181,262)
Other operating expenses		(1,879,528)	(1,086,007)
<b>Total operating expenses</b>		<u>(189,773,482)</u>	<u>(142,198,789)</u>
<b>Net operating profit</b>		<u>2,006,488,606</u>	<u>1,442,716,119</u>
<b><u>Finance cost</u></b>			
<b>Profit after deductions and before tax</b>		2,006,488,606	1,442,716,119
Income tax expense	(05)	(200,478,445)	(144,271,612)
<b>Increase in net assets attributable to unitholders</b>	(08)	<u>1,806,010,161</u>	<u>1,298,444,508</u>

The Notes to the Financial Statements in pages (05) to (20) form an integral part of these Financial Statements.








**ASSETLINE INCOME FUND****STATEMENT OF FINANCIAL POSITION**  
**AS AT 31ST MARCH**

	Notes	2018 Rs.	2017 Rs.
<b><u>ASSETS</u></b>			
<b><u>Current assets</u></b>			
Cash and cash equivalents	(06)	2,182,733	877,004
Loans and receivables	(07)	50,031,438	7,702,968,886
Income tax receivables		42,337,604	23,360,845
<b>Total assets</b>		<b>94,551,775</b>	<b>7,727,206,735</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current liabilities</u></b>			
Accrued expenses and other payables		11,323,026	12,860,123
<b>Liabilities (excluding net assets attributable to unitholders)</b>		<b>11,323,026</b>	<b>12,860,123</b>
<b><u>UNITHOLDERS' FUNDS</u></b>			
Net assets attributable to unitholders	(08)	83,228,749	7,714,346,612
<b>Total unitholders' fund and liabilities</b>		<b>94,551,775</b>	<b>7,727,206,735</b>

These Financial Statements were approved by the Management Company and adopted by the Trustee.

	<u>NAME</u>	<u>SIGNATURE</u>
DIRECTOR	1. Dhanika De Silva	
	2. Kishan Ganesh Vairavanathan	
TRUSTEE		
DATE OF APPROVAL	4/6/2018	

Authorized Signatories  
Trustee

The Notes to the Financial Statements in pages (05) to (20) form an integral part of these Financial Statements.



**ASSETLINE INCOME FUND****STATEMENT OF CHANGES IN UNITHOLDERS' FUND**  
**FOR THE YEAR ENDED 31ST MARCH**

	<i>Notes</i>	<b>2018</b> <b>Rs.</b>	<b>2017</b> <b>Rs.</b>
Unitholders' fund at beginning of the year		7,714,346,612	6,804,601,034
Increase in net assets attributable to unitholders		1,806,010,161	1,298,444,508
Received on unit creations		51,352,363,619	45,079,204,765
Paid on unit redemptions		(60,789,491,642)	(45,467,903,695)
Unitholders' fund at end of the year	(08)	<u>83,228,749</u>	<u>7,714,346,612</u>

The Notes to the Financial Statements in pages (05) to (20) form an integral part of these Financial Statements.



**ASSETLINE INCOME FUND****STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 31ST MARCH**

	<i>Notes</i>	2018 Rs.	2017 Rs.
<b>Cash flows from operating activities</b>			
Proceeds from sale of loans and receivables		189,905,012,581	172,314,855,105
Purchase of loans and receivables		(182,618,063,519)	(172,930,851,717)
Interest received		2,342,795,272	1,138,624,740
Management fees paid		(135,085,810)	(95,576,741)
Other expenses paid		(56,224,771)	(39,358,303)
<b>Net cash in outflow from operating activities</b>		<b>9,438,433,753</b>	<b>387,693,084</b>
<b>Cash flows from financing activities</b>			
Proceeds from subscription by unitholders	(08)	51,352,363,619	45,079,204,765
Payments for redemptions by unitholders	(08)	(60,789,491,642)	(45,467,903,695)
<b>Net cash from financing activities</b>		<b>(9,437,128,023)</b>	<b>(388,698,930)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,305,729</b>	<b>(1,005,846)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>877,004</b>	<b>1,882,850</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,305,729</b>	<b>(1,005,846)</b>
<b>Cash and cash equivalents at end of the year</b>	(06)	<b>2,182,733</b>	<b>877,004</b>

The Notes to the Financial Statements in pages (05) to (20) form an integral part of these Financial Statements.





**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****1. GENERAL INFORMATION**

Under Section 31 of the Securities and Exchange Commission of Sri Lanka, Act No.36 of 1987 as amended by the Act No. 26 of 1991 and the Act No. 18 of 2003, the Securities and Exchange Commission of Sri Lanka granted a license to operate the Assetline Income Fund ('the Fund') to Assetline Capital (Private) Limited (the 'Management Company') on 17 June 2014. The Fund commenced its commercial operations on 11 July 2014. The registered office of the Management Company is located at No 75, Hyde Park Corner, Colombo 2.

The primary investment objective of the Fund would be to maximize the total return of the Fund and provide an investment vehicle for investors with short term investment horizon by carefully investing in fixed income securities which include fixed deposits, trust receipts, certificate of deposits, loans, unlisted corporate debts, government securities, repurchased agreements and other money market securities with tenures less than 1 year.

The Fund's investment activities are managed by Assetline Capital (Private) Limited.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**2.1. Basis of preparation**

The financial statements are prepared in accordance with and comply with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and adopted as directed by the Securities and Exchange Commission of Sri Lanka.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders.

Contd..... (06)



**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****2.2. Going Concern**

Due to implementation of new income tax legislation, that appears to make investment in Unit Trusts for individuals and corporates less financially viable, money was withdrawn from the Unit Trusts. This led to a 98.9% decrease in Net Assets Attributable to the unit holders.

The Unit Trusts Industry as a whole lost approximately 45% of funds invested in it with net assets dropping from approximately Rs. 131.9 billion in the month of March 2018 to approximately Rs. 71.9 billion by 31st March 2018. The Unit Trust Association of Sri Lanka (UTASL) has made representation to The Securities and Exchange Commission of Sri Lanka (SEC), Finance Ministry and Department of Inland Revenue to clarify the Government's position on the Unit Trusts industry. Their proposal is to make the Unit Trust a pass-through and the initial feedback is that the Unit Trust will be made a pass-through and necessary gazette notification will be published in due course. We believe part of the funds which moved out from the Assetline Income Fund will be reinvested once the taxation position is made clear.

**2.3. Compliance with Sri Lanka Financial Reporting Standards**

These financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) which are effective from 01 January 2012.

**2.4. Financial Instruments**

The Fund's principal financial assets comprise loans and receivables and cash and cash equivalents. The main purpose of these financial instruments is to generate a return on the investment made by unitholders. The Funds' principal financial liabilities comprise accrued expenses and other payables which arise directly from its operations.

In accordance with LKAS 39; Financial Instruments: Recognition and Measurement, the Fund's Non-derivative financial assets with fixed or determinable payments and maturities and interest receivables are classified as 'loans and receivables'. The amount attributable to unitholders is classified as equity and is carried at the redemption amount being net asset value. Payables are designated as 'other financial liabilities' at amortised cost.

**a) Classification**

The Fund's investments are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted on an active market. They comprise of repurchase agreements, fixed deposits, commercial papers, treasury bills and trust certificates and interest receivable.

Contd..... (07)





ASSETLINE INCOME FUNDNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018**b) Recognition / derecognition**

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date).

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or expired.

**c) Measurement****- Loans and receivables**

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

**d) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**2.5. 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, as at the statement of financial position 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 in accordance with the valuation guidelines issued by the Unit trust Association of Sri Lanka and approved by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue.

Distribution to unit holders is recognised in the statement of changes in unitholders' funds. Income not distributed is included in net assets attributable to unitholders.

Contd..... (08)



**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****2.6. Cash and Cash Equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, at bank and bank overdrafts. The Bank overdrafts are shown within borrowings in the statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities.

**2.7. Investment Income**

Interest income is recognised in profit or loss for all financial instruments that are not held at fair value through profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

**2.8. Expenses**

All expenses, including management fees and trustee fees, are recognised in profit or loss on accruals basis.

*The management participation fees of the fund are as follows:*

Management Fee	- 0.65% of Net Asset Value of the Fund
Trustee Fee	- 0.225% of Net Asset Value of the Fund
Custodian Fee	- Flat Fee of Rs. 25,000 per month

**2.9. Income tax**

The charge for taxation is based on the results for the period as adjusted for disallowable items. The current tax liabilities are provided for in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments.

Contd..... (09)





**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH, 2018****2.10. Distributions**

In accordance with the trust deed, the Fund distributes income adjusted for amounts determined by the Assetline Capital (Private) Limited, to unitholders by cash or reinvestment. The distributions are recognised in statement of changes in unitholders' funds.

**2.11. Receivables**

Receivables may include amounts for interest and trust distributions. Trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(7) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables are recognised and carried at amortized cost, less a provision for any uncollectable debts. An estimate for doubtful debt is made when collection of an amount is no longer probable.

Collectability of receivables are reviewed on an ongoing basis at an individual portfolio level, individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognised when there is objective evidence that the Fund will not be able to collect the receivable. Financial difficulties of the debtor, default payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

**2.12. Payables**

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Trust Deed.

**2.13. Subscriptions and redemptions**

Subscriptions received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

Contd..... (10)





**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH, 2018****2.14. New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 31<sup>st</sup> March 2018 reporting period and have not been early adopted by the Fund.

- (i) SLFRS 9 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of SLFRS 9 was issued in July 2014. It replaces the guidance in LKAS 39 that relates to the classification and measurement of financial instruments. SLFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in LKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under LKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.
- (ii) SLFRS 15 establish has a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. This standard is e efective for the annual periods beginning on or after 01<sup>st</sup> January 2017.

**3. FINANCIAL RISK MANAGEMENT**

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.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's investment policy. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

Contd..... (11)





ASSETLINE INCOME FUNDNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018FINANCIAL RISK MANAGEMENT (CONTD....)

All securities investments present a risk of loss of capital. The maximum loss of capital on debt securities is limited to the fair value of those positions.

The management of these risks is carried out by the Management Company under policies approved by investment advisory panel of the responsible entity. It provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, the use of non-derivative financial instruments and the investment of excess liquidity.

The Fund uses different methods to measure different types of risks to which it is exposed. These methods are explained below.

3.1. Market risk

a) Price risk

The Fund is not exposed to equity price risk since there are no investments in equity securities.

b) Foreign exchange rate risk

The Fund is not exposed to the fluctuations in exchange rates. The Fund's all investments and transactions are denominated in LKR.

c) Cash flow and fair value interest rate risk

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

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.

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model. Therefore, the sensitivity analysis in Note 3.2 may not fully indicate the total effect on the Fund's net assets attributable to unitholders of future movements in interest rates.

Contd..... (12)



**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018**

The table below summarises the Fund's exposure to interest rate risks.

<i>31<sup>st</sup> March 2018</i>	<i>Floating interest rate</i>	<i>Fixed interest rate Rs.</i>	<i>Non- interest bearing Rs.</i>	<i>Total Rs.</i>
<b><u>Financial assets</u></b>				
Cash and cash equivalents (Note 6)	-	-	2,182,733	2,182,733
Loans and receivables (Note 7)	-	50,031,438	-	50,031,438
<b><u>Financial liabilities</u></b>				
Accrued expenses and other payables	-	-	(11,323,026)	(11,323,026)
Net exposed	-	50,031,438	(9,140,293)	40,891,055

<i>31<sup>st</sup> March 2017</i>	<i>Floating interest rate</i>	<i>Fixed interest rate</i>	<i>Non- interest bearing</i>	<i>Total</i>
<b><u>Financial assets</u></b>				
Cash and cash equivalents (Note 6)	-	-	877,004	877,004
Loans and receivables (Note 7)	-	7,702,968,886	-	7,702,968,886
<b><u>Financial liabilities</u></b>				
Accrued expenses and other payables	-	-	(12,860,124)	(12,860,124)
Net exposed	-	7,702,968,886	(11,983,120)	7,690,985,766

**3.2. Summarised sensitivity analysis**

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders 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 and historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and / or 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.

<i>Change in interest rate of the loans and receivables</i>	<i>Impact on operating profit / net assets attributable to unitholders' Interest rate risk</i>	
	<i>2018 Rs.</i>	<i>2017 Rs.</i>
+1%	500,314	77,029,689
-1%	(500,314)	(77,029,689)

Contd..... (13)





ASSETLINE INCOME FUNDNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018**3.3. Credit risk**

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main concentration to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, other receivable balances.

In accordance with the Fund's policy, the Management Company monitors the Fund's credit position on a daily basis.

**- Debt securities**

The Fund invests in debt securities which have a minimum credit rating of BBB<sub>-</sub> as designated by reputed rating agencies. An analysis of debt by rating is set out in the table below.

<i>Debt securities by rating category</i>	<i>2018</i>	<i>2017</i>
Risk Free Investments	-	100%
AAA	-	-
A <sup>+</sup>	100%	-
A	-	-
<b>Total</b>	<b>100%</b>	<b>100%</b>

**3.4. 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 redeemable units. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed.

The Fund has the ability to borrow in the short term to ensure settlement. No such borrowings have been arisen during the year.

In accordance with the Fund's policy, the Management Company monitors the Fund's liquidity position on a daily basis.



**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH**

	2018 Rs.	2017 Rs.
<b>(04) <u>Interest income from loans and receivables</u></b>		
Interest on repurchase agreements	1,005,919,064	888,967,728
Interest on Deposits	902,996,829	24,162,195
Interest on commercial papers	-	11,161,461
Interest on treasury bills	251,388,536	572,285,941
Interest on treasury bonds	35,957,660	88,337,583
	<u>2,196,262,089</u>	<u>1,584,914,908</u>

**(05) Income tax expense**

Current tax on profits for the year	200,478,445	144,271,612
	<u>200,478,445</u>	<u>144,271,612</u>

A reconciliation between the tax expense and the product of taxable profit multiplied by the statutory tax rate is as follows:

Profit before tax	2,006,488,606	1,442,716,119
Income not subject to tax	(1,704,159)	-
Taxable Profit	<u>2,004,784,447</u>	<u>1,442,716,119</u>
Tax calculated at a tax rate of 10% (2017 - 10%)	200,478,445	144,271,612
Expenses not deductible for tax purposes	-	-
<b>Tax charge / (credit)</b>	<u>200,478,445</u>	<u>144,271,612</u>

**(06) Cash and cash equivalents**

Cash at bank	<u>2,182,733</u>	<u>877,004</u>
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**(07) Loans and receivables**

- Interest receivable from:

Money Market Savings	31,438	-
Repurchase agreements	-	106,979
Treasury Bills	-	342,454,661
Treasury Bonds	-	23,458,185
- Money Market Savings [See Note (a) below]	50,000,000	-
- Repurchase agreements [See Note (b) below]	-	231,500,000
- Treasury bills [See Note (c) below]	-	6,423,315,140
- Treasury bonds [See Note (d) below]	-	682,133,921
<b>Total loans and receivables</b>	<u>50,031,438</u>	<u>7,702,968,886</u>





**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS  
AS AT 31ST MARCH****(07) Loans and receivables (Contd)****(a) Loans and receivables: Money Market Savings****2018**

	<b>Cost</b>	<b>Market value</b>	<b>Interest</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>rate</b>
National Development Bank PLC	50,000,000	50,031,438	8.50%
	<b>50,000,000</b>	<b>50,031,438</b>	

**(b) Loans and receivables: Repurchase agreements****2017**

	<b>Maturity date</b>	<b>Cost</b>	<b>Market value</b>	<b>Interest</b>
		<b>Rs.</b>	<b>Rs.</b>	<b>rate</b>
Commercial Bank of Ceylon PLC	12-Apr-17	200,000,000	200,099,450	9.05%
Commercial Bank of Ceylon PLC	3-Apr-17	31,500,000	31,507,529	8.70%
		<b>231,500,000</b>	<b>231,606,979</b>	

**(c) Loans and receivables: Treasury bills****2017**

	<b>Maturity date</b>	<b>Cost</b>	<b>Market value</b>	<b>Interest</b>
		<b>Rs.</b>	<b>Rs.</b>	<b>rate</b>
People's Bank	25/ Aug/2017	229,450,250	250,000,000	10.00%
People's Bank	25/ Aug/2017	229,450,250	250,000,000	10.00%
DFCC Bank PLC	01/Sep/2017	183,329,200	200,000,000	10.00%
People's Bank	25/ Aug/2017	460,405,000	500,000,000	10.40%
People's Bank	18/ Aug/2017	463,768,500	500,000,000	10.12%
People's Bank	01/Sep/2017	277,269,300	300,000,000	10.15%
DFCC Bank PLC	01/Sep/2017	185,037,000	200,000,000	10.15%
People's Bank	15/Sep/2017	462,883,000	500,000,000	10.17%
People's Bank	15/Sep/2017	231,654,750	250,000,000	10.15%
Commercial Bank of Ceylon PLC	30/Jun/2017	189,736,000	200,000,000	9.70%
Commercial Bank of Ceylon PLC	16/Jun/2017	180,913,600	200,000,000	10.55%
Commercial Bank of Ceylon PLC	16/Jun/2017	90,497,700	100,000,000	10.50%
Commercial Bank of Ceylon PLC	23/Jun/2017	90,473,200	100,000,000	10.53%
Commercial Bank of Ceylon PLC	23/Jun/2017	180,913,600	200,000,000	10.55%
Commercial Bank of Ceylon PLC	07/Jul/2017	90,448,600	100,000,000	10.56%
Commercial Bank of Ceylon PLC	07/Jul/2017	90,432,300	100,000,000	10.58%
Commercial Bank of Ceylon PLC	07/Jul/2017	38,749,543	42,857,000	10.60%
Commercial Bank of Ceylon PLC	21/Jul/2017	135,746,550	150,000,000	10.50%
Commercial Bank of Ceylon PLC	28/Jul/2017	90,538,700	100,000,000	10.45%
Commercial Bank of Ceylon PLC	28/Jul/2017	90,514,100	100,000,000	10.48%
Commercial Bank of Ceylon PLC	28/Jul/2017	55,269,660	61,073,000	10.50%
Commercial Bank of Ceylon PLC	04/ Aug/2017	45,146,750	50,000,000	10.75%
Commercial Bank of Ceylon PLC	04/ Aug/2017	45,126,350	50,000,000	10.80%
Commercial Bank of Ceylon PLC	11/ Aug/2017	135,440,250	150,000,000	10.75%
Commercial Bank of Ceylon PLC	11/ Aug/2017	135,379,050	150,000,000	10.80%
National Development Bank PLC	11/ Aug/2017	90,293,500	100,000,000	10.75%

Contd....



**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS  
AS AT 31ST MARCH**

2017	Maturity date	Cost Rs.	Market value Rs.	Interest rate
National Development Bank PLC	11/ Aug/2017	90,252,700	100,000,000	10.80%
Commercial Bank of Ceylon PLC	18/ Aug/2017	135,440,250	150,000,000	10.75%
Commercial Bank of Ceylon PLC	25/ Aug/2017	90,317,800	100,000,000	10.72%
Commercial Bank of Ceylon PLC	25/ Aug/2017	135,440,250	150,000,000	10.75%
National Development Bank PLC	25/ Aug/2017	90,334,200	100,000,000	10.70%
National Development Bank PLC	25/ Aug/2017	135,452,400	150,000,000	10.74%
Commercial Bank of Ceylon PLC	01/ Sep/2017	90,309,800	100,000,000	10.75%
National Development Bank PLC	01/ Sep/2017	90,301,600	100,000,000	10.74%
Commercial Bank of Ceylon PLC	01/ Sep/2017	14,046,587	15,558,000	10.76%
Commercial Bank of Ceylon PLC	15/ Sep/2017	181,077,400	200,000,000	10.45%
Commercial Bank of Ceylon PLC	07/ Apr/2017	95,492,700	100,000,000	10.45%
Commercial Bank of Ceylon PLC	07/ Apr/2017	95,488,200	100,000,000	10.45%
Commercial Bank of Ceylon PLC	06/ Oct/2017	181,570,600	200,000,000	10.15%
Commercial Bank of Ceylon PLC	06/ Oct/2017	181,488,200	200,000,000	10.20%
Commercial Bank of Ceylon PLC	10/ Nov/2017	136,029,750	150,000,000	10.27%
Commercial Bank of Ceylon PLC	10/ Nov/2017	181,406,000	200,000,000	10.25%
		<b>6,423,315,140</b>	<b>7,019,488,000</b>	

**(d) Loans and receivables: Treasury bonds**

2017	Maturity date	Cost Rs.	Market value Rs.	Interest rate
National Development Bank PLC -	15/ Jun/2017	48,864,277	50,000,000	10.55%
National Development Bank PLC -	15/ May/2017	98,595,816	100,000,000	10.45%
DFCC Bank PLC	15/ Jul/2017	95,965,822	100,000,000	10.62%
DFCC Bank PLC	15/ Jul/2017	96,994,128	100,000,000	10.02%
DFCC Bank PLC	15/ Jul/2017	242,529,078	250,000,000	10.04%
Commercial Bank of Ceylon PLC	15/ Jun/2017	99,184,800	100,000,000	9.65%
		<b>682,133,921</b>	<b>700,000,000</b>	



**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31ST MARCH****(08) Net assets attributable to unit holders**

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	Number of units	Net assets attributable to unitholders(Rs.)
Opening balance	613,223,423	6,804,601,034
Subscriptions	3,854,140,307	45,079,204,765
Redemptions	(3,827,627,548)	(45,467,903,695)
Increase in net assets attributable to unitholders	-	1,298,444,508
<b>At 31st March 2017</b>	<b>639,736,182</b>	<b>7,714,346,612</b>
Opening balance	639,736,182	7,714,346,612
Subscriptions	4,146,529,825	51,352,363,619
Redemptions	(4,783,147,053)	(60,789,491,643)
Increase in net assets attributable to unitholders	-	1,806,010,161
<b>At 31st March 2018</b>	<b>3,118,954</b>	<b>83,228,749</b>

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.

**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 subscriptions and redemptions at the discretion of unitholders.

Daily Subscriptions 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 responsible entity has the discretion to reject an application for units and to defer a redemption of units if the exercise of such discretion is in the best interests of unitholders.





**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH****(09) Remuneration of auditors**

During the year, the following fees were paid or payable for services provided by the auditor of the Fund:

	2018 Rs.	2017 Rs.
Audit and other assurance services		
Audit of financial statements	160,000	150,000
<b>Total remuneration for audit and other assurance services</b>	<b>160,000</b>	<b>150,000</b>
Taxation services		
Tax compliance services	35,000	35,000
<b>Total remuneration for taxation services</b>	<b>35,000</b>	<b>35,000</b>

It is the Fund's policy to employ B.R. De Silva & Co. on assignments additional to their statutory duties where B.R. De Silva & Co.'s expertise and experience with the Fund are important. These assignments are principally tax compliance services or where B.R. De Silva & Co. is awarded assignments on a competitive basis. It is the Fund's policy to seek competitive tenders for all major consulting projects.

**(10) Related-party transactions****a) Responsible entity**

The responsible entity of Assetline Income Fund is Assetline Capital (Private) Limited.

**b) Key management personnel****i) Directors**

Key management personnel include persons who were directors of Assetline Capital (Private) Limited at any time during the financial year.

- Ms. R.M.A.S. Parakrama - Non-Executive Chairman ( From 01.02.2017 onwards)
- Mr. A.Y.D. De Silva - Executive Director (From 01.05.2016 onwards)
- Mr. K.G. Vairavanathan - Managing Director and Chief Executive Officer (From 29.09.2017 onwards )

**ii) Other key management personnel**

There were no other key management persons other than persons given in 10 [b (i) ] above with responsibility for planning, directing and controlling the activities of the fund, directly or indirectly during the financial year.



**ASSETLINE INCOME FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH****c) Key management personnel unitholdings**

The key management personnel of Assetline Capital (Private) Limited held units in the Fund as follows:

<i>Unitholder</i>	<i>No of units held opening</i>	<i>No of units held closing</i>	<i>Fair value of investment</i>	<i>Dividend paid or payable by the fund</i>
Mr. G.L.W.N. Perera	127	127	1,660	-

**d) Key management personnel compensation**

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

**e) Other transactions maintained within the Fund**

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interest existing at the year end.

**f) Related party unitholding**

The Management Company of the Fund did not hold any units in the Fund. Other related parties of the Management Company held units in the Fund as follows;

31st March 2018

<i>Unitholder</i>	<i>No of units held opening</i>	<i>No of units held closing</i>	<i>Fair value of investment</i>	<i>Dividend paid or payable by the fund</i>
David Pieris Trust	634,062,783	-	-	-
<i>Other related parties:</i>				
Dee Investments (Pvt.) Ltd.	403,051	-	-	-
Mr.B.D.S. Mendis	87,236	-	-	-
Mr.D.P. Pieris	1,579,278	-	-	-
Mr.J.D. Pieris	223,566	-	-	-
Mr.M.S. Aziz	1,029,315	1,029,315	13,494,841	-
Mr.T.D. Molligoda	37,516	37,516	491,859	-
Mrs.E.M. Pieris	372,593	-	-	-



ASSETLINE INCOME FUNDNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH*g) Transactions maintained 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:

	<i>Charge for the year ended 31st March 2018</i>	<i>Charge for the year ended 31st March 2017</i>	<i>Balance outstanding 31st March 2018</i>	<i>Balance outstanding 31st March 2017</i>
Management fees	133,974,426	100,715,840	7,895,359	9,006,743
Trustee and custodian fees	53,682,417	40,017,292	3,171,710	3,608,837
	<u>187,656,843</u>	<u>140,733,132</u>	<u>11,067,069</u>	<u>12,615,580</u>

**(11) Contingent assets and liabilities and commitments**

There were no material contingent liabilities at the statement of financial position date.

**(12) Events occurring after the reporting period**

No significant events have been occurred since the end of the reporting year which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31st March 2018 or on the results and cash flows of the Fund for the year ended on that date.





**Fund Performance – Assetline Gilt Edged Fund (AGEF)**

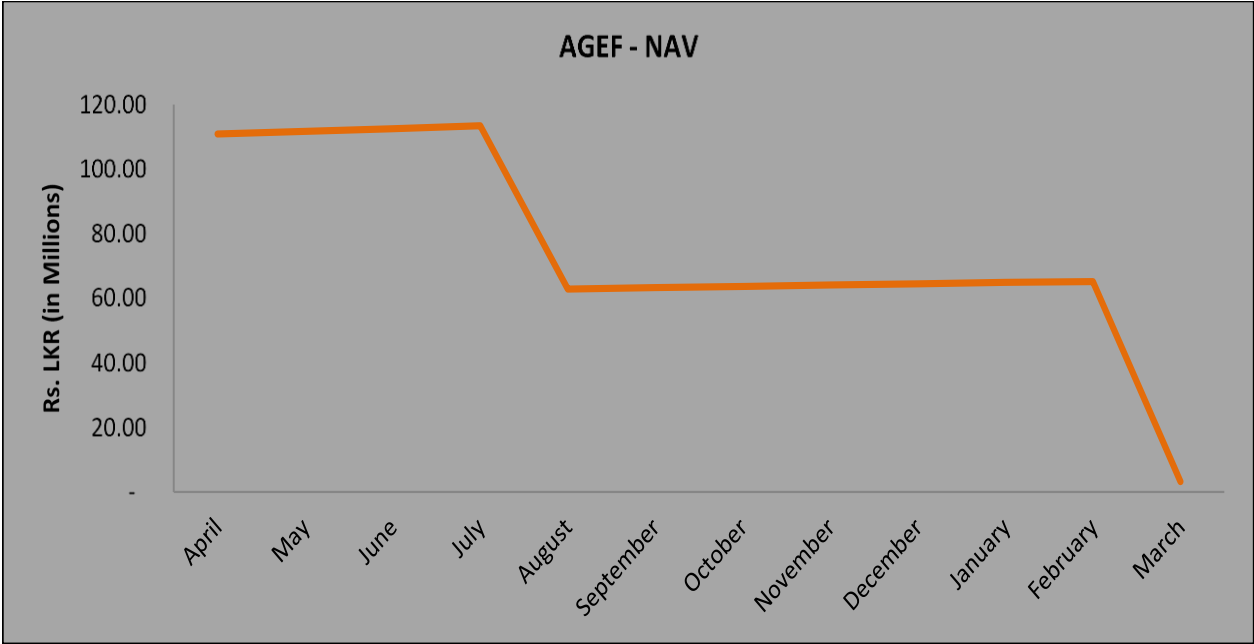
The NAV of the Assetline Gilt Edged Fund (AGEF) decreased to LKR 3.19 mn as at 31<sup>st</sup> March 2018 from LKR 110.08 mn on 31<sup>st</sup> March 2017, a Year-on-Year reduction of 97.10%

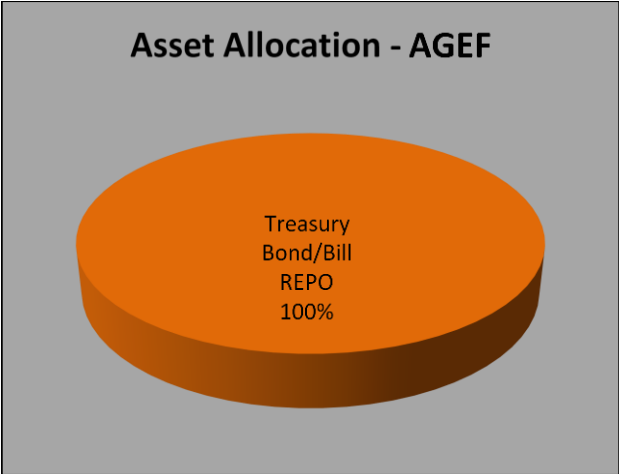
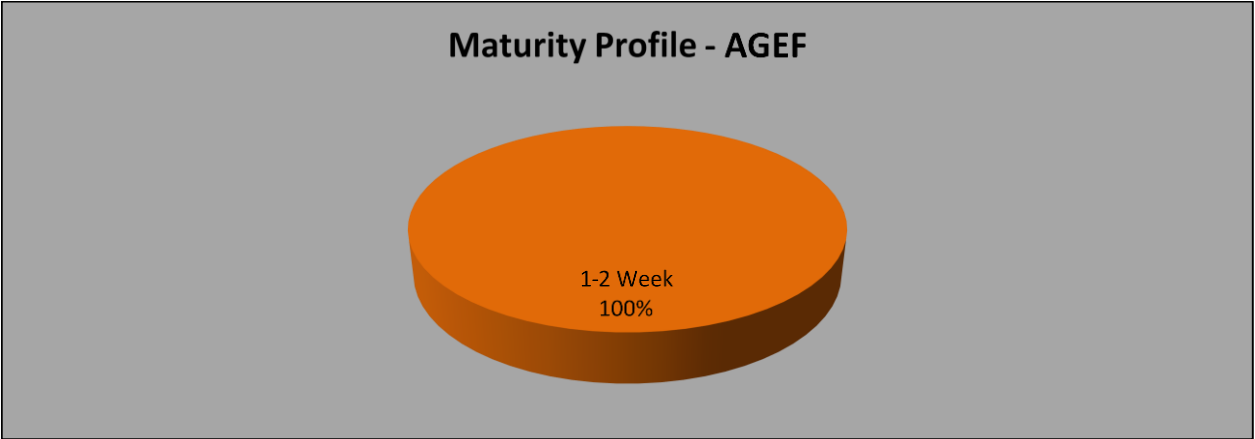
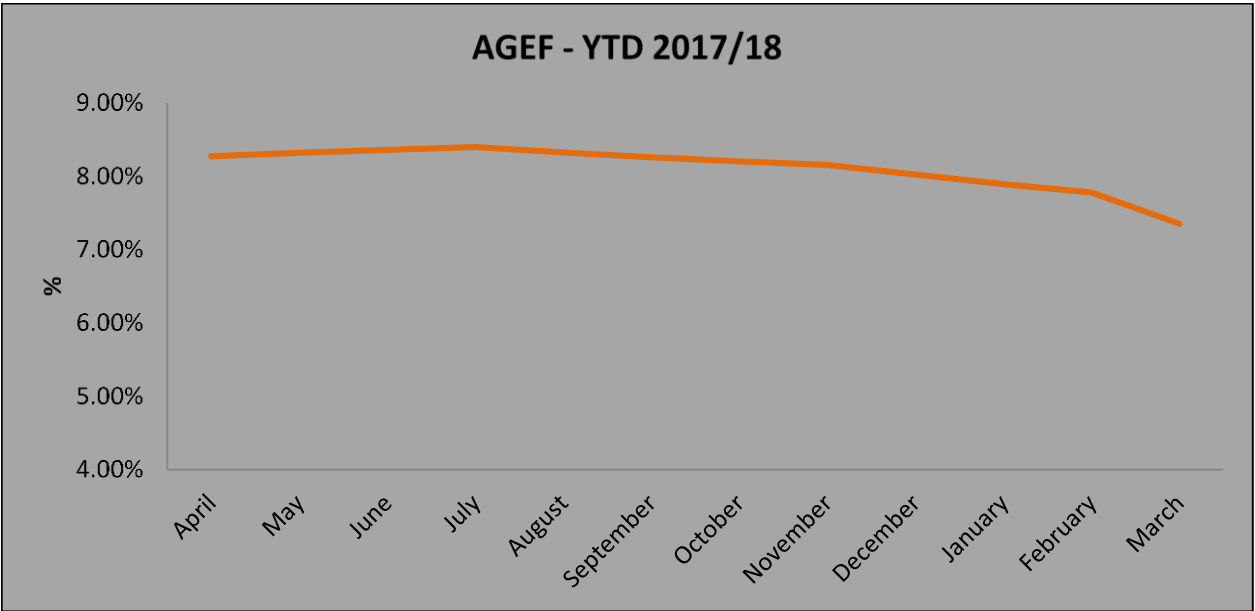
The uncertainty created by the recently implemented tax changes which was effective from April 2018/19 had a negative impact on investors with the removal of the notional tax credit and implementation of capital gain taxes which fueled unit redemptions. This resulted in the NAV reducing to LKR 3.19 mn by the end of the current financial year, compared to a value of LKR 113.47 mn on 31<sup>st</sup> July 2017. The said abolishment of tax exemptions on unit trust investments also seriously impacted fund outflows.

The number of unit holders as at 31<sup>st</sup> March 2018 was 484, a 10.53% Year-on-Year reduction compared to 541 unit holders as at 31<sup>st</sup> March 2017.

The assets of the AGEF were invested within “1-2 weeks” maturity profile with all funds being invested in REPOs. Since REPOs are securitized by government securities all the funds of AGEF were invested in 100% Risk-Free investments as at 31<sup>st</sup> March 2018.

The YTD yield of the fund was 7.35% as at 31<sup>st</sup> March 2018 which has been reducing since August 2017, due to REPOs being placed for short tenors anticipating withdrawals. However, as at 31<sup>st</sup> July 2017, the YTD yield of AGEF reached 8.39% the highest for the financial year 2017/2018.





# ASSETLINE GILT EDGED FUND

FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2018



Private &amp; Confidential

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE UNITHOLDERS OF ASSETLINE GILT EDGED FUND**

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

We have audited the financial statements of Assetline Gilt Edged Fund, which comprise the statement of financial position as at 31<sup>st</sup> March, 2018, and the statement of comprehensive income, statement of changes in unit holder's fund 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<sup>st</sup> March 2018, and 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 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.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note No. 2.2 (Page 06) of this financial Statements which describe the existence of an uncertainty that may cast doubt on the fund's ability to continue as a going concern.

**Other Information**

The Managements are responsible for the other information presented in the annual report together with financial statements. Our opinion on the financial statements does not cover this other information and accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

We have nothing to report in this respect.





### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management 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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Fund.

The financial statements of Assetline Gilt Edged Fund is complied with the requirements of the Unit Trust Code issued by Securities and Exchange Commission of Sri Lanka and the Trust Deed.



**B. R. DE SILVA & CO.**

Chartered Accountants

Colombo 05.

Date... 4<sup>th</sup>/06/2018 .....

LW/SA/sn (18/05)



ASSETLINE GILT EDGED FUNDSTATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST MARCH

<u>Income</u>	Notes	2018 Rs.	2017 Rs.
Interest income from financial assets not held at fair value through profit or loss	(05)	8,153,254	1,129,173,858
<b>Total net investment income</b>		<u>8,153,254</u>	<u>1,129,173,858</u>
<u>Expenses</u>			
Management fee	(13)g	(405,535)	(59,394,120)
Trustee and custodian fee	(13)g	(510,179)	(24,232,743)
Audit Fees		(189,749)	(198,389)
Professional fee		(47,362)	-
Other operating expenses		(54,109)	(557,744)
<b>Total operating expenses</b>		<u>(1,206,934)</u>	<u>(84,382,996)</u>
<b>Net operating profit</b>		<u>6,946,320</u>	<u>1,044,790,862</u>
<u>Finance cost</u>			
<b>Profit after deductions and before tax</b>		6,946,320	1,044,790,862
Income tax expense	(06)	(694,632)	(104,479,086)
<b>Increase in net assets attributable to unitholders</b>	(11)	<u><u>6,251,688</u></u>	<u><u>940,311,776</u></u>

The Notes to the Financial Statements in pages (05) to (22) form an integral part of these Financial Statements.





ASSETLINE GILT EDGED FUNDSTATEMENT OF FINANCIAL POSITIONAS AT 31ST MARCH

	Notes	2018 Rs.	2017 Rs.
<b><u>ASSETS</u></b>			
<b><u>Current Assets</u></b>			
Cash and cash equivalents	(07)	503,870	698,418
Loans and Receivables	(08)	3,001,978	109,711,359
Income Tax Receivables	(09)	11,492,121	11,375,527
<b>Total Assets</b>		<b>14,997,969</b>	<b>121,785,304</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current liabilities</u></b>			
Accrued expenses and other payables	(10)	312,934	335,609
<b>Liabilities (excluding net assets attributable to unitholders)</b>		<b>312,934</b>	<b>335,609</b>
<b><u>UNITHOLDERS' FUNDS</u></b>			
Net assets attributable to unitholders	(11)	14,685,035	121,449,695
<b>Total unitholders' funds and liabilities</b>		<b>14,997,969</b>	<b>121,785,304</b>

These Financial Statements were approved by the Management Company and adopted by the Trustee.

	<u>NAME</u>	<u>SIGNATURE</u>
DIRECTOR	1. <u>Dhanilec De Silva</u>	<u>[Signature]</u>
	2. <u>Kishan Ganesh Vairaranathan</u>	<u>[Signature]</u>
TRUSTEE	<u>[Signature]</u>	
DATE OF APPROVAL	<u>4/6/2018</u>	

Authorized Signatories  
Trustee

The Notes to the Financial Statements in pages (05) to (22) form an integral part of these Financial Statements.





**ASSETLINE GILT EDGED FUND****STATEMENT OF CHANGES IN UNITHOLDERS' FUND**  
**FOR THE YEAR ENDED 31ST MARCH**

	<i>Notes</i>	<b>2018</b> <b>Rs.</b>	<b>2017</b> <b>Rs.</b>
<b>Unitholders' fund at beginning of the year</b>		121,449,695	16,330,447,175
Increase in net assets attributable to unitholders		6,251,688	940,311,776
Received on unit creations	(11)	2,640,000	13,060,975,119
Paid on unit redemptions	(11)	(115,656,348)	(30,210,284,375)
<b>Unitholders' fund at end of the year</b>	(11)	<u>14,685,035</u>	<u>121,449,695</u>

The Notes to the Financial Statements in pages (05) to (22) form an integral part of these Financial Statements.



**ASSETLINE GILT EDGED FUND****STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 31ST MARCH**

		2018 Rs.	2017 Rs.
<b><u>Cash flows from operating activities</u></b>			
Proceeds from sale of loans and receivables		666,515,106	279,618,753,850
Purchase of loans and receivables		(561,544,048)	(263,410,497,844)
Interest received		9,891,577	1,035,017,520
Management fees paid		(427,722)	(66,381,437)
Other expenses paid		(1,613,112)	(27,744,732)
<b>Net cash outflow from operating activities</b>		<b>112,821,800</b>	<b>17,149,147,358</b>
<b><u>Cash flows from financing activities</u></b>			
Proceeds from subscription by unitholders	(11)	2,640,000	13,060,975,119
Payment for redemption by unitholders	(11)	(115,656,348)	(30,210,284,375)
<b>Net cash from financing activities</b>		<b>(113,016,348)</b>	<b>(17,149,309,255)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(194,548)</b>	<b>(161,897)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>698,418</b>	<b>860,315</b>
<b>Net increase in cash and cash equivalents</b>		<b>(194,548)</b>	<b>(161,897)</b>
<b>Cash and cash equivalents at the end of the year</b>	(07)	<b>503,870</b>	<b>698,418</b>

The Notes to the Financial Statements in pages (05) to (22) form an integral part of these Financial Statements.



**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****1. GENERAL INFORMATION**

Under Section 31 of the Securities and Exchange Commission of Sri Lanka, Act No.36 of 1987 as amended by the Act No. 26 of 1991 and the Act No. 18 of 2003, the Securities and Exchange Commission of Sri Lanka granted a license to operate the Assetline Gilt edged Fund ('the Fund') to Assetline Capital (Private) Limited (the 'Management Company') on 17 June 2014. The Fund commenced its commercial operations on 11 July 2014. The registered office of the Management Company is located at No 75, Hyde Park Corner, Colombo 2.

The objective of the Fund is to provide a secure investment vehicle, with a steady growth, that caters to the different investment horizons of the unit holders. The Fund aims to achieve this objective by investing in government securities minimizing the risk to the unit holder.

The Fund's investment activities are managed by Assetline Capital (Private) Limited.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**2.1. Basis of preparation**

The financial statements are prepared in accordance with and comply with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and adopted as directed by the Securities and Exchange Commission of Sri Lanka.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unit holders.

Contd..... (06)





**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH, 2018****2.2. Going Concern**

Due to implementation of new income tax legislation, that appears to make investment in Unit Trusts for individuals and corporates less financially viable, money was withdrawn from the Unit Trusts. This led to an 87.9% decrease in Net Assets Attributable to the unit holders.

The Unit Trusts Industry as a whole lost approximately 45% of funds invested in it with net assets dropping from approximately Rs. 131.9 billion in the month of March 2018 to approximately Rs. 71.9 billion by 31st March 2018. The Unit Trust Association of Sri Lanka (UTASL) has made representation to The Securities and Exchange Commission of Sri Lanka (SEC), Finance Ministry and Department of Inland Revenue to clarify the Government's position on the Unit Trusts industry. Their proposal is to make the Unit Trust a pass-through and the initial feedback is that the Unit Trust will be made a pass-through and necessary gazette notification will be published in due course. We believe part of the funds which moved out from the Assetline Gilt Edged Fund will be reinvested once the taxation position is made clear.

**2.3. Compliance with Sri Lanka Financial Reporting Standards**

These financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) which are effective from 01 January 2012.

**2.4. Financial Instruments**

The Fund's principal financial assets comprise assets held at fair value through profit and loss, loans and receivables and cash and cash equivalents. The main purpose of these financial instruments is to generate a return on the investment made by unit holders. The Funds' principal financial liabilities comprise accrued expenses and other payables which arise directly from its operations.

In accordance with LKAS 39; Financial Instruments: Recognition and Measurement, the Fund's investments in repurchase agreements and interest receivables are classified as 'loans and receivables'. Treasury bills / bonds are classified as fair value through profit and loss. The amount attributable to unit holders is classified as equity and is carried at the redemption amount being net asset value. Payables are designated as 'other financial liabilities' at amortized cost.

**a) Classification**

The Fund's investments are classified as fair value through profit or loss and loans and receivables. They comprise:

Contd..... (07)



**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018**- Financial assets designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in treasury bills, treasury bonds and any other government or Central Bank securities or securities guaranteed by the government of Sri Lanka.

Financial assets designated at fair value through profit or loss at the inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the responsible entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted on an active market. Loans and receivables in the statement of financial position comprise of repurchase agreements.

**b) Recognition / Derecognition**

The Fund recognizes financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognizes changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognized when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities at fair value through profit or loss are derecognized when the obligation specified in the contract is discharged or expired.

**c) Measurement**- Financial assets and liabilities held at fair value through profit or loss

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within net gains / (losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

Contd..... (08)





**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH, 2018***Financial assets and liabilities held at fair value through profit or loss(Contd....)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Further details on how the fair values of financial instruments are determined are disclosed in Note 4.

- *Loans and receivables*

Loan assets are measured initially at fair value plus transaction costs and subsequently amortized using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is an objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognized in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognized on a financial asset carried at amortized cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

d) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.5. *Net assets attributable to unit holders*

Unit holders' 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 unit holders, as at the statement of financial position 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 in accordance with the valuation guidelines issued by the Unit trust Association of Sri Lanka and approved by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue.

Distribution to unit holders is recognized in the statement of changes in unit holders' funds. Income not distributed is included in net assets attributable to unit holders.

Contd..... (09)





**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2017****2.6. Cash and Cash Equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, at bank and bank overdrafts. Bank overdrafts are shown within borrowings in the statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities.

**2.7. Investment Income**

Interest income is recognized in profit or loss for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2.4.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

**2.8. Expenses**

All expenses, including management fees and trustee fees, are recognized in profit or loss on accruals basis.

*The management participation fees of the fund are as follows:*

Management Fee	- 0.5% of Net Asset Value of the Fund
Trustee Fee	- 0.18% of Net Asset Value of the Fund
Custodian Fee	- Flat Fee of Rs. 25,000 per month

**2.9. Income Tax**

The charge for taxation is based on the results for the period as adjusted for disallowable items. The current tax liabilities is provided for in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto.

Contd..... (10)



**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH, 2018****2.10. Distributions**

In accordance with the trust deed, the Fund distributes income adjusted for amounts determined by the Assetline Capital (Private) Limited, to unit holders by cash or reinvestment. The distributions are recognized in statement of changes in unit holders' funds.

**2.11. Receivables**

Receivables may include amounts for interest from government securities. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2.7 above.

Receivables are recognized and carried at amortized cost, less a provision for any uncollectable debts. An estimate for doubtful debt is made when collection of an amount is no longer probable.

Collectability of receivables is reviewed on an ongoing basis at an individual portfolio level, individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognized when there is objective evidence that the Fund will not be able to collect the receivable. Financial difficulties of the debtor, default payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

**2.12. Payables**

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unit holders as at the end of each reporting period is recognized separately in the statement of financial position when unit holders are presently entitled to the distributable income under the Trust Deed.

**2.13. Subscriptions and redemptions**

Subscriptions received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

Contd..... (11)





ASSETLINE GILT EDGED FUNDNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018**2.14. Use of estimates**

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For more information on how fair value is calculated please see Note 4 to the financial statements.

**2.15. New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 31<sup>st</sup> March 2018 reporting period and have not been early adopted by the Fund.

- (i) SLFRS 9 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of SLFRS 9 was issued in July 2014. It replaces the guidance in LKAS 39 that relates to the classification and measurement of financial instruments. SLFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at the inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in LKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that of currently prepared under LKAS 39. The standard is effective for accounting periods beginning on or after 1<sup>st</sup> January 2018. Early adoption is permitted.

Contd..... (12)



**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****New accounting standards and interpretations (Contd...)**

- (ii) SLFRS 15 establish has a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. This standard is effective for the annual periods beginning on or after 01<sup>st</sup> January 2017.

**3. FINANCIAL RISK MANAGEMENT**

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.

The Fund's overall risk management program focuses on ensuring compliance with the Fund's investment policy. It also seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance.

All security investments present a risk of loss of capital. The maximum loss of capital on debt securities is limited to the fair value of those positions.

The management of these risks is carried out by the Management Company under policies approved by investment advisory panel of the responsible entity. It provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, the use of non-derivative financial instruments and the investment of excess liquidity.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

**a) Price Risk**

The Fund is not exposed to equity price risk since there are no investments in equity securities.

**b) Cash Flow and Fair Value Interest Rate Risk**

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

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.

Contd..... (13)





**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018**Cash Flow and Fair Value Interest Rate Risk (Contd...)

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model. Therefore, the sensitivity analysis in Note 3.2 may not fully indicate the total effect on the Fund's net assets attributable to unit holders of future movements in interest rates.

**3.1. Market Risk**

The table below summarizes the Fund's exposure to interest rate risks.

31 <sup>st</sup> March 2018	Floating Interest Rate	Fixed Interest Rate Rs.	Non- Interest Bearing Rs.	Total Rs.
<u>Financial Assets</u>				
Cash and Cash Equivalents (Note 7)	-	-	503,870	503,870
Loans and Receivables (Note 8)	-	3,000,000	1,978	3,001,978
<u>Financial Liabilities</u>				
Accrued Expenses and Other Payables	-	-	(312,934)	(312,934)
Net Exposure	-	3,000,000	192,914	3,192,914

31 <sup>st</sup> March 2017	Floating Interest Rate	Fixed Interest Rate Rs.	Non- Interest Bearing Rs.	Total Rs.
<u>Financial assets</u>				
Cash and Cash Equivalents (Note 7)	-	-	698,418	698,418
Loans and Receivables (Note 8)	-	107,971,058	1,740,301	109,711,359
<u>Financial Liabilities</u>				
Accrued expenses and other payables	-	-	(335,609)	(335,609)
Net exposure	-	107,971,058	2,103,110	110,074,168

**3.2. Summarized sensitivity analysis**

The following table summarizes the sensitivity of the Fund's operating profit and net assets attributable to unit holders to interest rate risk and other price 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 and historical correlation of the Fund's investments with the relevant benchmark and market volatility.

Contd..... (14)



**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****Summarized sensitivity analysis (Contd..)**

However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and / or 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.

<i>Change in interest rate of the loans and receivables</i>	<i>Impact on operating profit / net assets attributable to unit holders Interest rate risk</i>	
	<i>2018</i>	<i>2017</i>
+1%	30,020	1,097,114
-1%	(30,020)	(1,097,114)

**3.3. Credit risk**

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main concentration to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, other receivable balances.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's credit position on a daily basis; the Board of Directors reviews it on a quarterly basis.

**- Debt securities**

The Fund invests in debt securities which have a minimum credit rating of BBB- as designated by reputed rating agencies. An analysis of debt by rating is set out in the table below.

<i>Debt securities by rating category</i>	<i>2018</i>	<i>2017</i>
Risk Free Investments	100%	100%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Contd..... (15)





**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****3.4. 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 redeemable units. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed.

The Fund has the ability to borrow in the short term to ensure settlement. No such borrowings have been arisen during the year.

In accordance with the Fund's policy, the Management Company monitors the Fund's liquidity position on a daily basis.

**4. FAIR VALUE MEASUREMENT**

The Fund measures and recognizes the following assets and liabilities at fair value on a recurring basis:

- *Financial assets/liabilities at fair value through profit or loss (FVTPL)*

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

SLFRS 13 requires disclosure of fair value measurements by level of the following fair value hierarchy;

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

**i. Fair value in an active market (level 1)**

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

Contd..... (16)





**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH, 2018****Fair value in an active market (level 1) (Contd...)**

The Fund values its investments in accordance with the accounting policies set out in note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**ii. Fair value in an inactive or unquoted market (level 2 and level 3).**

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

The Fund does not hold financial assets measured at fair value through profit or loss as at 31<sup>st</sup> March 2018 and as at 31<sup>st</sup> March 2017.



**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH**

	2018 Rs.	2017 Rs.
(05) <b><u>INTEREST INCOME FROM FINANCIAL ASSETS NOT HELD AT FAIR VALUE THROUGH PROFIT OR LOSS</u></b>		
Interest income from loans and receivables:		
Interest on repurchase agreements	<u>8,153,254</u>	<u>1,129,173,858</u>
(06) <b><u>Income Tax Expense</u></b>		
Current tax on profits for the year	(694,632)	(104,479,086)
Under provision for income tax in respect of prior year	<u>-</u>	<u>-</u>
	<u>(694,632)</u>	<u>(104,479,086)</u>
A reconciliation between the tax expense and the product of taxable profit multiplied by the statutory tax rate is as follows:		
Profit before tax	<u>6,946,320</u>	<u>1,044,790,862</u>
Tax calculated at a tax rate of 10% (2017 - 10%)	<u>694,632</u>	<u>104,479,086</u>
Tax charge / (credit)	<u>694,632</u>	<u>104,479,086</u>
(07) <b><u>Cash and Cash Equivalents</u></b>		
Cash at Bank	<u>503,870</u>	<u>698,418</u>
	<u>503,870</u>	<u>698,418</u>



**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS****AS AT 31ST MARCH**

	2018	2017
	Rs.	Rs.
<b>(08) <u>LOANS AND RECEIVABLES</u></b>		
Interest receivables from:		
Repurchase Agreements	1,978	1,740,301
Repurchase Agreements [See Note (a) below]	3,000,000	107,971,058
	<u>3,001,978</u>	<u>109,711,359</u>

**(a) Loans and Receivables: Repurchase Agreements**

2018	Maturity Date	Cost	Market Value	Interest Rate
		Rs.	Rs.	
Commercial Bank of Ceylon PLC	5-May-18	3,000,000	3,001,978	8.00%
		<u>3,000,000</u>	<u>3,001,978</u>	
2017	Maturity Date	Cost	Market Value	Interest Rate
		Rs.	Rs.	
Commercial Bank of Ceylon PLC	30-Nov-16	50,000,000	55,088,942	10.15%
Commercial Bank of Ceylon PLC	12-Apr-16	57,971,058	58,172,842	9.05%
		<u>107,971,058</u>	<u>113,261,784</u>	

Market value for loans and receivables are based on the market rate prevailed in the money market.

	2018	2017
	Rs.	Rs.
<b>(09) <u>INCOME TAX RECEIVABLE</u></b>		
Opening Balance	11,375,527	2,937,227
Notional Tax Receivable	815,325	112,917,386
Income Tax Payable	(698,731)	(104,479,086)
	<u>11,492,121</u>	<u>11,375,527</u>
<b>(10) <u>ACCRUED EXPENSES AND OTHER PAYABLES</u></b>		
Accrued Expenses	312,934	335,609
	<u>312,934</u>	<u>335,609</u>





**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018**

**(11) NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS**

Movements in the number of units and net assets attributable to unitholders during the period were as follows:

	<i>Number of units</i>	<i>Net assets attributable to unitholders Rs.</i>
Opening Balance	1,490,070,569	16,330,447,175
Subscriptions	1,179,717,752	13,060,975,119
Redemptions	(2,660,552,928)	(30,210,284,375)
Increase in net assets attributable to unitholders	-	940,311,776
<b>As at 31st March 2017</b>	<b>9,235,393</b>	<b>121,449,695</b>
Opening Balance	9,235,393	121,449,695
Subscriptions	212,563	2,640,000
Redemptions	(9,198,419)	(115,656,348)
Increase in net assets attributable to unitholders	-	6,251,688
<b>As at 31st March 2018</b>	<b>249,537</b>	<b>14,685,035</b>

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 in attaching to it as all other units of the Fund.

**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 subscriptions and redemptions at the discretion of unitholders.

Daily subscriptions and redemptions are reviewed relatively 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 responsible entity has the discretion to reject an subscription for units and to defer a redemption of units if the exercise of such discretion is in the best interests of unitholders.



**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH****(12) REMUNERATION OF AUDITORS**

During the year, the following fees were paid or payable for services provided by the auditor of the Fund:

	2018 Rs.	2017 Rs.
Audit and other assurance services		
Audit of financial statements	160,000	150,000
<b>Total remuneration for audit and other assurance services</b>	<u>160,000</u>	<u>150,000</u>
Taxation services		
Tax compliance services	35,000	35,000
<b>Total remuneration for taxation services</b>	<u>35,000</u>	<u>35,000</u>

It is the Fund's policy to employ B.R. De Silva & Co. on assignments additional to their statutory duties where B.R. De Silva & Co.'s expertise and experience with the Fund are important. These assignments are principally tax compliance services or where B.R. De Silva & Co. is awarded assignments on a competitive basis. It is the Fund's policy to seek competitive tenders for all major consulting projects.

**(13) RELATED-PARTY TRANSACTIONS****a) *Responsible entity***

The responsible entity of Assetline Gilt Edged Fund is Assetline Capital (Private) Limited.

**b) *Key management personnel*****i) *Directors***

Key management personnel includes persons who were directors of Assetline Capital (Private) Limited at any time during the financial year.

- Ms. R.M.A.S. Parakrama - Non-Executive Chairman ( From 01.02.2017 onwards)
- Mr. A.Y.D. De Silva - Executive Director (From 01.05.2016 onwards)
- Mr. K.G. Vairavanathan - Managing Director and Chief Executive Officer ( From 29.09.2017 onwards )

**ii) *Other key management personnel***

There were no other key management persons other than persons given in 13 [b (i)] above with responsibility for planning, directing and controlling the activities of the fund, directly or indirectly during the financial year.





**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH*****c) Key management personnel unitholdings***

The key management personnel of Assetline Capital (Private) Limited held units in the Fund as follows:

31st March 2018

<i>Unitholder</i>	<i>No of units held opening</i>	<i>No of units held closing</i>	<i>Fair value of investment</i>	<i>Dividend paid or payable by the fund</i>
Mr. G.L.W.N. Perera	89	89	1,139	

***d) Key management personnel compensation***

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

***e) Other transactions within the Fund***

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interest existing at the year end.





**ASSETLINE GILT EDGED FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH****(13) Related-party transactions (Contd)****f) Related party unitholding**

The Management Company, Assetline Capital (Pvt) Ltd and other related parties of the Management Company, held units in the Fund as follows:

31st March 2018	No of units held opening	No of units held closing	Fair value of investment	Dividend paid or payable by the fund
Unitholder				
Assetline Capital (Pvt) Ltd	8,395,389	-	-	-
<i>Other related parties:</i>				
David Pieris Trust	367,118	-	-	-
Dee Investments (Pvt) Ltd.	4,880	-	-	-
Mr.D.P. Pieris	228,490	-	-	-
Mr.J.D. Pieris	5,393	-	-	-
Mrs.E.M. Pieris	13,625	-	-	-

**g) Transactions Maintained 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 from 31st March 2018	Charge for the year ended from 31st March 2017 Rs.	Balance outstanding 31st March 2018 Rs.	Balance outstanding 31st March 2017 Rs.
Management fees	405,535	59,394,120	24,427	46,614
Trustee and custodian fees	510,179	24,232,743	38,863	50,761
	<b>915,714</b>	<b>83,626,863</b>	<b>63,290</b>	<b>97,375</b>

**(14) Contingent assets and liabilities and commitments**

There were no material contingent liabilities at the statement of financial position date.

**(15) Events occurring after the reporting period**

No significant events have been occurred since the end of the reporting year which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31 March 2018 or on the results and cash flows of the Fund for the year ended on that date.



## **Fund Performance – Assetline Income Plus Growth Fund (AIGF)**

The NAV of the Assetline Income Plus Growth Fund (AIGF) grew to LKR 188.01 mn by 31<sup>st</sup> March 2018 from LKR 76.43 mn as at 31<sup>st</sup> March 2017, a growth on the NAV of the AIGF by 145.98% YoY.

Despite the uncertainty created by the recent tax changes which was effective from April 2018/19, renewed investor appetite was seen due to healthy returns. The NAV of the AIGF was LKR 79.66 mn by the end of July and a LKR 100.0 mn fund infusion in August, pushed the NAV to LKR 188.01 mn.

The number of unit holders as at 31<sup>st</sup> March 2018 was 193, a 10.23% Year-on-Year reduction compared to 215 unit holders as at 31<sup>st</sup> March 2017.

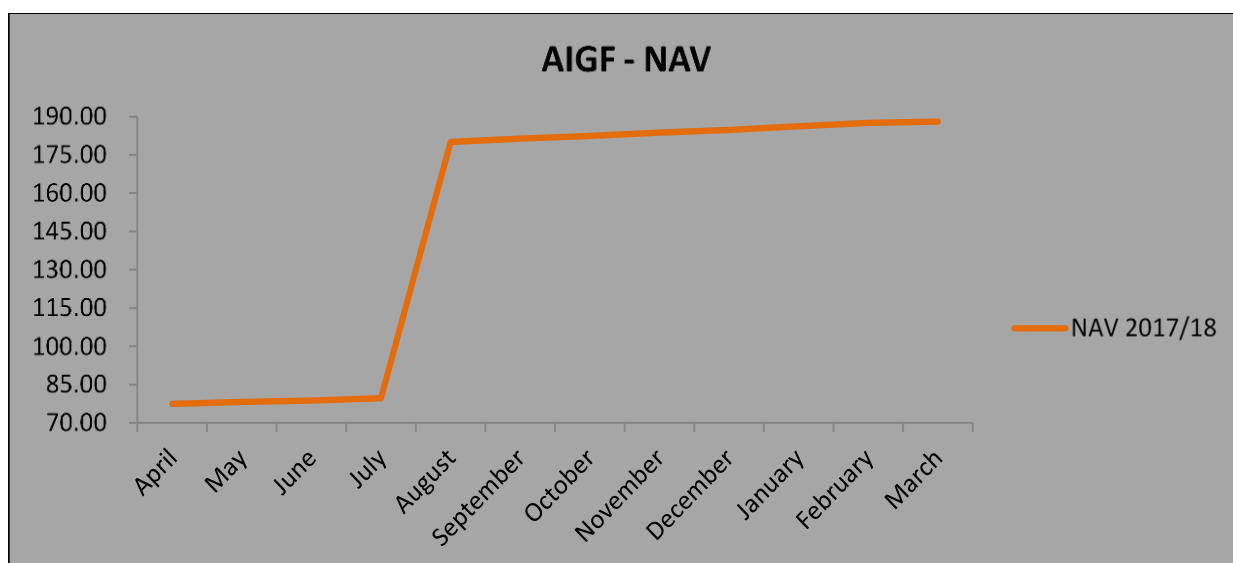
As at 31<sup>st</sup> March 2018 the maturity profile of the investments of the AIGF varied from “1-2 weeks” to “1-2 years”; with 73% of the funds invested in a “6-12 months” maturity profile. 8% of the funds were invested in the “1-2

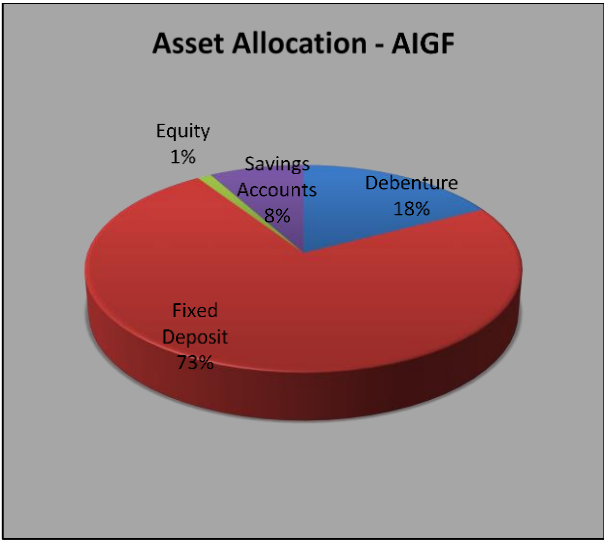
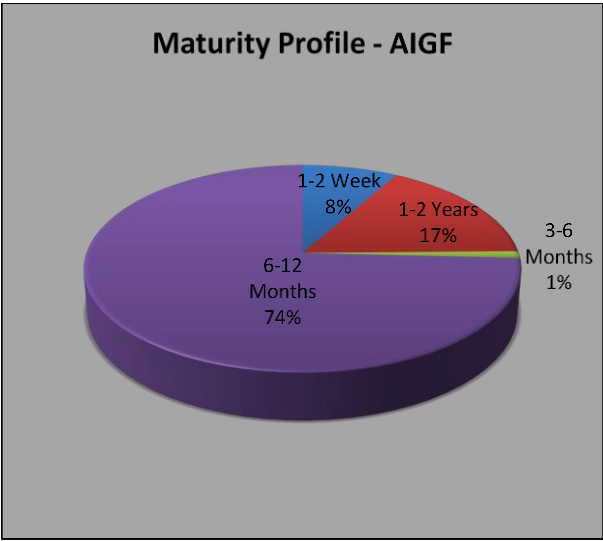
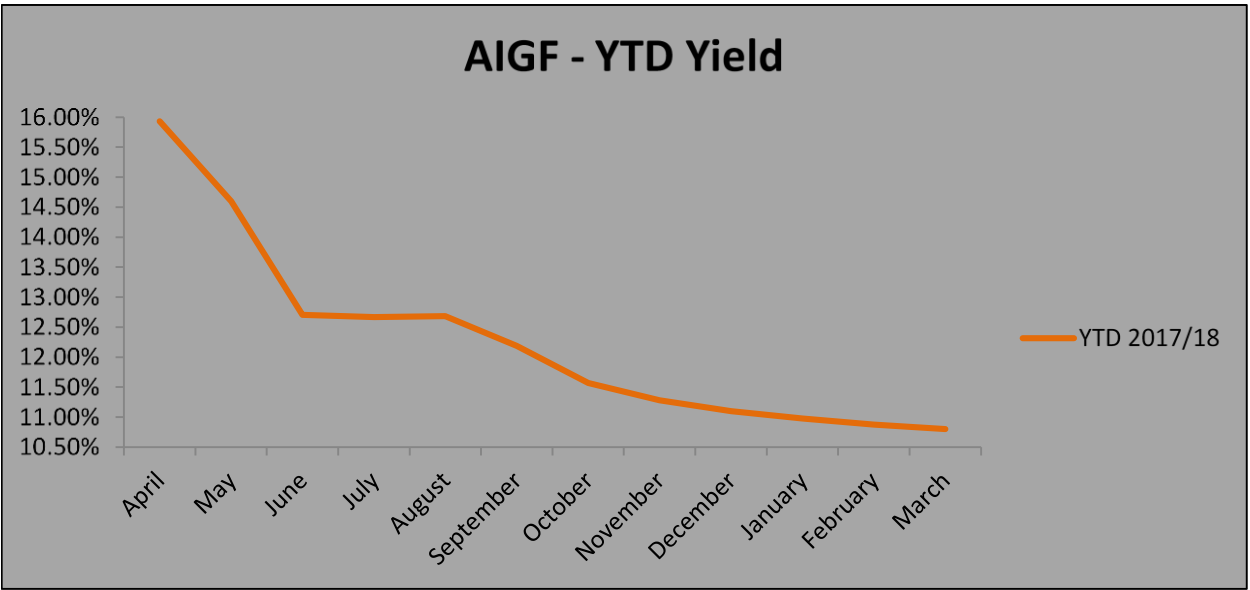
weeks” maturity profile to meet the liquidity requirements of the fund.

As at 31<sup>st</sup> March 2018 73% of the AIGF's funds were invested in fixed deposits, whereas 17% of the funds were invested in debentures.

The funds of the AIGF were invested in counterparties with credit ratings of “A-” and above in line with investment guidelines. Further, as at 31<sup>st</sup> March 2018 26% of the funds were invested in counter-parties with “AA+” credit rating and 14% in counter-parties with “AA” credit rating.

The YTD yield of the fund was 10.80% as at 31<sup>st</sup> March 2018. The YTD yield had been higher earlier in the financial year; however since December 2017 the YTD yield has been dropping as the funds from fixed deposit maturities were reinvested at lower yields, caused by excess liquidity in the money market and decreased government security yields.





Credit Rating	Rating Agency		Total
	Fitch	ICRA	
AAA	-	6%	6%
AA+	26%	-	26%
AA	14%	-	14%
AA-	14%	-	14%
A+	28%	-	28%
A	-	6%	5%
A-	-	6%	5%



# **ASSETLINE INCOME PLUS GROWTH FUND**

**FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2018**



Private &amp; Confidential

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE UNITHOLDERS OF ASSETLINE INCOME PLUS GROWTH FUND**

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

**Opinion**

We have audited the financial statements of Assetline Income Plus Growth Fund, which comprise the statement of financial position as at 31<sup>st</sup> March, 2018, and the statement of comprehensive income, statement of changes in unit holder's fund 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<sup>st</sup> March 2018, 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 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.

**Other Information**

The Managements are responsible for the other information presented in the annual report together with financial statements. Our opinion on the financial statements does not cover this other information and accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

We have nothing to report in this respect.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management 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.



Partners - N.S.C.De Silva FCA, FCMA (UK), CGMA, L.C.Piyasena FCA, L.L.S.Wickremasinghe FCA,  
F.S.N.Mariikkar FCA, S.M.S.S.Bandara MBA, FCA, D.S.De Silva LLB, Attorney - at -Law  
ACA, ACMA (UK), CGMA  
Partner (Kandy) W.L.L. Perera FCA.

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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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Fund.

The financial statements of Assetline Income Plus Growth Fund is complied with the requirements of the Unit Trust Code issued by Securities and Exchange Commission of Sri Lanka and the Trust Deed.

  
**B. R. DE SILVA & CO.**

Chartered Accountants

Colombo 05.

Date.....4<sup>th</sup>/06/2018

LW/SA/sn (18/05)



**ASSETLINE INCOME PLUS GROWTH FUND****STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31ST MARCH**

	<i>Notes</i>	<b>2018</b> <b>Rs.</b>	<b>2017</b> <b>Rs.</b>
<b><u>Income</u></b>			
Interest income from financial assets not held at fair value through profit or loss	(05)	12,138,850	4,173,526
Dividend income		421,201	580,832
Net gains/ (losses) on financial assets held at fair value through profit or loss	(06)	5,693,316	3,769,251
<b>Total net investment income</b>		<b>18,253,367</b>	<b>8,523,609</b>
<b><u>Expenses</u></b>			
Management fee	13 (f)	(2,183,831)	(1,149,302)
Trustee & custodian fee	13 (f)	(711,920)	(528,888)
Audit fee		(189,749)	(197,869)
Professional fee		(47,362)	(77,535)
Other operating expenses		(97,931)	(14,000)
<b>Total operating expenses</b>		<b>(3,230,793)</b>	<b>(1,967,594)</b>
<b>Operating profit</b>		<b>15,022,574</b>	<b>6,556,015</b>
<b>Profit after deductions and before tax</b>		<b>15,022,574</b>	<b>6,556,015</b>
Income tax expense	(07)	(890,806)	(278,676)
<b>Increase in net assets attributable to unitholders</b>	(11)	<b>14,131,768</b>	<b>6,277,338</b>

The Notes to the Financial Statements in pages (05) to (25) form an integral part of these Financial Statements.








**ASSETLINE INCOME PLUS GROWTH FUND****STATEMENT OF FINANCIAL POSITION**  
**AS AT 31ST MARCH**

	<i>Notes</i>	<i>2018</i> <i>Rs.</i>	<i>2017</i> <i>Rs.</i>
<b><u>ASSETS</u></b>			
<b><u>Current assets</u></b>			
Cash and cash equivalents	(08)	533,324	315,211
Loans and receivables	(09)	153,875,800	44,903,193
Financial assets held at fair value through profit or loss	(10)	34,158,744	31,595,588
Income tax receivables		1,621,962	1,298,867
<b>Total assets</b>		<b>190,189,830</b>	<b>78,112,859</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current liabilities</u></b>			
Accrued expenses and other payables		558,083	382,095
<b>Liabilities (excluding net assets attributable to unitholders)</b>		<b>558,083</b>	<b>382,095</b>
<b><u>UNITHOLDERS' FUNDS</u></b>			
Net assets attributable to unitholders	(11)	189,631,747	77,730,764
<b>Total unitholders' fund and liabilities</b>		<b>190,189,830</b>	<b>78,112,859</b>

These Financial Statements were approved by the Management Company, and adopted by the Trustee.

	<u>NAME</u>	<u>SIGNATURE</u>
DIRECTOR	1. Dhanika De Silva	
	2. Kishan Ganesh Vairaranathan <small>Colombo Branch</small>	
TRUSTEE		
DATE OF APPROVAL	4/6/2018 <small>Authorized Signatories Trustee</small>	

The Notes to the Financial Statements in pages (05) to (25) form an integral part of these Financial Statements.





**ASSETLINE INCOME PLUS GROWTH FUND****STATEMENT OF CHANGES IN UNITHOLDERS' FUND  
FOR THE YEAR ENDED 31ST MARCH**

	<i>Notes</i>	<b>2018 Rs.</b>	<b>2017 Rs.</b>
Unitholders' fund at beginning of the year		77,730,764	77,842,304
Increase in net assets attributable to unitholders		14,131,768	6,277,338
Received on unit creations		470,384,263	471,076
Paid on unit redemptions		(372,615,048)	(6,859,954)
Unitholders' fund at end of the year	(11)	<u>189,631,747</u>	<u>77,730,764</u>

The Notes to the Financial Statements in pages (05) to (25) form an integral part of these Financial Statements.



**ASSETLINE INCOME PLUS GROWTH FUND****STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 31ST MARCH**

	Notes	2018 Rs.	2017 Rs.
<b><u>Cash flows from operating activities</u></b>			
Proceeds from sale of financial instruments held at fair value through profit or loss		-	506,804
Purchase of financial assets at fair value through profit or loss		-	-
Proceeds from sale of loans and receivables		911,268,731	1,178,372,348
Purchase of loans and receivables		(1,019,789,732)	(1,178,832,876)
Dividend received		421,201	708,132
Interest received		13,603,502	6,966,528
Management fees paid		(2,041,159)	(1,344,327)
Other expenses paid		(1,013,645)	(610,157)
<b>Net cash outflow from operation activities</b>		<b>(97,551,102)</b>	<b>5,766,452</b>
<b><u>Cash flows from financing activities</u></b>			
Proceeds from subscription by unitholders	(11)	470,384,263	471,076
Payments for redemptions by unitholders	(11)	(372,615,048)	(6,859,954)
<b>Net cash inflow from financing activities</b>		<b>97,769,215</b>	<b>(6,388,878)</b>
<b>Net increase in cash and cash equivalents</b>		<b>218,113</b>	<b>(622,426)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>315,211</b>	<b>937,637</b>
<b>Net increase in cash and cash equivalents</b>		<b>218,113</b>	<b>(622,426)</b>
<b>Cash and cash equivalents at end of the year</b>	(8)	<b>533,324</b>	<b>315,211</b>

The Notes to the Financial Statements in pages (05) to (25) form an integral part of these Financial Statements.





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****1. GENERAL INFORMATION**

Under Section 31 of the Securities and Exchange Commission of Sri Lanka, Act No.36 of 1987 as amended by the Act No. 26 of 1991 and the Act No. 18 of 2003, the Securities and Exchange Commission of Sri Lanka granted a license to operate the Assetline Income Plus Growth Fund ('the Fund') to Assetline Capital (Private) Limited (the 'Management Company') on 17<sup>th</sup> June 2014. The Fund commenced its commercial operations on 11<sup>th</sup> July 2014. The registered office of the Management Company is located at No 75, Hyde Park Corner, Colombo 2.

The objective of the Fund is to maximize the total return of the Fund by carefully investing in listed equity securities and fixed income securities without a limitation on the time to maturity. This Fund by nature would be ideal for investors with a high risk profile and medium-longer time horizon.

The Fund's investment activities are managed by Assetline Capital (Private) Limited.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the period presented, unless otherwise stated.

**2.1. Basis of preparation**

The financial statements are prepared in accordance with and comply with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and adopted as directed by the Securities and Exchange Commission of Sri Lanka.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders.

Contd..... (06)





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****2.2. Compliance with Sri Lanka Financial Reporting Standards**

These financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) which are effective from 01 January 2012.

**2.3. Financial Instruments**

The Fund's principal financial assets comprise assets held at fair value through profit and loss, loans and receivables and cash and cash equivalents. The main purpose of these financial instruments is to generate a return on the investment made by unitholders. The Funds' principal financial liabilities comprise accrued expenses and other payables which arise directly from its operations.

In accordance with LKAS 39; Financial Instruments: Recognition and Measurement, the Fund's investments in repurchase agreements and interest receivables are classified as 'loans and receivables'. Equity securities / debentures are classified as fair value through profit and loss. The amount attributable to unitholders is classified as equity and is carried at the redemption amount being net asset value. Payables are designated as 'other financial liabilities' at amortized cost.

**a) Classification**

The Fund's investments are classified as fair value through profit or loss and loans and receivables. They comprise:

- Financial instruments held for trading

Financial assets, held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized through profit or loss. This classification includes quoted equity securities held for trading. The dividend income from the quoted equity securities is recorded in the profit or loss.

- Financial assets designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in debt and equity instruments, unlisted trusts and commercial paper.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the responsible entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

Contd..... (07)



**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018**

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted on an active market. Loans and receivables in the statement of financial position comprise of repurchase agreements.

b) Recognition / derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities at fair value through profit or loss are derecognised when the obligation specified in the contract is discharged or expired.

Realised gains and realised losses on derecognition are determined using the weighted average method and are included in the profit or loss in the period in which they arise. The realised gain is the difference between an instrument's weighted average cost and disposal amount.

c) Measurement

- Financial assets and liabilities held at fair value through profit or loss

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within net gains / (losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Contd..... (08)





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018***Financial assets and liabilities held at fair value through profit or loss (Contd....)*

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the volume weighted average price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

Further details on how the fair values of financial instruments are determined are disclosed in Note 4.

- *Loans and receivables*

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

d) **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Contd..... (09)





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****2.4. 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 statement of financial position 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 in accordance with the valuation guidelines issued by the Unit trust Association of Sri Lanka and approved by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue.

Distribution to unit holders is recognised in the statement of changes in unitholders' funds. Income not distributed is included in net assets attributable to unitholders.

**2.5. Cash and Cash Equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, at bank and bank overdrafts. Bank overdrafts are shown within borrowings in the statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

**2.6. Investment Income**

Interest income is recognised in profit or loss for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2.3.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Dividend income is recognised on the ex-dividend date net of withholding tax.

Contd..... (10)





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****2.7. Expenses**

All expenses, including management fees and trustee fees, are recognised in profit or loss on accruals basis.

*The management participation fees of the fund are as follows:*

Management Fee	- 1.5% of Net Asset Value of the Fund
Trustee Fee	- 0.22% of Net Asset Value of the Fund
Custodian Fee	- Flat Fee of Rs. 25,000 per month

**2.8. Income tax**

The charge for taxation is based on the results for the period as adjusted for disallowable items. The current tax liabilities is provided for in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto.

**2.9. Distributions**

In accordance with the trust deed, the Fund distributes income adjusted for amounts determined by the Assetline Capital (Private) Limited, to unitholders by cash or reinvestment. The distributions are recognised in statement of changes in unitholders' funds.

**2.10. Receivables**

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(6) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables are recognised and carried at amortized cost, less a provision for any uncollectable debts. An estimate for doubtful debt is made when collection of an amount is no longer probable.

Collectability of receivables is reviewed on an ongoing basis at an individual portfolio level, individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognised when there is objective evidence that the Fund will not be able to collect the receivable. Financial difficulties of the debtor, default payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Contd..... (11)



**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH, 2018****2.11. Payables**

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Trust Deed.

**2.12. Subscriptions and redemptions**

Subscriptions received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

**2.13. Use of estimates**

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For more information on how fair value is calculated please see Note 4 to the financial statements.

**2.14. New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 31<sup>st</sup> March 2018 reporting period and have not been early adopted by the Fund.

- (i) SLFRS 9 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of SLFRS 9 was issued in July 2014. It replaces the guidance in LKAS 39 that relates to the classification and measurement of financial instruments. SLFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

Contd..... (12)





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****New accounting standards and interpretations (Contd....)**

There is now a new expected credit losses model that replaces the incurred loss impairment model used in LKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under LKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

- (ii) SLFRS 15 establish has a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. This standard is e effective for the annual periods beginning on or after 01<sup>st</sup> January 2017.

**3. FINANCIAL RISK MANAGEMENT**

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

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's investment policy. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

All securities investments present a risk of loss of capital. The maximum loss of capital on debt securities is limited to the fair value of those positions.

The management of these risks is carried out by the management company. The Investment advisory pannel provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and non-derivative financial instruments and the investment of excess liquidity.

The Fund uses different methods to measure different types of risks to which it is exposed. These methods are explained below.

Contd..... (13)





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****3.1. Market risk****a) Price risk**

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 as at fair value through profit or loss and loans and receivables. 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 Fund's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by the management company. Between 0 % and 97% of the net assets attributable to unitholders is expected to be invested in equity securities. Minimum 3% is expected to be in short term investments.

The Fund's policy also limits individual equity securities to no more than 10% of net assets attributable to unitholders.

All of the Fund's equity investments are publicly traded. The Fund's policy requires that the overall market position is monitored on a daily basis by the Management Company.

As at 31<sup>st</sup> March, the fair value of equities exposed to price risk were as follows:

	<i>Fair Value 2018</i> Rs.	<i>Fair Value 2017</i> Rs.
Equity securities held for trading	2,247,564	1,885,203
<b>Total</b>	<b>2,247,564</b>	<b>1,885,203</b>

The Fund had no concentrations in individual equity positions exceeding 10% of the net assets attributable to unitholders.

The Fund's policy is to concentrate the investment portfolio in sectors where management believe the Fund can maximise the returns derived for 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	<i>31<sup>st</sup> March 2018</i> <i>Fund's equity portfolio %</i>
Banks, Finance and Insurance	79%
Hotels and Travels	21%
<b>Total</b>	<b>100%</b>

Contd..... (14)



**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****b) Foreign exchange rate risk**

The Fund is not exposed to the fluctuations in exchange rates. The Fund's all investments and transactions are denominated in LKR.

**c) Cash flow and fair value interest rate risk**

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

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.

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model. Therefore, the sensitivity analysis in note 3.2 may not fully indicate the total effect on the Fund's net assets attributable to unitholders of future movements in interest rates.

The table below summarises the Fund's exposure to interest rate risks.

<b>31<sup>st</sup> March 2018</b>	<b>Floating interest rate</b>	<b>Fixed interest rate Rs.</b>	<b>Non- interest bearing Rs.</b>	<b>Total Rs.</b>
<b><u>Financial assets</u></b>				
Cash and cash equivalents (Note 8)	-	-	533,324	533,324
Financial Assets held at fair value through profit or loss (Note 10)	-	31,911,180	2,247,564	34,158,744
Loans and receivables (Note 9)	-	-	1,254,801	1,254,801
Fixed Deposits (Note 9)	-	137,421,000	-	137,421,000
Money Market Savings (Note 9)	-	15,200,000	-	15,200,000
<b><u>Financial liabilities</u></b>				
Accrued expenses and other payables	-	-	(558,083)	(558,083)
<b>Net exposure</b>	-	<b>184,532,180</b>	<b>3,477,606</b>	<b>188,009,786</b>

Contd..... (15)





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****Cash flow and fair value interest rate risk (Contd....)**

<b>31<sup>st</sup> March 2017</b>	<b>Floating interest rate</b>	<b>Fixed interest rate Rs.</b>	<b>Non- interest bearing Rs.</b>	<b>Total Rs.</b>
<b><u>Financial assets</u></b>				
Cash and cash equivalents (Note 8)	-	-	315,211	315,211
Financial Assets held at fair value through profit or loss (Note 10)	-	29,710,385	1,885,203	31,595,588
Loans and receivables (Note 9)	-	44,100,000	803,193	44,903,193
<b><u>Financial liabilities</u></b>				
Accrued expenses and other payables	-	-	(382,095)	(382,095)
Net exposure	-	73,810,385	2,621,512	76,431,897

**3.2. Summarised sensitivity analysis**

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to interest rate risk, currency risk and other price 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 and foreign exchange risk historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and / or 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.

<b>Change in price of the fund's investment in trading stock.</b>	<b>Impact on operating profit / net assets attributable to unitholders' Interest rate risk</b>	
	<b>2018</b>	<b>2017</b>
+10%	224,756	188,520
-10%	(224,756)	(188,520)

<b>Change in interest rate of fund's other investments</b>	<b>Impact on operating profit / net assets attributable to unitholders' Interest rate risk</b>	
	<b>2018</b>	<b>2017</b>
+1%	1,538,758	449,032
-1%	(1,538,758)	(449,032)

Contd..... (16)



**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018****3.3. Credit risk**

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main concentration to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, other receivable balances.

In accordance with the Fund's policy, the Management Company monitors the Fund's credit position on a daily basis.

- **Debt securities**

The Fund invests in debt securities which have a minimum credit rating of BBB- as designated by reputed rating agencies. An analysis of debt by rating is set out in the table below.

<i>Debt securities by rating category</i>	<i>2018</i>	<i>2017</i>
Risk free investment	-	60%
AAA	6%	14%
AA+	26%	-
AA	14%	-
AA-	14%	-
A+	28%	-
A	6%	12%
A-	6%	12%
B+	-	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**3.4. 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 redeemable units. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market or can be readily disposed.

Contd..... (17)





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH, 2018**

The Fund's listed securities are considered readily realisable, as all are listed on the Colombo Stock Exchange.

The Fund has the ability to borrow in the short term to ensure settlement. No such borrowings have arisen during the period.

In accordance with the Fund's policy, the Management Company monitors the Fund's liquidity position on a daily basis.

**4. FAIR VALUE MEASUREMENT**

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities at fair value through profit or loss (FVTPL) (See Note 10)
- Financial assets / liabilities held for trading (See Note 10)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

SLFRS 13 requires disclosure of fair value measurements by level of the following fair value hierarchy;

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

**i. Fair value in an active market (level 1)**

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

Contd..... (18)





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH, 2018**

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

ii. **Fair value in an inactive or unquoted market (level 2 and level 3).**

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

*Recognised fair value measurements*

<i>As at 31<sup>st</sup> March 2018</i>	<i>Level 1 Rs.</i>	<i>Level 2 Rs.</i>	<i>Level 3 Rs.</i>	<i>Total Rs.</i>
<b><u>Financial assets</u></b>				
Financial assets held for trading Equity Securities	2,247,564	-	-	2,247,564
Financial assets designated at fair value through profit or loss: Debt Securities	-	31,911,180	-	31,911,180
<b>Total</b>	<b>2,247,564</b>	<b>31,911,180</b>	<b>-</b>	<b>34,158,744</b>

<i>As at 31<sup>st</sup> March 2017</i>	<i>Level 1 Rs.</i>	<i>Level 2 Rs.</i>	<i>Level 3 Rs.</i>	<i>Total Rs.</i>
<b><u>Financial assets</u></b>				
Financial assets held for trading Equity Securities	1,885,203	-	-	1,885,203
Financial assets designated at fair value through profit or loss: Debt Securities	-	29,710,385	-	29,710,385
<b>Total</b>	<b>1,885,203</b>	<b>29,710,385</b>	<b>-</b>	<b>31,595,588</b>



**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH**

	2018 Rs.	2017 Rs.
<b>(05) <u>INTEREST INCOME FROM FINANCIAL ASSETS NOT HELD AT FAIR VALUE THROUGH PROFIT OR LOSS</u></b>		
<b><u>Interest income from loans and receivables:</u></b>		
Interest on repurchase agreements	3,082,481	4,149,405
Interest on bank deposits	9,056,369	24,121
	<u>12,138,850</u>	<u>4,173,526</u>
<b>(06) <u>NET LOSSES ON FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS</u></b>		
Net losses recognised in relation to financial assets held at fair value through profit or loss:		
Net losses on financial assets held for trading	362,361	(1,052,738)
Net gains on financial assets designated as at fair value through profit or loss	5,330,955	4,821,989
	<u>5,693,316</u>	<u>3,769,251</u>
Net realised gains / (losses) on financial assets at fair value through profit or loss [See Note (a) Below]	3,130,160	4,821,989
Net unrealised losses on financial assets at fair value through profit or loss	2,200,795	(1,052,738)
	<u>5,330,955</u>	<u>3,769,251</u>
(a) Net realised gains on financial assets at fair value through profit or loss:		
Interest income on debentures	3,130,160	4,821,989
	<u>3,130,160</u>	<u>4,821,989</u>
<b>(07) <u>INCOME TAX EXPENSE</u></b>		
Current tax on profit for the year	(890,806)	(278,676)
	<u>(890,806)</u>	<u>(278,676)</u>
A reconciliation between the tax expense and the product of taxable profit multiplied by the statutory tax rate is as follows:		
Profit before tax	15,022,574	6,556,015
Less Exempt Income: Interest Income from Quoted Debenture	(3,130,160)	(636,485)
Disallowed Income	(2,984,356)	(3,132,766)
Taxable Profit	8,908,057	2,786,764
Tax calculated at a tax rate of 10% (2017 - 10%)	890,806	278,676
Tax charge / (credit)	<u>890,806</u>	<u>278,676</u>
<b>(08) <u>CASH AND CASH EQUIVALENTS</u></b>		
Cash at bank	533,324	315,211
	<u>533,324</u>	<u>315,211</u>





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
AS AT 31ST MARCH**

	2018 Rs.	2017 Rs.
<b>(09) LOANS AND RECEIVABLES</b>		
Interest receivables from:		
Repurchase agreements	-	10,964
Fixed deposits	472,781	-
Money Market Savings	9,557	-
Debentures	772,462	775,847
Dividend receivable	-	16,382
Fixed deposits [See Note (a) below]	137,421,000	-
Money Market Savings [See Note (b) below]	15,200,000	-
Repurchase agreement [See Note (c) below]	-	44,100,000
Other receivables	-	-
Total loans and receivables	<u>153,875,800</u>	<u>44,903,193</u>

**(a) Loans and receivables: Fixed deposits**

2018	Maturity date	Cost Rs.	Market value Rs.	Interest rate
Bank Of Ceylon	11/Feb/2019	26,250,000	26,392,721	10.50%
Commercial Bank of Ceylon PLC	12/Feb/2019	26,371,000	26,507,551	10.50%
People's Bank- Head Quarters	13/Feb/2019	15,000,000	15,068,536	10.90%
Sampath Bank PLC	14/Feb/2019	11,400,000	11,450,653	10.60%
Bank Of Ceylon	19/Feb/2019	7,400,000	7,424,907	10.50%
National Development Bank PLC	15/Mar/2019	1,000,000	1,005,030	12.00%
DFCC Bank PLC	29/Mar/2019	25,000,000	25,022,192	12.00%
National Development Bank PLC	29/Mar/2019	25,000,000	25,022,192	12.00%
		<u>137,421,000</u>	<u>137,893,782</u>	

**(b) Loans and receivables: Money Market Savings**

2018	Cost	Market value	Interest rate
National Development Bank PLC	15,200,000	15,209,557	8.50%
	<u>15,200,000</u>	<u>15,209,557</u>	

Market value for loans and receivables are based on the market rate prevailed in the money market.



**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
AS AT 31ST MARCH**

(c) Loans and receivables: Repurchase agreements

2017	Maturity date	Cost Rs.	Market Value Rs.	Interest rate
Commercial Bank of Ceylon PLC	12-Apr-17	9,150,000	9,152,275	9.05%
Commercial Bank of Ceylon PLC	12-Apr-17	34,950,000	34,958,689	9.05%
		<u>44,100,000</u>	<u>44,110,964</u>	

**(10) FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS**

Financial assets held for trading

Equity securities [See Note (a) below]

Total financial assets held for trading

2,247,564	1,885,203
<u>2,247,564</u>	<u>1,885,203</u>

Designated at fair value through profit or loss:

Debentures [See Note (b) below]

Total designated at fair value through profit or loss

31,911,180	29,710,385
<u>31,911,180</u>	<u>29,710,385</u>

Total financial assets held at fair value through profit or loss

<u>34,158,744</u>	<u>31,595,588</u>
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**a) Investment in equity shares:**

31st March 2018

Company	Number of shares	Cost Rs.	Market value Rs.	Percentage of net assets
Aitken Spence Hotel Holdings PLC	14,407	1,052,436	482,635	0.25%
AIA Insurance Lanka PLC	4,589	1,356,742	1,764,929	0.94%
		<u>2,409,178</u>	<u>2,247,564</u>	

31st March 2017

Company	Number of shares	Cost Rs.	Market value Rs.	Percentage of net assets
Aitken Spence Hotel Holdings PLC	14,407	1,052,436	507,126	0.66%
AIA Insurance Lanka PLC	4,589	1,356,742	1,378,077	1.78%
		<u>2,409,178</u>	<u>1,885,203</u>	





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31ST MARCH****b) Investment in debentures**

<b>31-03-2018</b>	<b>Maturity date</b>	<b>Cost</b>	<b>Market value</b>	<b>Interest rate</b>
		<b>Rs.</b>	<b>Rs.</b>	
People's Leasing & Finance PLC	23-Sep-18	1,930,000	1,904,803	9.63%
Softlogic Finance PLC	29-Aug-19	10,970,000	10,723,729	10.00%
Merchant Bank of Sri Lanka & Finance PLC	12-Nov-19	5,000,000	4,834,445	9.00%
Lanka Orix Leasing Company Ltd	24-Nov-19	5,000,000	4,834,377	9.00%
First Capital Treasuries Ltd.	6-Feb-20	10,000,000	9,613,826	9.50%
		<u>32,900,000</u>	<u>31,911,180</u>	

**Investment in debentures**

<b>31-03-2017</b>	<b>Maturity date</b>	<b>Cost</b>	<b>Market value</b>	<b>Interest rate</b>
		<b>Rs.</b>	<b>Rs.</b>	
People's Leasing & Finance PLC	23-Sep-18	1,930,000	1,017,613	9.63%
Softlogic Finance PLC	29-Aug-19	10,970,000	10,851,647	10.00%
Merchant Bank of Sri Lanka & Finance PLC	12-Nov-19	5,000,000	4,485,998	9.00%
Lanka Orix Leasing Company Limited	24-Nov-19	5,000,000	4,471,061	9.00%
First Capital Treasuries Limited	6-Feb-20	10,000,000	8,884,066	9.50%
		<u>32,900,000</u>	<u>29,710,385</u>	



**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31ST MARCH****(11) NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	<i>Number of units</i>	<i>Net assets attributable to unitholders Rs.</i>
Opening balance	7,795,195	77,842,304
Subscriptions	45,998	471,076
Redemptions	(669,133)	(6,859,954)
Increase in net assets attributable to unitholders	-	6,277,338
<b>As at 31st March 2017</b>	<b><u>7,172,060</u></b>	<b><u>77,730,764</u></b>
Opening balance	7,172,060	77,730,764
Subscriptions	40,347,277	470,384,263
Redemptions	(31,595,153)	(372,615,048)
Increase in net assets attributable to unitholders	-	14,131,768
<b>As at 31st March 2018</b>	<b><u>15,924,184</u></b>	<b><u>189,631,747</u></b>

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.

**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 subscriptions and redemptions at the discretion of unitholders.

Daily subscriptions 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 responsible entity has the discretion to reject an application for units and to defer a redemption of units if the exercise of such discretion is in the best interests of unitholders.





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH****(12) REMUNERATION OF AUDITORS**

During the year, the following fees were paid or payable for services provided by the auditor of the Fund:

	2018 Rs.	2017 Rs.
Audit and other assurance services:		
Audit of financial statements	160,000	150,000
<b>Total remuneration for audit and other assurance services</b>	<b>160,000</b>	<b>150,000</b>
Taxation services:		
Tax compliance services	35,000	35,000
<b>Total remuneration for taxation services</b>	<b>35,000</b>	<b>35,000</b>

It is the Fund's policy to employ B.R. De Silva & Co. on assignments additional to their statutory duties where B.R. De Silva & Co.'s expertise and experience with the Fund are important. These assignments are principally tax compliance services, or where B.R. De Silva & Co. is awarded assignments on a competitive basis. It is the Fund's policy to seek competitive tenders for all major consulting projects.

**(13) RELATED PARTY TRANSACTIONS****a) Responsible entity**

The responsible entity of Assetline Income Plus Growth Fund is Assetline Capital (Private) Limited.

**b) Key management personnel****i) Directors**

Key management personnel include persons who were directors of Assetline Capital (Private) Limited at any time during the financial year.

- Ms. R.M.A.S. Parakrama - Non-Executive Chairman ( From 01.02.2017 onwards)
- Mr. A.Y.D. De Silva - Executive Director (From 01.05.2016 onwards)
- Mr. K.G. Vairavanathan - Managing Director and Chief Executive Officer ( From 29.09.2017 onwards )

**ii) Other key management personnel**

There were no other key management persons other than persons given in 13 [b (i)] below with responsibility for planning, directing and controlling the activities of the fund, directly or indirectly during the financial year.





**ASSETLINE INCOME PLUS GROWTH FUND****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH****c) Key management personnel compensation**

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

**d) Other transactions held within the Fund**

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial period and there were no material contracts involving key management personnel's interest existing at year end.

**e) Related party unitholding**

Assetline Capital (Private) Limited the Management Company of the Fund, DPMC Assetline Holdings (Private) Limited, the immediate parent company of Management Company and other related parties of the Management Company, held units in the Funds as follows;

31st March 2018

Unitholder	No of units held opening	No of units held closing	Fair value of investment Rs.	Dividend paid or payable by the fund
Assetline Capital (PVT) LTD	-	8,475,869	100,060,179	
DPMC Assetline Holdings (Private) Limited	6,888,414	7,204,489	85,051,152	-
Other related parties:				
Mr. T.D. Molligoda	9,233	9,233	108,997	-

**f) Transactions held 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 31st March 2018	Charge for the year ended 31st March 2017	Balance Outstanding 31st March 2018	Balance Outstanding 31st March 2017
	Rs.	Rs.	Rs.	Rs.
Management fees	2,183,831	1,149,302	239,785	97,113
Trustee & custodian fee	711,920	528,888	69,194	46,459
	<u>2,895,751</u>	<u>1,678,190</u>	<u>308,979</u>	<u>143,572</u>

**(14) CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS**

There were no material contingent liabilities at the statement of financial position date.

**(15) EVENTS OCCURRING AFTER THE REPORTING PERIOD**

No significant events have been occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31st March 2018 or on the results and cash flows of the Fund for the year ended on that date.





**Summary of Transactions between Assetline Mutual Funds and its Related Parties**  
(For the period from 01 April 2017 to 31 March 2018)

Fund	Related Party	Total Value of Unit Subscriptions by Related Parties (LKR)	Total Value of Unit Redemptions by Related Parties (LKR)
<b>Assetline Income Fund</b>	Officers of Management Company	1,118,600	1,572,484
	Assetline Capital (Private) Limited	376,793,744	397,079,410
	Assetline Corporate Services (Private) Limited	29,100,000	29,215,521
	Assetline Insurance Brokers (Private) Limited	537,548,000	575,024,568
	Assetline Securities (Private) Limited	323,959,000	326,199,842
	David Pieris Automobiles (Private) Limited	508,000,000	511,126,006
	David Pieris Holdings (Private) Limited (Formerly known as David Pieris Motor Company Limited)	12,269,700,000	12,534,592,010
	David Pieris Information Technologies (Private) Limited	242,012,000	244,489,368
	David Pieris Motor Company (Lanka) Limited	22,610,100,000	23,182,223,365
	David Pieris Racing & Leisure (Private) Limited	803,000,000	812,239,550
	David Pieris Trust	3,919,763,005	12,113,264,622
	Dee Investments (Private) Limited	152,808,143	160,839,336
	DP Global Ventures (Private) Limited	155,900,000	157,616,636
	DP Logistics (Private) Limited	942,660,000	954,075,095
	DPMC Assetline Holdings (Private) Limited	1,634,263,000	1,698,456,911
	Hill Cottage Nuwara Eliya (Private) Limited	9,957,000	10,221,230
	Mr. D.P. Pieris	5,948,172,270	6,170,960,705
	Mr. J.D. Pieris	478,418,983	484,909,052
	Mrs. E.M. Pieris	87,604,040	95,059,114
<b>Assetline Gilt Edged Fund</b>	Officers of Management Company	12,000	-
	Assetline Capital (Private) Limited	-	105,438,284
	David Pieris Trust	-	4,703,695
	Dee Investments (Private) Limited	-	62,560
	Mr. D.P. Pieris	-	2,927,524
	Mr. J.D. Pieris	-	69,141
	Mrs. E.M. Pieris	-	174,672
<b>Assetline Income Plus Growth Fund</b>	Officers of Management Company	144,000	143,615
	Assetline Capital (Private) Limited	201,100,000	104,655,960
	David Pieris Holdings (Private) Limited (Formerly known as David Pieris Motor Company Limited)	185,893,088	185,897,815
	DPMC Assetline Holdings (Private) Limited	85,000,000	81,237,127

### Declaration by Trustee and Management Company

Declaration by Trustee and Management Company as per SEC circular No. 02/2009 on guidelines for Trustee and Management Companies of Unit Trust Funds.

Deutsche Bank AG, the Trustee and Assetline Capital (Private) Limited, the Management Company of Assetline Income Fund, Assetline Gilt Edged Fund and Assetline Income Plus Growth Fund, hereby declare that;

1. The requirements of the Guidelines for Trustee and Management Companies of Unit Trust Funds set by the Securities and Exchange Commission of Sri Lanka have been complied with during the financial year.
2. The transactions were and will be carried out at arm's length basis and on terms which are best available for the Funds, as well as act, at all times, in the best interest of the Funds' unit holders.



Director  
Assetline Capital (Pvt.) Ltd.  
Management Company



Director  
Assetline Capital (Pvt.) Ltd.  
Management Company

DEUTSCHE BANK AG  
Colombo Branch



Trustee

Authorised Signatory  
Deutsche Bank AG  
Trustee

Date: 04<sup>th</sup> June 2018