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Guardian Acuity Asset Management Limited (GAAM) was formed on June 17th 2011 for the purpose of bringing together the expertise of the two joint venture partners, Ceylon Guardian Investment Trust PLC and Acuity Partners (Pvt) Ltd. Ceylon Guardian's contribution to the venture comes through their fund management expertise, while Acuity brings in their partner network and reach in marketing and distribution of financial products.

The company is an authorised unit trust management company, accredited by the Securities and Exchange Commission of Sri Lanka, holding licenses for two unit trust funds- namely the Guardian Acuity Fixed Income Fund and the Guardian Acuity Equity Fund. The company markets a range of investment plans under the brands MoneyMax and MoneyMaker which are structured using these two licensed funds as the underlying investment vehicles.

The Board of Directors of GAAM comprises directors drawn from the two joint venture partner companies, who carry with them a wealth of experience in the financial services industry.

## **FUND INFORMATION**

### **GUARDIAN ACUITY FIXED INCOME FUND**

**2013**

GAAM Fixed Income Fund	12.18%
Benchmark-NDBIB CRISL 91 DAYS T-Bill Index	9.64%
Fund AUM	Rs.476.26mn
Unit Holders	129

### **GUARDIAN ACUITY EQUITY FUND**

GAAM Equity Fund	9.47%
Benchmark-All Share Price Index	4.78%
Fund AUM	Rs.53.83mn
Unit Holders	100

## Fund Information

### FUND Manager

Guaridan Acuity Asset Management Limited

61, Janadhipathi Mawatha, Colombo 01



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### Promoters

Acuity Partners (Pvt) Limited

53, Dharmapala Mawatha, Colombo 03



Ceylon Guardian Investment Trust PLC

61, Janadhipati Mawatha, Colombo 01



Ceylon Guardian Investment Trust PLC

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### Distributors

Hatton National Bank

479, T.B Jaya Mawatha, Colombo 10



Bartleet Religare Securities

65, Baraybrook Place, Colombo 02



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### Trustee & Custodian

Deutsche Bank

86, Galle Road, Colombo 03

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### Bankers

Deutsche Bank

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### Auditors

Ernst & Young

201, De Saram Place, Colombo 10

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### Registrar

SSP Corporate Services Limited

NO. 101, Inner Flower Road, Colombo 03

## **Board of Directors**

### **Tyrone De Silva (Chairman)**

Tyrone de Silva is an Executive Vice President and Head of Lending for DFCC Bank and its commercial banking subsidiary – DFCC Vardhana Bank. He also oversees the Investment Banking business of the Bank, which is carried out through Acuity Partners. He began his career at DFCC in 1989 and has been involved throughout in the Bank's Corporate Finance and Capital Markets businesses. He has also participated in DFCC's corporate structuring transactions including the setting up or acquisition of subsidiaries and associates of the DFCC Group. He is also responsible for transaction execution and overseeing the administration and monitoring of the Bank's share portfolio. Tyrone is a member of DFCC's Credit, Investment, ALCO and Risk Committees. He also serves as Director on the Boards of other DFCC Group companies and those in which DFCC has a significant interest. Prior to his career at DFCC, Tyrone was employed as a foreign exchange and money broker for a period of seven years. He holds a Masters Degree in Business Administration from the University of Warwick (UK). He is also a Graduate Member of the Institute of Mechanical Engineers (UK).

### **Chandima Gunawardena**

Chandima Gunawardena serves as a Non-Independent, Non-Executive Director of Carson Cumberbatch PLC and in most of the Carsons Group Companies in Sri Lanka and overseas. He is also a Director of Bukit Darah PLC. Since assuming Non-Executive status in the Group, he serves as an advisor to the Group's Strategic Planning and Management forums in Sri Lanka and serves on Board Committees including the Audit Committees of the Group in Sri Lanka and overseas covering all operating sectors of the Group.

Mr.Gunawardena has over four decades of experience in varied fields of business and commercial activities and has held senior positions in Corporate, Mercantile and State Institutions. He was appointed to the Carsons Group Directorate in 1990. He has served in the Management Committee of The Ceylon Chamber of Commerce for over 10 years and was a Founder Council member of the Sri Lanka Institute of Directors (SLID) and continued to serve in the council for over 10 years. He is a Fellow of the Chartered Institute of Management Accountants, UK

### **Dilshan Rodrigo**

Dilshan Rodrigo was recently promoted as the Chief Operating Officer at Hatton National Bank where he holds line management responsibility for Retail Banking, Marketing, Operations and Remittances. He serves in several board level committees including Risk Management, Strategic Planning, Credit & Asset Liability and Audit. He is a senior banker with extensive experience in Retail Banking, Finance, Institutional Banking and Risk Management in leading local and foreign commercial banks operating in Sri Lanka. He also completed a brief stint in Apparel with Sri Lanka's largest exporter of branded apparel as Supply Chain Head of its Largest SBU. He was fortunate to obtain first hand training from Thomas Group, a global consultancy firm specializing in this area.

He is a member of the Sri Lanka Institute of Directors, Alternate Director for Credit Information Bureau and holds several Directorships in subsidiary companies of the bank. He was elected Chairman for a two year period of the Asian Banker's Policy Advocacy Committee, a forum for advancing the cause of banking and finance in the region and promoting regional co-operation. ABA's membership comprises over 100 lending banks from 23 countries in the Asia-Pacific region. Dilshan holds a MBA from Cranfield University, UK and is a fellow of CIMA and ACCA UK Accounting bodies and has actively served on both councils in Sri Lanka, particularly in the latter where he was elected President for a two year term. He is a lecturer and examiner for Strategic Management for the University of Wales affiliated MBA Program in Sri Lanka, was a guest lecturer at Postgraduate Institute of Management and has presented technical papers in various forums locally and overseas on Strategy and Risk Management. He has received extensive leadership training, most recently from University of Melbourne Leadership Development Program.

### **Krishna Selvanathan**

Krishna Selvanathan is a Director of Carsons Management Services (Private) Limited, Lion Brewery (Ceylon) PLC and the Investment Sector Companies of the Carsons Group. He is also a Director of Carlsberg India (Pvt) Ltd. He holds a BA Degree in Accounting & Finance and Business Administration from the University of Kent, U.K.

**Ruvini Fernando**

Ruvini Fernando is CEO of Guardian Fund Management Limited and a Director of The Sri Lanka Fund. She has over 20 years experience in management accounting, finance, research analysis, strategic planning and investments. She was a former visiting faculty member of the MBA programmer of the Postgraduate Institute of Management (PIM). She is a Fellow of the Chartered Association of Certified Accountants (ACCA), UK and an Associate of the Chartered Institute of Management Accountants (CIMA), UK and holds a Masters in Business Administration from the PIM, University of Sri Jayewardenepura. She currently serves as a member of the Banking, Finance and Capital Markets Committee of the Ceylon Chamber of Commerce.

**Ray Abeywardena**

Ray Abeywardena holds an MBA from the University of Wales and a Post Graduate Diploma in Marketing from The Chartered Institute of Marketing, UK (CIM). He serves as the Group Managing Director/CEO of Acuity Partners (Pvt) Ltd; a Joint Venture Investment Banking firm equally owned by the DFCC Bank and Hatton National Bank PLC. He has over 27 years of work experience in the Capital markets in Sri Lanka of which 22 years was spent in stockbroking & since 2009 he has been in Investment Banking. He was appointed to the Board of Directors of the Colombo Stock Exchange in 2013. He is the Chairman of Acuity Stockbrokers (Pvt) Ltd & Acuity Securities Ltd, and he also holds Directorship's in Asian Alliance PLC & Lanka Ventures PLC.

## **Management Team**

### **Ruvini Fernando**

Profile under Directors' profile

### **Ray Abeywardena**

Profile under Directors' profile

### **Sumith Perera**

Fund Manager, Guardian Fund Management Ltd. Has over 9 years experience in the field of Asset Management working as a Fund Manager for CAAM Saudi Fransi LLC (Kingdom of Saudi Arabia), Investment Analyst for Eagle NDB Fund Management (Sri Lanka) and as a Financial Analyst for John Keells Stockbrokers. He holds a Bsc (Hons) in Economics and Business Finance from Brunel University, UK and is an Associate Member of the Chartered Institute of Management Accountants.

### **Tharinda Jayawardana**

Head of Research, Guardian Fund Management Ltd. Has over 7 years of experience in investment research. Before joining the Carsons Group, he worked as a research analyst at JB Securities (Pvt) Ltd. Is a CFA charter holder and an associate member of the Chartered Institute of Management Accountants. He holds a BSc Degree from the University of Sri Jayawardanapura specializing in Finance.

### **Pasan Abeygunawardena**

Head of Portfolio Operations, Guardian Fund Management, has over 10 years experience in Asset Management. He worked as Manager Investment Operations in Eagle NDB Fund Management and as Senior Operations officer at CAAM Saudi Fransi LLC. He holds a Bsc (Gen) in Applied Science from Sri J'Pura University and is an Associate Member of the Chartered Institute of Management Accountants.

### **Amila Pathirana**

Marketing and Business Development Manager, Guardian Acuity Asset Management Limited, Has over 11 years of experience in the marketing arena with varying fields. His previous experience includes working with organizations such as Etisalat, Lanka Bell, Cargills and Leo Burnett Solutions. He is an Associate Member of the Chartered Institute of Marketing, U.K. and an Associate Member of the Institute of Certified Management Accountants, Australia. Currently he is reading for the Masters Degree in Business Administration from the Postgraduate Institute of Management - Sri Lanka.



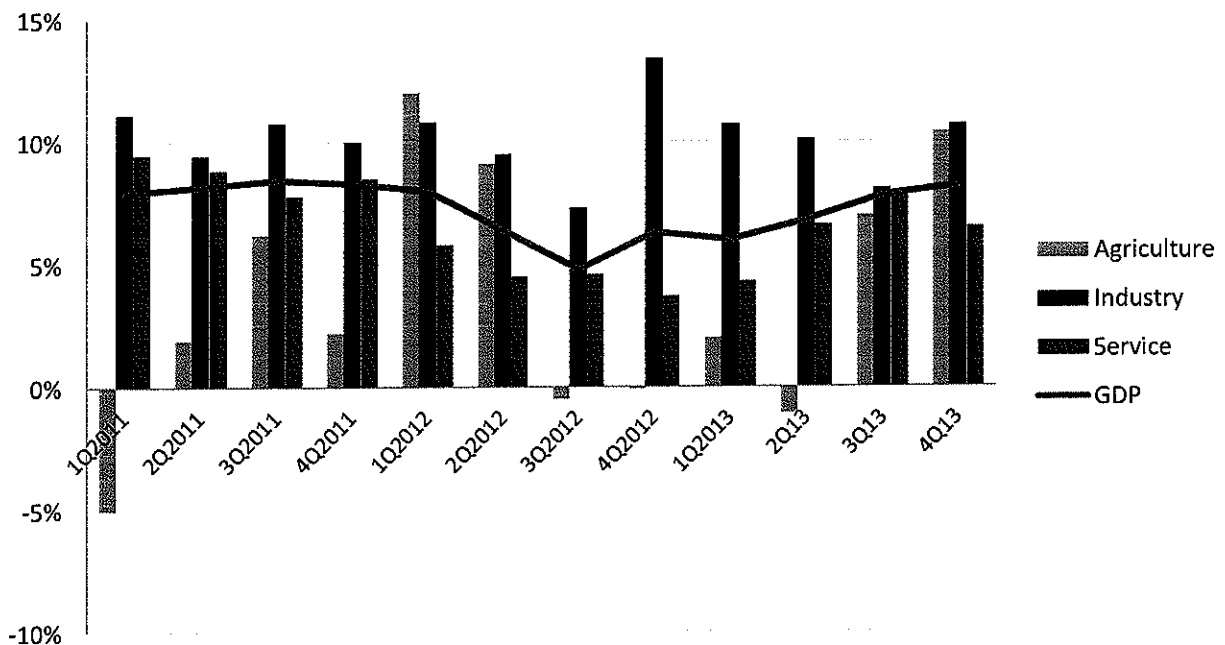
## Economic Review

Real GDP grew 7.3% in 2013 after slowing down to 6.3% in 2012. The key segments of the economy performed well led by paddy, manufacturing, construction, trade, hotels & restaurants and transport & communication. We expect GDP growth for 2013 to reach 7.1% with the key sectors maintaining an improved performance from the third quarter.

Agriculture grew by 4.7% on favorable weather conditions in the second half of 2013. The performance was mainly driven by paddy, fishing and livestock. Tea production grew by a marginal 3.6% while rubber and coconut production declined by 9.1% and 16.1% respectively on account of bad weather. Industry for the same period enjoyed 9.9% growth with all sub-segments displaying good performances led by construction and electricity, gas & water. The sector benefitted from favorable macroeconomic conditions, higher economic activity and continued investment into infrastructure. Higher exports should also see the manufacturing sub-sector doing well. The Service sector which accounts for 58% of GDP expanded by 6.4%. Wholesale & Retail trade and Transport & Communication which are the largest contributors to the sector grew by 5.5% and 9.4% respectively. The accommodative monetary policy stance adopted by CBSL had a positive impact on this sector and should continue to do so in 2014.

We expect Real GDP to continue its growth momentum into 2014 supported by accommodative monetary policy by the Central Bank, improved weather conditions and improving global conditions having a direct impact on exports.

### Real GDP - Quarterly growth

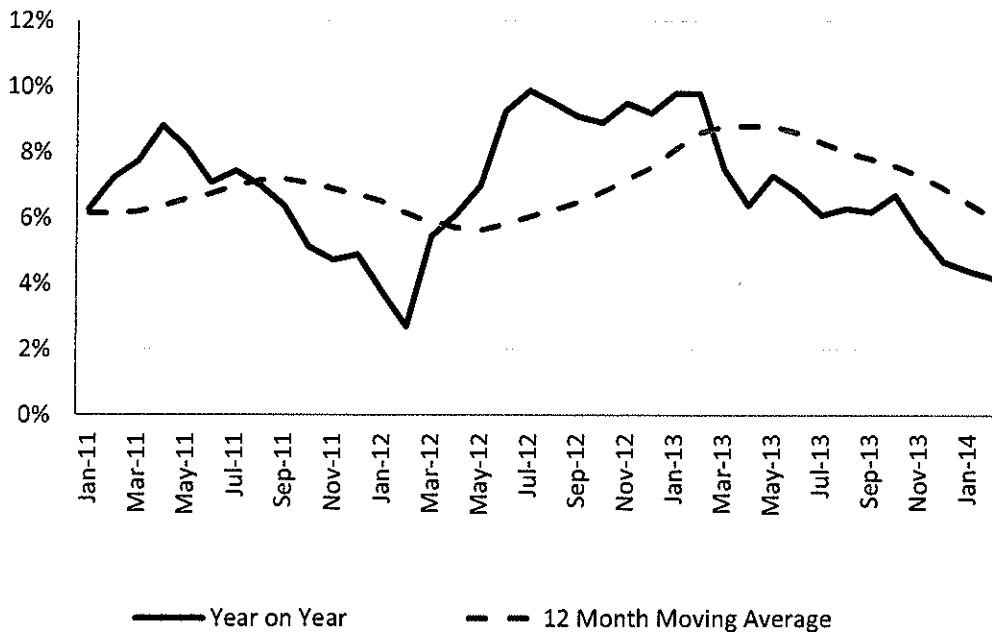


Exports for 2013 grew by 6.3% to reach USD 10.39 billion. Exports started to pick up towards the latter half 2013 due to an increase in industrial and agricultural exports. Industrial exports which account for 75% of exports grew by USD 370 million or 5% in 2013. Rapid growth was experienced towards the end of 2013 in textiles being exported to Sri Lanka's key markets of USA and EU. Imports declined in 2013 by 6% to USD 18.0 billion on account of a decline in intermediate goods and investment goods by 8.9% and 7.3% respectively. The overall trade deficit narrowed by USD 1.8 billion which is a decline of 19.2% compared to the deficit in 2012.

Worker Remittances grew by 13% in 2013 to USD 6.7 billion to help bridge the deficit. Further to this, earnings from tourism and inflows to the government resulted in the balance of payments recording an estimated surplus of USD 991 million.

Inflation, as measured by the CCPI, eased to 4.7% on a year on year basis for December-2013 from a year to date high of 9.9% in February-2013. Inflation annual average as at end of 2013 was 6.5% on a declining trend throughout the year. More favorable weather patterns in 2013 have helped ease food inflation helping the CCPI achieve mid-single digit levels. The food & beverage component of the CCPI poses the greatest threat due to its dependence on weather conditions. If adverse weather conditions were to prevail in 2014 this component of the index which accounts for 41% will add significant pressure to inflation.

### Inflation

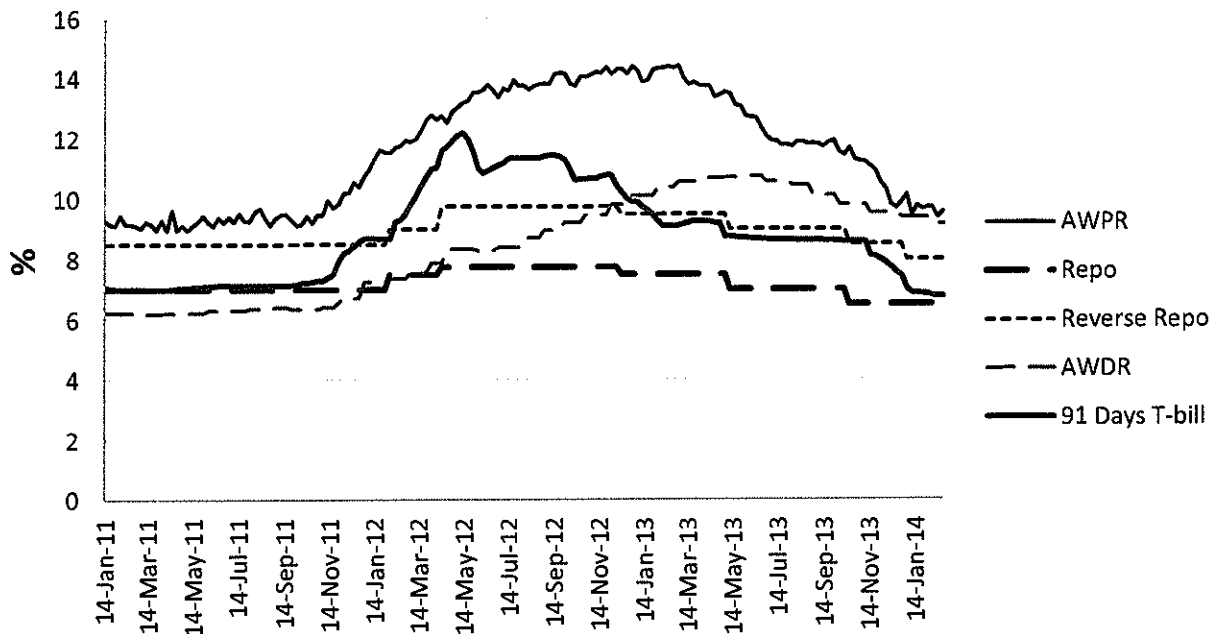


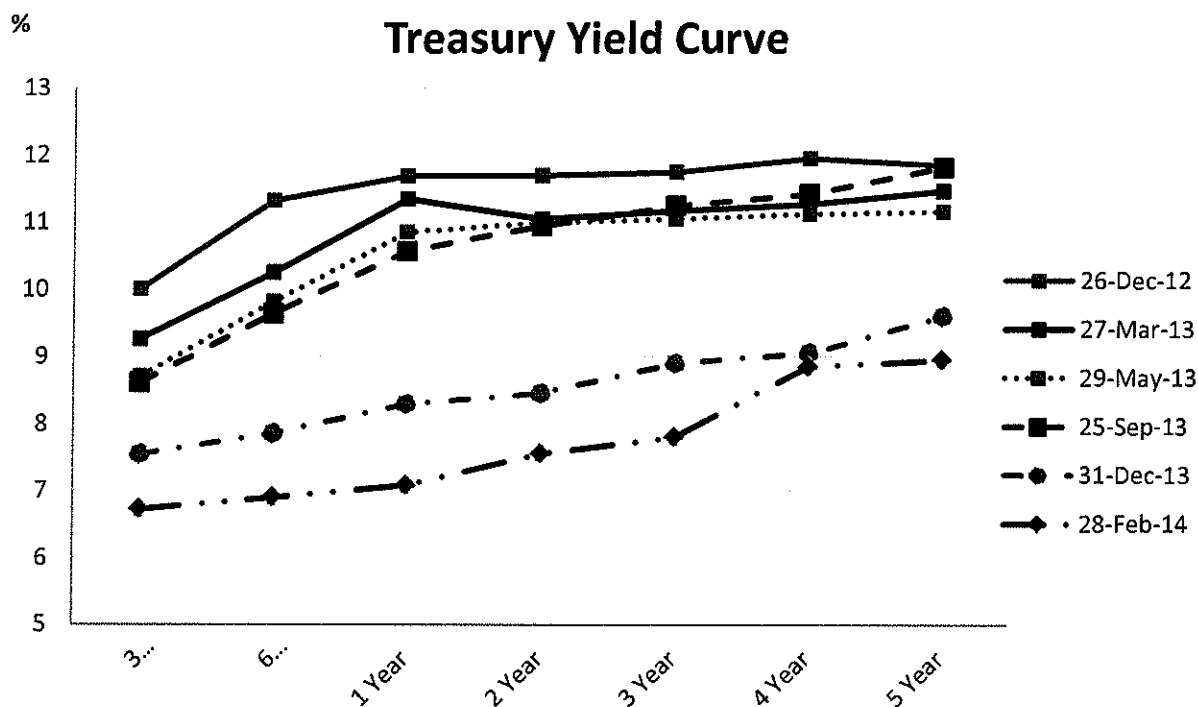
## Interest Rates

The Central Bank reduced policy rates throughout 2013 resulting in significant declines in the overall interest rate structure. The Standing Deposit Facility Rate and Standing Lending Facility Rate were reduced by 1.0% and 1.5% respectively throughout 2013 to 6.5% and 8.0% with announcements in May-13, Oct-13 and Jan-14. The Statutory Reserve Ratio was reduced by 2.0% in July-13 to increase liquidity in the financial system. The benchmark 364 day T-bill and 91 day T-bill fell by 340 basis points and 246 basis points respectively reacting aggressively to policy rate reductions. Fixed deposit rates which are also anchored to the T-bill rates fell sharply with bank fixed deposit rates providing net returns similar to T-bill after deducting withholding tax towards the start of 2014.

Net credit to private sector has slowed down to single digit levels of 7.3% as at November 2013 compared to 31.6% in July-13. Sluggish lending by banks has also resulted in accentuating liquidity levels in the banking system further depressing deposit rates. The yield curve which had a flat structure at the start of 2013 saw a decline of approximately 340 basis points in the shorter tenors and 225 basis points on the longer 5 year tenor. This has resulted in a more normalized upward sloping curve as at year end. The tapering announcements of quantitative easing in the USA may bring about upward pressure in government security yields depending on how foreign investors react. Thus far the reaction of foreign government security holders has been mild. However, significant selling of government securities by foreign holders and remitting such proceeds back to their respective countries can cause sharp movements in interest rates and the exchange rate.

## Money Market Rates



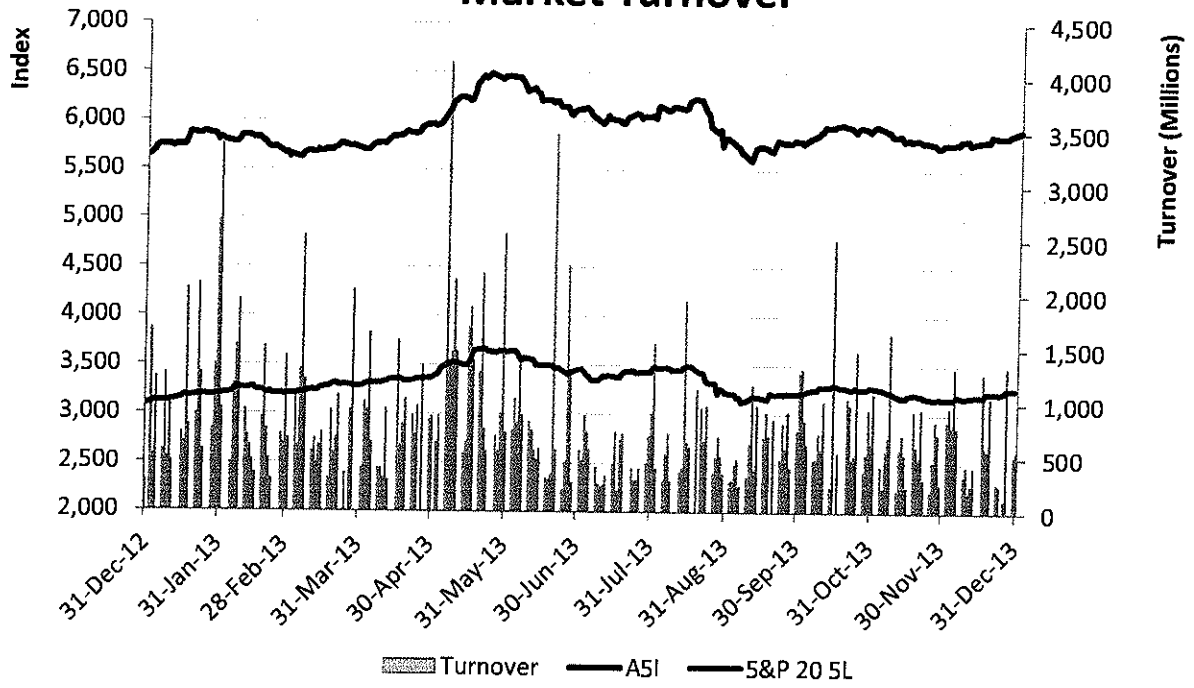


## Equity Market

The All Share Price Index increased marginally by 4.78% for 2013. The market was buoyant in the first half of 2013 where it reached a high of 15% in May-13. However, after August the market weakened significantly on account of volatility in large cap counters such as John Keells Holdings and Ceylon Tobacco. This was partly due to indications of tapering of quantitative easing by the Fed sending ripples in world markets. Net foreign inflows to the Colombo Stock Exchange amounted to Rs. 22.9 billion and were focused mostly on banks, conglomerates and multinationals.

The Sectors that performed well for the period under review were Beverage Food & Tobacco (19.8%), Power & Energy (19.5%) and Healthcare (17.0%). Significant sectors that underperformed were Hotels & Travels (-11.2%), Plantations (-10.8%) and Telecom (-5.3%). Daily average turnover levels for the first half of 2013 was a healthy Rs.1.02 billion, however, the second half of the year saw a decline to Rs.646 million indicating lower participation in latter half of the year. The historical P/E ratio of the CSE was 15.92x as at December 2013 which is at a similar level to its 5 year average. Going forward the equity market is expected to perform well in the medium to long term as Sri Lanka delivers on its growth potential while also benefiting from the rapid development of Sri Lankan capital markets. Investor concerns with regard to the impact of the US Federal Reserve tapering and its impact on emerging markets may result in significant market and currency volatility depending on how foreign investors react. Other shorter term influences such as elections and International concerns may result in significant market volatility.

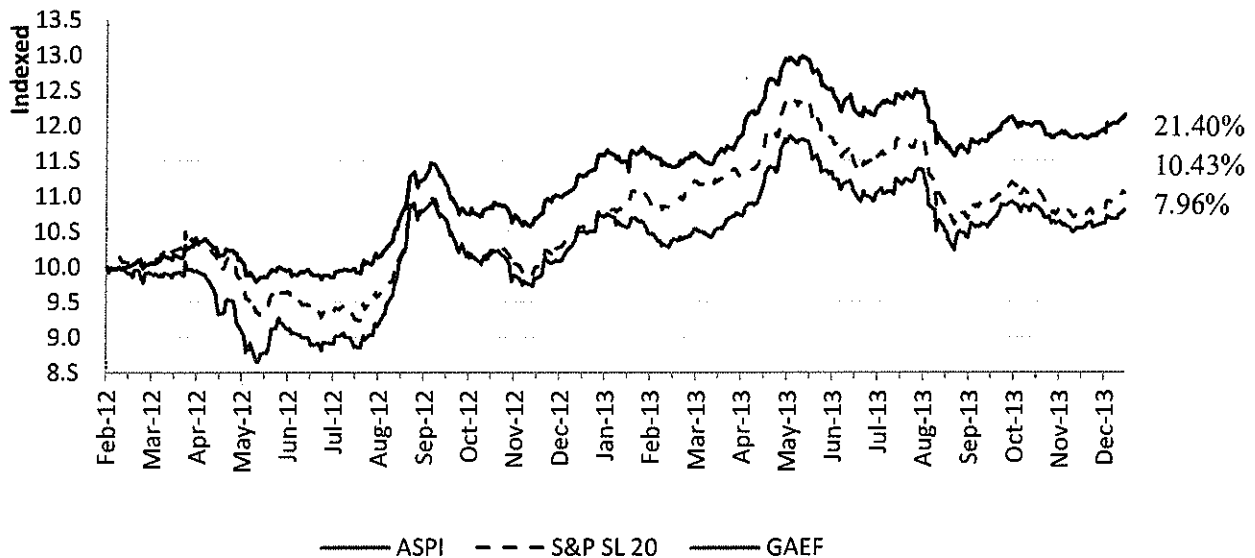
# Market Turnover



## Guardian Acuity Equity Fund Review

For the year ended 2013 the Guardian Acuity Equity Fund provided a return of 9.47% thereby outperforming the All Share Price Index by 4.69% and the S&P SL 20 by 3.68%. Since inception the fund has outperformed the All Share Price Index by 13.44% giving unit holders a return of 21.40%.

### GAAM Equity Fund vs. Market



Period	G-AAM EQ Fund	All Share Index	S&P SL 20
1 Month	2.45%	2.38%	2.81%
3 Months	3.14%	1.89%	1.54%
2013	9.47%	4.78%	5.79%
Since Inception	21.40%	7.96%	10.43%

\* Inception was 27<sup>th</sup> Feb 2012

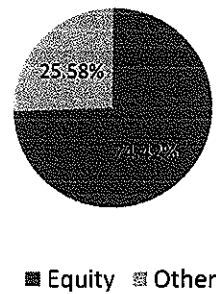
Lower interest rates and higher GD growth in 2014 should see quarterly earnings of companies improve relative to 2013. However, foreign selling on account of QE tapering, potential elections and international pressures on Sri Lanka may result in market volatility. Based on these assumptions and other short term factors the fund maintained an equity exposure of 74.42% with the aim of deploying cash positions at opportune times in case markets weaken in order to benefit from price swings. The fund's existing equity exposure is in selected stocks with strong fundamentals which are expected to perform well in the medium to long term. The Guardian Acuity Equity Fund is an ideal vehicle for investors who would like to benefit from the long term returns of the Colombo Stock Exchange. We encourage investors to increase exposure to the equity market upon weakness, as this strategy will provide greater potential returns in the future.

As at 31<sup>st</sup> December 2013, the high sector weights of the fund were to the Banks Finance & Insurance sector (30.74%), Diversified Holdings sector (15.58%) and Beverage, Food & Tobacco sector (8.29%). The top five holdings of the fund were Nations Trust Bank, Hemas Holdings, Access Engineering, Aitken Spence Hotels Holdings and John Keells holdings.

### ASSET ALLOCATION

#### SECTOR ALLOCATION

	Portfolio Weight (%)
Banks, Finance & Insurance	30.74
Diversified Holdings	15.58
Beverage, Food & Tobacco	8.29
Construction & Engineering	7.09
Hotels & Travels	6.99
Manufacturing	3.34
Telecommunications	2.39



As at 31<sup>st</sup> December 2013, the total net asset value of the fund was Rs. 53.83 million with 100 unit holders in the fund. The Guardian Acuity Equity Fund redemption price as at 31<sup>st</sup> December 2013 was Rs. 12.14 and the subscription price was Rs. 12.34.

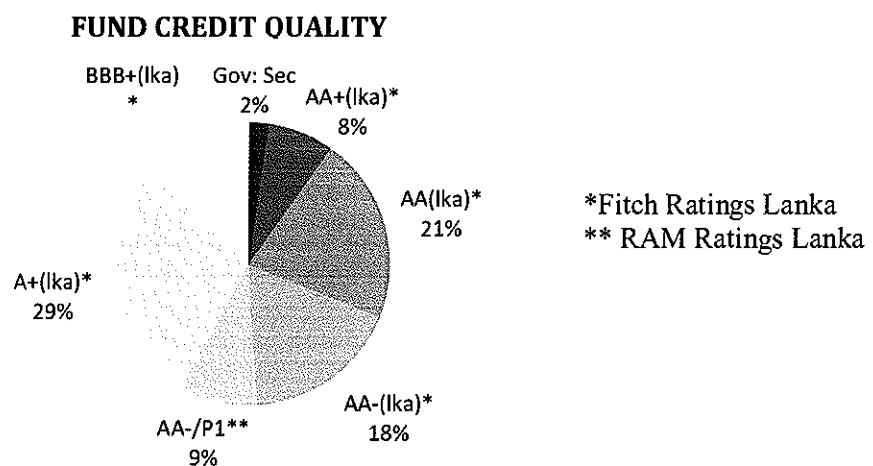
## Guardian Acuity Fixed Income Fund Review

The Guardian Acuity Fixed Income Fund provided a return of 12.18% for 2013 in comparison to the NDBIB-CRISIL 91 Day T-bill return of 9.64% for the same time period. The fund had a focus on high yielding fixed deposits, commercial paper and other money market instruments with issuers of investment grade rating and above. The fund has extended its average maturity to 7.8 months in Dec-13 from 3.9 months in June 2013 in order to sustain returns to unit holders in anticipation of a further fall in interest rates. The fund has an exposure of 85% to fixed deposits and 9% to commercial papers. A smaller exposure of approximately 2% to government securities in the form of overnight repos and Treasury bills was maintained as at December 2013 to ensure adequate liquidity for the fund.

Period	GAAM FI	NDBIB-CRISIL 91 Day T-Bill Index	GAAM FI - Annualized
1 Month	0.86%	0.79%	10.18%
3 Months	2.55%	2.30%	10.11%
2013	12.18%	9.64%	12.18%
Since Inception	23.50%	20.39%	12.74%

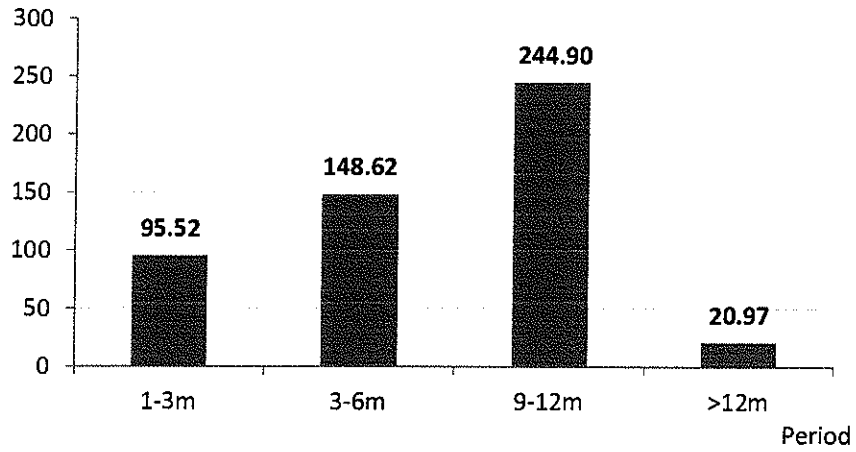
\* Inception was 27<sup>th</sup> Feb 2012

The Fund has an emphasis of investing in high credit quality companies of minimum investment grade to ensure capital protection for its investors. Debt instruments of companies with a BBB+ (lka) rating assigned by Fitch Rating Lanka was the riskiest entity in the fund thus exposing investors overall to a high quality of debt issuers. Returns earned from unit trusts are tax free and therefore corporate investors enjoy a substantial saving when investing their surplus funds in unit trusts.





### MATURITY PROFILE



As at 31<sup>st</sup> December 2013, the total net asset value of the fund was Rs. 476.26 million with 129 unit holders in the fund.

**GUARDIAN ACUITY EQUITY FUND**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2013**





Chartered Accountants  
201 De Saram Place  
p.o. Box 101  
Colombo 10  
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eysl@lk.ey.com

**INDEPENDENT AUDITORS' REPORT  
TO THE UNIT HOLDERS OF GUARDIAN ACUITY EQUITY FUND**

**Report on the Financial Statements**

We have audited the accompanying financial statements Guardian Acuity Equity Fund which comprise of the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of movement in unit holder's fund and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Guardian Acuity Asset Management Limited, the Managers and the Trustee of the Unit Trust are responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Scope of Audit and Basis of Opinion**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, so far as appears from our examination, the Fund maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the Fund's state of affairs as at 31 December 2013 and its profits and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Report on Other Legal and Regulatory Requirements**

In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

26 March 2014  
Colombo

Partners: A D B Talwate FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A De Silva FCA WR H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) HMA Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

A member firm of Ernst & Young Global Limited

## Guardian Acuity Equity Fund

### STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	Year ended 31.12.2013	10 months period ended 31.12.2012 Rs.
<b>INVESTMENT INCOME</b>			
Interest Income	4	1,035,441	844,349
Dividend Income		1,218,969	574,721
Net realised gains on sale of financial assets held for trading		4,094,003	390,741
Net change in unrealized gains/(losses) on financial assets held for trading		(1,024,514)	3,282,427
		<u>5,323,899</u>	<u>5,092,238</u>
<b>EXPENSES</b>			
Management & Registrar Fees		(990,825)	(643,674)
Trustee and Custodian Fees		(324,910)	(246,814)
Audit Fee		(182,560)	(171,360)
Overdraft Interest		-	(861)
Transaction Cost		(524,942)	(412,185)
Other expenses		(124,587)	(1,000)
		<u>(2,147,824)</u>	<u>(1,475,894)</u>
<b>NET PROFIT BEFORE TAX</b>		3,176,075	3,616,344
Income Tax Expense		-	-
<b>NET PROFIT AFTER TAX FOR THE YEAR/PERIOD</b>		<u>3,176,075</u>	<u>3,616,344</u>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		3,176,075	3,616,344

The accounting policies and notes on pages 24 through 31 form an integral part of the Financial Statements.

## Guardian Acuity Equity Fund

### STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 Rs.	2012 Rs.
<b>ASSETS</b>			
Cash and cash equivalents	5	99,135	114,674
Financial assets held for trading	6	40,067,505	27,494,521
Financial assets - loans and receivables	7	14,534,821	6,509,924
Other Receivables	8	213,106	1,177,253
Income Tax Receivable		187,979	84,435
<b>Total Assets</b>		<b>55,102,546</b>	<b>35,380,807</b>
<b>UNIT HOLDERS' FUNDS &amp; LIABILITIES</b>			
<b>LIABILITIES</b>			
Accrued Expenses	10	300,518	367,484
CDS Payable		777,613	-
Total Liabilities ( Excluding net assets attributable to unitholders)		1,078,131	367,484
<b>UNIT HOLDERS' FUNDS</b>			
Net Assets Attributable to Unitholders		54,024,415	35,013,323
<b>Total Unitholders' Funds and Liabilities</b>		<b>55,102,546</b>	<b>35,380,807</b>

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

Sgd.  
Director  
Management Company

Sgd.  
Director  
Management Company

Sgd.  
Trustee

The accounting policies and notes on pages 24 through 31 form an integral part of the Financial Statements.

26 March 2014  
Colombo

## Guardian Acuity Equity Fund

### STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND

Year ended 31 December 2013

	Year ended 31.12.2013 Rs.	10 months period ended 31.12.2012 Rs.
<b>UNIT HOLDERS' FUNDS AS AT 01 JANUARY</b>	35,013,323	-
Increase in net assets attributable to unitholders	3,176,075	3,616,344
Received on Creation of Units	18,611,295	32,316,443
Paid on Redemption of Units	(2,776,278)	(919,464)
Net Increase due to Unitholders' Transactions	15,835,017	31,396,979
<b>UNIT HOLDERS' FUNDS AS AT 31 DECEMBER</b>	<u>54,024,415</u>	<u>35,013,323</u>

The accounting policies and notes on pages 24 through 31 form an integral part of the Financial Statements.

## Guardian Acuity Equity Fund

### CASH FLOW STATEMENT

Year ended 31 December 2013

	Year ended 31.12.2013	10 months period ended 31.12.2012 Rs.
<b>Cash Flows from Operating Activities</b>		
Interest Received	930,606	758,251
Dividend Received	1,007,863	574,721
Management Fees and Trustee Fees Paid	(1,382,700)	(694,364)
Other Expenses Paid	(832,090)	(414,046)
<b>Net Cash Flow (Used in) generated from Operating Activities</b>	<u>(276,321)</u>	<u>224,562</u>
<b>Cash Flows from Investing Activities</b>		
Sale Proceeds from Sale of Equity Securities	20,197,874	-
Equity Investments	(27,756,504)	(25,379,347)
Treasury Bill Repos	(8,023,605)	(6,117,520)
<b>Net Cash used in Investing Activities</b>	<u>(15,582,235)</u>	<u>(31,496,867)</u>
<b>Cash Flows from Financing Activities</b>		
Cash Received on Creation of Units	18,619,295	32,306,443
Cash Paid on Redemption of Units	(2,776,278)	(919,464)
<b>Net Cash generated from Financing Activities</b>	<u>15,843,017</u>	<u>31,386,979</u>
Net Increase in Cash and Cash Equivalents	(15,539)	114,674
Cash and Cash Equivalents at the beginning of the year/period	114,674	-
<b>Cash and Cash Equivalents at the end of the year/period</b>	<u>99,135</u>	<u>114,674</u>

The accounting policies and notes on pages 24 through 31 form an integral part of the Financial Statements.



## Guardian Acuity Equity Fund

### NOTES TO THE FINANCIAL STATEMENTS

year ended 31 December 2013

#### 1. GENERAL INFORMATION

Guardian Acuity Equity Fund is an open ended unit trust fund approved by the Securities and Exchange Commission of Sri Lanka. The fund was launched on 27 February 2012.

The fund is managed by Guardian Acuity Asset Management Limited which is incorporated and domiciled in Sri Lanka. The registered office of the management company is located at No 61, Janadhipathi Mawatha, Colombo 01. The trustee of the fund is Deutsche Bank AG having its place of business at No 86, Galle Road, Colombo 03.

The investment objective of the fund is to achieve long term capital appreciation through investing prudently in a portfolio of listed shares.

#### 2. ACCOUNTING POLICIES

##### 2.1 BASIS OF PREPARATION

The financial statements are prepared in accordance with and comply with the Sri Lanka Accounting Standards 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 have been prepared on a historical cost basis, except for financial assets held for Trading all of which have been measured at fair value. The financial statements are presented in Sri Lanka Rupees. The statement of financial position is presented broadly in order of a liquidity basis.

##### 2.1.1 Statement of Compliance

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

##### 2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

###### 2.2.1 Impairment losses on financial assets – Loans and receivables

The fund reviews its financial investments classified as loans and receivables at each reporting date to assess whether they are impaired. In particular management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

##### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

###### 2.3.1 Financial instruments – initial recognition and subsequent measurements

Financial Assets within the scope of LKAS 39 are classified as Financial Assets at Fair Value through Profit or Loss and Loans and Receivables as appropriate. The Fund determines the classification of its Financial Assets at initial recognition.

###### 2.3.1.1 Date of recognition

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

**NOTES TO THE FINANCIAL STATEMENTS**

year ended 31 December 2013

**2.3.1.2 Initial measurement of financial instruments**

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management intention in acquiring them. All financial assets are measured initially at the fair value plus transaction costs, except in the cases of financial assets recorded at fair value through profit or loss.

**2.3.1.3 Financial Assets Held for Trading**

Financial assets or financial liabilities held for trading are recorded in the Statement of Financial Position at fair value. Changes to the fair values of financial assets or financial liabilities held for trading is recorded in 'Statement of Comprehensive Income'. Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

**2.3.1.4 Financial assets - loans and receivables**

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

After initial measurement, loans and receivable are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. The amortization is included in the "interest income" in the statement of comprehensive income. The losses arising from impairment is recognised in the statement of comprehensive income in "credit loss expense".

**2.3.1.5 Derecognition of financial assets**

A financial asset is derecognised when,

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

**2.3.1.6 Determination of Fair Value**

The fair value for financial instruments traded in active markets at the reporting date is based on their average quoted market price or average dealer price quotations without any deduction for transaction costs.

**2.3.2 Recognition of income**

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

**(i) Interest Income**

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

## Guardian Acuity Equity Fund

### NOTES TO THE FINANCIAL STATEMENTS

year ended 31 December 2013

#### (ii) Dividend Income

Dividend income is recognised when the fund's right to receive payment is established.

#### (iii) Net change in unrealised gains/(losses) on financial assets held at fair value through profit and loss

Net change in unrealised gain/(losses) on financial assets held at fair value through profit and loss includes all gains and losses arise from changes in fair value for financial assets held at fair value through profit or loss".

#### (iv) Net realised gains/(losses) on financial assets held at fair value through profit and loss

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

#### 2.3.3 Cash and cash equivalents

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

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

#### 2.3.4 Income tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. The fund is liable to pay income tax at the rate of 10% in accordance with the Inland Revenue Act No.10 of 2006.

#### 2.3.5 Expenses

The management and registrar fees, trustee and custodian fees of the fund as per the trust deed is as follows,

Management fee	-	2.25% of net asset value of the fund
Trustee fee	-	0.25% of net asset value of the fund and a fixed sum of Rs. 15,000 per month.

#### 2.3.6 Accrued expenses

Payables are initially recognised at fair value, which is the fair value of the consideration to be paid in the future for service received, whether or not billed to the fund, and subsequently at amortised cost.

#### 2.3.7 Unitholders' funds and net assets attributable to unit holders

Unitholders' funds has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities, other than those due to Unitholders, as at the balance 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 calculated 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. Income not distributed is included in net assets attributable to unit holders.

#### 2.4 Effect of Sri Lanka Accounting Standards Issued But Not yet Effective

Standards issued but not yet effective up to the date of the Fund's financial statements are given below. The company will adopt these standards when they become effective. Pending a detailed review of the financial impact is not reasonably estimable as at the date of publication of these financial statements

- Sri Lanka Financial Reporting Standards (SLFRS) 09 – Financial Instruments
- Sri Lanka Financial Reporting Standards (SLFRS) 13 – Fair Value Measurements

The SLFRS 09 to be effective for financial periods beginning on or after 01 January 2015 and SLFRS 13 to be effective for financial periods beginning on or after 01 January 2014:

NOTES TO THE FINANCIAL STATEMENTS

year ended 31 December 2013

**3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**(a) Financial Instruments**

The Fund's principal financial assets comprise investments in trading securities, Loans and receivables and cash at bank. The main purpose of these financial instruments is to generate a return on the investment made by Unitholders. The Fund's principal financial liabilities comprise amounts attributable to Unitholders, which are the amounts owed to Unitholders of the Fund. The Fund also has receivables and payables which arise directly from its operations.

In accordance with LKAS 39 *Financial Instruments: Recognition and Measurement*, the Fund's receivables are classified as 'loans and receivables'. Trading securities are classified as 'held for trading', meaning they are valued at fair value through profit or loss. Amounts attributable to Unitholders are classified as 'other financial liabilities' and are carried at the redemption amount being net asset value. Payables are designated as 'other financial liabilities' at amortised cost.

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

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

Financial instruments of the Fund comprise investments in trading securities for the purpose of generating a return on the investment made by Unitholders, in addition to cash at bank and other financial instruments such as receivables and payables, which arise directly from its operations.

The manager also monitors information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment restrictions stated in explanatory memorandum of the fund. These investment restrictions reflect the investment strategy of the Fund, as well as the level of risk that the Fund is willing to accept, with additional emphasis on selected industries. This information is prepared and reported to relevant parties within the Manager on a regular basis as deemed appropriate, including the Compliance manager, key management, Investment Committee, and ultimately the Trustees of the Fund.

**(c) Credit risk**

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

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

**(d) Market risk**

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

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

Within the underlying investment portfolio, diversification is achieved at a number of levels. The diversified portfolio is invested across a range of market sectors.

## Guardian Acuity Equity Fund

### NOTES TO THE FINANCIAL STATEMENTS

year ended 31 December 2013

#### Price risk

Price risk is the risk that the fair value of the Fund's investment in trading securities will fluctuate as a result of changes in the price of the Fund's investments in trading securities. Price risk exposure arises from the Fund's investment portfolio. Price risk is caused by volatility in trading activity of securities listed on the Colombo Stock Exchange.

The table below shows the impact on the statement of Comprehensive Income and Statement of Financial Position due to a reasonably possible change in the prices of the Fund's investments in trading securities, with all other variables held constant:

Increases/ (decreases) on amounts attributable to Unit holders and Profit before tax		
	2013 (LKR)	2012 (LKR)
Change in price of the Fund's investment in trading securities:		
+10%	4,006,750	2,749,452
-10%	(4,006,750)	(2,749,452)

The above figures are calculated across the entire investment portfolio on an annual basis. There is a corresponding change to the fair value of trading securities within the Statement of Financial Position.

#### Interest rate risk

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

The Fund's exposure to interest rate risk primarily arises from changes in interest rates applicable to the financial assets.

#### Foreign exchange risk

Foreign exchange risk is the risk that value of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Fund is not exposed to foreign exchange risk due to trading securities denominated in Sri Lankan Rupees.

#### (e) Liquidity risk

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

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

Receivables outstanding at balance sheet date are due to be settled within 3 days of balance sheet date. Due to the short term nature of these financial instruments, carrying value approximates to fair value.

## Guardian Acuity Equity Fund

### NOTES TO THE FINANCIAL STATEMENTS

year ended 31 December 2013

4. INVESTMENT INCOME	Year ended 31.12.2013	10 months period ended 31.12.2012
	Rs.	Rs.
Interest on		
Treasury Bill Reverse Repurchase Agreements (4.1)	1,035,441	844,349
	<u>1,035,441</u>	<u>844,349</u>

4.1 Interest on Treasury Bill Reverse Repurchase Agreements has been accounted for Gross of Notional Tax.

5. CASH AND CASH EQUIVALENTS	Year Ended 31.12.2013	10 months period ended 31.12.2012
	Rs.	Rs.
Cash at Bank	99,135	114,674
	<u>99,135</u>	<u>114,674</u>

### 6. FINANCIAL ASSETS - HELD FOR TRADING

#### 6. a) Investment in Equity shares

	2013 Rs.	2012 Rs.
Cost as at 31 December	37,809,591	24,212,094
Provision for Appreciation of Marketable Securities	2,257,913	3,282,427
Market Value as at 31 December	<u>40,067,505</u>	<u>27,494,521</u>

Company	2013			Number of Shares	2012	
	No of Shares	Market Value Rs	Holdings as a % of Net Asset Value		Market Value Rs.	Holdings as a % of Net Asset Value
<b>Banks, Finance and Insurance</b>						
Central Finance Company PLC	17,000	2,992,000	6%	8,000	1,298,400	4%
Commercial Bank OF Ceylon PLC	30,233	3,640,053	7%	29,736	3,062,808	9%
People's Leasing and Finance PLC	257,617	3,452,068	6%	70,800	934,560	3%
Sampath Bank PLC	13,550	2,329,245	4%	6,885	1,380,443	4%
Nations Trust Bank	66,502	4,136,424	8%	-	-	0%
		<u>16,549,790</u>	<u>31%</u>		<u>6,676,211</u>	<u>19%</u>
<b>Beverage, Food and Tobacco</b>						
Cargills (Ceylon) PLC	-	-	0%	11,500	1,673,250	5%
Ceylon Tobacco Company PLC	1,443	1,709,089	3%	3,243	2,691,690	8%
Distilleries Company of Srilanka PLC	14,279	2,755,847	5%	12,279	2,038,314	6%
Nestle Lanka PLC	-	-	0%	1,150	1,832,525	5%
		<u>4,464,936</u>	<u>8%</u>		<u>8,235,779</u>	<u>24%</u>
<b>Diversified Holdings</b>						
John Keells Holdings PLC	16,396	3,726,811	7%	18,010	3,960,399	11%
Expolanka	80,000	600,000	1%	-	-	0%
Hemas Holdings	119,482	4,062,388	8%	-	-	0%
		<u>8,389,199</u>	<u>16%</u>		<u>3,960,399</u>	<u>11%</u>
<b>Health Care</b>						
Asiri Hospital Holdings PLC	-	-	0%	232,050	2,552,550	7%
		-	0%		<u>2,552,550</u>	<u>7%</u>
<b>Hotels and Travels</b>						
Aitken Spence Hotel Holdings PLC	53,845	3,763,766	7%	31,075	2,271,583	6%
		<u>3,763,766</u>	<u>7%</u>		<u>2,271,583</u>	<u>6%</u>
<b>Manufacturing</b>						
Piramal Glass Ceylon PLC	399,200	1,796,400	3%	300,000	1,800,000	5%
		<u>1,796,400</u>	<u>3%</u>		<u>1,800,000</u>	<u>5%</u>
<b>Construction &amp; Engineering</b>						
Access Engineering PLC	172,800	3,818,880	7%	111,000	1,998,000	6%
		<u>3,818,880</u>	<u>7%</u>		<u>1,998,000</u>	<u>6%</u>
<b>Telecommunication</b>						
Dialog	142,726	1,284,534	2%	-	-	0%
		<u>1,284,534</u>	<u>2%</u>		-	0%
<b>Total value of quoted equity securities (At Market Value)</b>		<u>40,067,505</u>	<u>74%</u>		<u>27,494,522</u>	<u>79%</u>

Guardian Acuity Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

year ended 31 December 2013

<b>7. FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES</b>	<b>2013</b>	<b>2012</b>
	<b>Rs.</b>	<b>Rs.</b>
Treasury Bill Reverse Repurchase Agreement (Less than 3 months)	14,534,821	6,509,924
	<u>14,534,821</u>	<u>6,509,924</u>

<b>8. ACCRUED INCOME AND OTHER RECIEVABLES</b>	<b>2013</b>	<b>2012</b>
	<b>Rs.</b>	<b>Rs.</b>
Amount Receivable on creation of units	2,000	10,000
Receivables from Securities sold	-	1,167,253
Dividend Receivable	211,106	-
	<u>213,106</u>	<u>1,177,253</u>

**9. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Determination of fair value and fair value hierarchy**

SLFRS 7 *Financial Instruments: Disclosures* require fair value measurements to be disclosed by the source of inputs, using a three level hierarchy. The hierarchy for measuring fair value consists of Levels 1 to 3:

Level 1 – An investment in a fund is classified in Level 1 of the hierarchy when that investment is quoted in an active market and measured at the unadjusted quoted price at the reporting date.

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

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

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

<b>As at 31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Financial assets - Held for trading				
Quoted equity securities	27,494,522	-	-	27,494,522
<b>As at 31 December 2013</b>				
Financial assets - Held for trading				
Quoted equity securities	40,067,505	-	-	40,067,505

<b>10. ACCRUED EXPENSES</b>	<b>2013</b>	<b>2012</b>
	<b>Rs.</b>	<b>Rs.</b>
Management Fee Payable	99,636	146,481
Trustee Fee and Custodian Fee Payable	29,522	49,643
Audit Fee	171,360	171,360
	<u>300,518</u>	<u>367,484</u>

Guardian Acuity Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

year ended 31 December 2013

11. CONTINGENCIES

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

12. POST BALANCE SHEET EVENTS

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

13. CAPITAL COMMITMENTS

The Fund does not have significant Capital Commitments at the Reporting Sheet date.

14. UNITS IN ISSUE AND UNIT PRICE

	2013	2012
	Units	Units
Units at the beginning of the year	3,120,421	
Units sold	1,504,059	3,205,736
Units redeemed	(226,731)	(85,315)
Units at the end of the year	<u>4,397,749</u>	<u>3,120,421</u>

15. RELATED PARTY TRANSACTIONS

The following institutions have been identified as related parties to the Fund in accordance with Sri Lanka Accounting Standards LKAS 24.

Company	Names of Directors	Nature of Transactions
Guardian Acuity Asset Management Limited (Managing Company)		Fund has paid Rs. 990,825/- as management fees during the period. The fee payable as at 31 December is 99,636/- ( Management Fee paid 2012 Rs.643,674/- and fee payable in 2012 Rs.146,481/-)
Deutsche Bank (Trustee)		Fund has paid Rs.324,910/- as trustee and custodial fees during the period. The fee payable as at 31 December 2013 is Rs.29,522/- (Fund has paid trustee fee in 2012 Rs.246,814 and fee payable in 2012 Rs.49,643)
Ceylon Guardian Investment Trust PLC	Mr.K Selvanathan Mr.D.C.R Gunawardana	Ceylon Guardian Investment Trust PLC hold 1,250,000 units(2012 : 1,250,000 units) in Guardian Acuity Equity Fund Value of the units held by Ceylon Guardian Investment Trust PLC in Guardian Acuity Equity fund as at 31 December 2013 is Rs. 15,175,000/- (2012 : Rs.13,862,500)
Ceylon Investment PLC (Subsidiary of Ceylon Guardian Investment Trust PLC)	Mr.K Selvanathan Mr.D.C.R Gunawardana	Ceylon Investment PLC hold 1,250,000 units (2012 :1,250,000 units) in Guardian Acuity Equity Fund Value of the units held by Ceylon Investment PLC in Guardian Acuity Equity fund as at 31 December 2013 is Rs. 15,175,000/- (2012 : Rs.13,862,500/-)
Guardian Fund Management Staff (Fund management company of Ceylon guardian Investment Trust PLC and Ceylon Investment PLC)		Guardian Fund Management Staff hold 177,978 units in Guardian Acuity Equity Fund (Value of units as at 31 <sup>st</sup> December 2013 is Rs. 2,160,652/-)





**GUARDIAN ACUITY FIXED INCOME FUND**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2013**





**ERNST & YOUNG**

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**INDEPENDENT AUDITORS' REPORT  
TO THE UNIT HOLDERS OF GUARDIAN ACUITY FIXED INCOME FUND**

**Report on the Financial Statements**

We have audited the accompanying financial statements Guardian Acuity Fixed Income Fund which comprise of the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of movement in unitholder's fund and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Guardian Acuity Asset Management Limited, the Managers and the Trustee of the Unit Trust are responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Scope of Audit and Basis of Opinion**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, so far as appears from our examination, the Fund maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the Fund's state of affairs as at 31 December 2013 and its profits and cash flows for the period then ended in accordance with Sri Lanka Accounting Standards.

**Report on Other Legal and Regulatory Requirements**

In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

26 March 2014  
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N da Saram ACA FCMA Ms. NA Da Silva ACA Ms. YA De Silva FCA W R H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Harath FCA D K Hulangamuwa FCA FCMA LLB (Lond) HMA Jayasinghe FCA FCMA  
Ms. AA Ludowyke FCA FCMA Ms. G G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesunya ACA ACMA

A member firm of Ernst & Young Global Limited

## Guardian Acuity Fixed Income Fund

### STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	Year ended 31.12.2013 Rs.	10 months period ended 31.12.2012 Rs.
<b>INVESTMENT INCOME</b>			
Interest Income	4	47,096,379	23,220,795
Net realised gain on financial assets held at fair value through profit and loss		-	43,844
Net change in unrealised gains/(losses) on financial assets held at fair value through profit and loss		(96,597)	96,597
		<u>46,999,782</u>	<u>23,361,236</u>
<b>EXPENSES</b>			
Management and Registrar Fees		(2,104,067)	(1,110,127)
Trustee Fees		(589,150)	(285,581)
Audit Fees		(145,824)	(137,088)
Bank Charges		(146,284)	(8,049)
Other Expenses		-	(4,000)
		<u>(2,985,325)</u>	<u>(1,544,845)</u>
<b>NET PROFIT BEFORE TAX</b>		44,014,457	21,816,391
Income Tax Expense	5	(4,399,141)	(2,193,603)
<b>NET PROFIT AFTER TAX FOR THE YEAR/PERIOD</b>		<u>39,615,316</u>	<u>19,622,788</u>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS</b>		39,615,316	19,622,788

The accounting policies and notes on pages 40 through 49 form an integral part of the Financial Statements.

**Guardian Acuity Fixed Income Fund**  
**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2013

	Notes	2013 Rs.	2012 Rs.
<b>ASSETS</b>			
Cash and cash equivalents	6	89,052	45,033
Financial assets held for trading	7	-	9,886,896
Financial assets - loans and receivables	8	476,373,361	273,016,589
Other Receivables		13,000	1,500
<b>Total Assets</b>		<b>476,475,413</b>	<b>282,950,018</b>
<b>UNIT HOLDERS' FUNDS &amp; LIABILITIES</b>			
<b>LIABILITIES</b>			
Accrued Expenses	9	418,214	535,615
Income Tax Payable		166,761	339,699
<b>Total Liabilities ( Excluding net assets attributable to unit holders)</b>		<b>584,975</b>	<b>875,314</b>
<b>UNIT HOLDERS' FUNDS</b>			
Net Assets Attributable to Unit holders		475,890,438	282,074,704
<b>Total Unitholders' Funds and Liabilities</b>		<b>476,475,413</b>	<b>282,950,018</b>

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

Sgd.  
 Director  
 Management Company

Sgd.  
 Director  
 Management Company

Sgd.  
 Trustee

The accounting policies and notes on pages 40 through 49 form an integral part of the Financial Statements.

26 March 2014  
 Colombo

## Guardian Acuity Fixed Income Fund

### STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

Year ended 31 December 2013

	Year ended 31.12.2013 Rs.	10 months period ended 31.12.2012 Rs.
<b>UNIT HOLDERS' FUNDS AS AT THE BEGINNING</b>	282,074,704	-
Increase in net assets attributable to unitholders	39,615,316	19,622,788
Income Distribution	(18,900,258)	-
Received on Creation of Units	294,637,512	263,332,996
Paid on Redemption of Units	(121,536,836)	(881,080)
Net Increase due to Unit holders' Transactions	173,100,676	262,451,916
<b>UNIT HOLDERS' FUNDS AS AT 31 DECEMBER</b>	<b>475,890,438</b>	<b>282,074,704</b>

The accounting policies and notes on pages 40 through 49 form an integral part of the Financial Statements.

## Guardian Acuity Fixed Income Fund

### CASH FLOW STATEMENT

Year ended 31 December 2013

	Year ended 31.12.2013 Rs.	10 months period ended 31.12.2012 Rs.
<b>Cash Flows from Operating Activities</b>		
Interest Received	44,545,142	9,534,361
Management Fees and Trustee Fees Paid	(2,810,618)	(997,181)
Other Expenses Paid	(292,108)	(12,049)
<b>Net Cash Flow generated from Operating Activities</b>	<u>41,442,416</u>	<u>8,525,131</u>
<b>Cash Flows from Investing Activities</b>		
Acquisition of Treasury Bills	-	(45,123,826)
Acquisition of Commercial Papers	(117,474,751)	(111,774,341)
Acquisition of Treasury Bill Repos	(1,392,684)	(9,327,585)
Acquisition of Commercial Papers Repo	(51,000,000)	(27,000,000)
Acquisition of Unquoted Debentures	-	(20,000,000)
Acquisition of Promissory Notes	-	(32,500,000)
Acquisition of Fixed Deposits	(644,604,817)	(88,000,000)
Proceeds from Maturity of Treasury Bills	9,469,028	35,795,238
Proceeds from Maturity of Promissory Notes	32,499,999	-
Proceeds from Maturity of Fixed Deposits	336,466,818	-
Proceeds from Maturity of Commercial Papers	174,449,092	15,000,000
Proceeds from Maturity of Commercial Papers Repo	66,000,000	12,000,000
<b>Net Cash used in Investing Activities</b>	<u>(195,587,315)</u>	<u>(270,930,514)</u>
<b>Cash Flows from Financing Activities</b>		
Cash Received on Creation of Units	294,626,012	263,331,496
Cash Paid on Redemption of Units	(121,536,836)	(881,080)
Income Distribution	(18,900,258)	-
<b>Net Cash generated from Financing Activities</b>	<u>154,188,918</u>	<u>262,450,416</u>
Net Increase in Cash and Cash Equivalents	44,019	45,033
Cash and Cash Equivalents at the beginning of the year/period	45,033	-
<b>Cash and Cash Equivalents at the end of the year/period</b>	<u>89,052</u>	<u>45,033</u>

The accounting policies and notes on pages 40 through 49 form an integral part of the Financial Statements.



## Guardian Acuity Fixed Income Fund

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

#### 1. GENERAL INFORMATION

Guardian Acuity Fixed Income Fund is an open ended unit trust fund approved by the Securities and Exchange Commission of Sri Lanka. The fund was launched on 27 February 2012.

The fund is managed by Guardian Acuity Asset Management Limited which is incorporated and domiciled in Sri Lanka. The registered office of the management company is located at No.61, Janadhipathi Mawatha Colombo 01. The trustee of the fund is Deutsche Bank AG having its place of business at No 86, Galle Road, Colombo 03.

The investment objective of the fund is to provide an annual income by investing in a portfolio of fixed income securities with a lower level of risk by investing with high credit quality institutions.

#### 2. ACCOUNTING POLICIES

##### 2.1 BASIS OF PREPARATION

The financial statements are prepared in accordance with and comply with the Sri Lanka Accounting Standards comprising LKAS and SLFRS's 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 have been prepared on a historical cost basis, except for financial assets classified as HeldforTrading all of which have been measured at fair value. The financial statements are presented in Sri Lankan Rupees. The statement of financial position is presented broadly in order of a liquidity basis.

##### 2.1.1 Statement of compliance

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

##### 2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

##### 2.2.1 Impairment losses on financial assets – Loans and receivables

The fund reviews its financial investments classified as loans and receivables at each reporting date to assess whether they are impaired. In particular management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting future changes to the allowance.

##### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 2.3.1 Financial instruments – initial recognition and subsequent measurements

Financial Assets within the scope of LKAS 39 are classified as Financial Assets at Fair Value Through Profit or Loss and Loans and Receivables as appropriate. The Fund determines the classification of its Financial Assets at initial recognition.

##### 2.3.1.1 Date of recognition

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

**2.3.1.2 Initial measurement of financial instruments**

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management intention in acquiring them. All financial assets are measured initially at the fair value plus transaction costs, except in the cases of financial assets recorded at fair value through profit or loss.

**2.3.1.3 Financial Assets Held for Trading**

Financial assets or financial liabilities held for trading are recorded in the Statement of Financial Position at fair value. Changes to the fair values of financial assets or financial liabilities held for trading is recorded in 'Net Trading Income'. Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near-term.

**2.3.1.4 Financial assets - loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables in the statement of financial position comprise commercial papers, trust certificates and Treasury bill reverse repurchase agreements.

After initial measurement, loans and receivable are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. The amortization is included in the "interest income" in the statement of comprehensive income. The losses arising from impairment is recognised in the statement of comprehensive income in "credit loss expense".

**2.3.1.5 Derecognition of financial assets**

A financial asset is derecognised when,

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

**2.3.1.6 Determination of Fair Value**

The fair value for financial instruments traded in active markets at the reporting date is based on their average quoted market price or average dealer price quotations without any deduction for transaction costs.

**2.3.2 Recognition of income**

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

**(i) Interest Income**

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income of treasury bills reverse repurchase agreements, commercial papers and corporate debt securities are recognised at gross of notional tax credit or withholding tax.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

**(iii) Net change in unrealised gains/(losses) on financial assets held at fair value through profit and loss**

Net change in unrealised gain/(losses) on financial assets held at fair value through profit and loss includes all gains and losses arise from changes in fair value for financial assets held at fair value through profit or loss".

**(iv) Net realised gains/(losses) on financial assets held at fair value through profit and loss**

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

**2.3.3 Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and interest accrued on cash held in bank with an original maturity of three months or less.

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

**2.3.4 Income tax**

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. The fund is liable to pay income tax at the rate of 10% in accordance with the Inland Revenue Act No.10 of 2006.

**2.3.5 Expenses**

The management fee and trustee fee of the fund as per the explanatory memorandum is as follows,

Management fee	-	0.60% p.a. of net asset value (Calculated on daily basis)
Trustee fee	-	0.15% p.a. of net asset value (Calculated on daily basis)

**2.3.6 Accrued expenses**

Payables are initially recognised at fair value, which is the fair value of the consideration to be paid in the future for service received, whether or not billed to the fund, and subsequently at amortised cost.

**2.3.7 Unitholders' funds and net assets attributable to unit holders**

Unitholders' funds has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities, other than those due to Unitholders, as at the balance sheet 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 calculated 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. Income not distributed is included in net assets attributable to unit holders.

**2.4 Effect of Sri Lanka Accounting Standards Issued But Not yet Effective**

Standards issued but not yet effective up to the date of the Fund's financial statements are given below. The company will adopt these standards when they become effective. Pending a detailed review of the financial impact is not reasonably estimable as at the date of publication of these financial statements

- Sri Lanka Financial Reporting Standards (SLFRS) 09 – Financial Instruments
- Sri Lanka Financial Reporting Standards (SLFRS) 13 – Fair Value Measurements

The SLFRS 09 to be effective for financial periods beginning on or after 01 January 2015 and SLFRS 13 to be effective for financial periods beginning on or after 01 January 2014.

**3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**(a) Financial Instruments**

The Fund's principal financial assets comprise investments in trading securities and cash at bank. The main purpose of these financial instruments is to generate a return on the investment made by Unitholders. The Fund's principal financial liabilities comprise amounts attributable to Unitholders, which are the amounts owed to Unitholders of the Fund. The Fund also has receivables and payables which arise directly from its operations.

In accordance with LKAS 39 *Financial Instruments: Recognition and Measurement*, the Fund's receivables are classified as 'loans and receivables'. Trading securities are classified as 'held for trading', meaning they are valued at fair value through profit or loss. Amounts attributable to Unitholders are classified as 'other financial liabilities' and are carried at the redemption amount being net asset value. Payables are designated as 'other financial liabilities' at amortised cost.

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

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

Financial instruments of the Fund comprise investments in trading securities for the purpose of generating a return on the investment made by Unitholders.

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

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

**(c) Credit risk**

Credit risk is the risk that the counterparty to the financial statement will fail to discharge an obligation and cause the Trust to incur a financial loss.

The Trust's exposure to credit risk from its financial assets arises from default of the counterparty, with the current exposure equal to the carrying amount of financial assets as at the balance sheet date. The credit risk exposure on these instruments is not deemed to be significant. It is the trust's policy to enter into financial instruments with reputable counterparties with high credit quality.

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

<b>Counterparty</b>	<b>Rating Agency</b>	<b>Credit Rating</b>
Central Finance PLC	Fitch Ratings	A+(lka)
Peoples Leasing & Finance PLC	Fitch Ratings	AA-(lka)
Senkadagala Finance PLC	Fitch Ratings	BBB+(lka)
Melsta Regal Finance LTD	Fitch Ratings	A+(lka)
Bank of Ceylon	Fitch Ratings	AA+(lka)

## Guardian Acuity Fixed Income Fund

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

Hatton National Bank PLC	Fitch Ratings	AA-(lka)
People's Bank	Fitch Ratings	AA+(lka)
National Development Bank PLC	Fitch Ratings	AA-(lka)
Merchant Bank of Sri Lanka	RAM Ratings	AA-(lka)

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

#### (d) Market risk

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

This risk is managed by ensuring that all investment activities are undertaken in accordance with established mandate limits and investments strategies.

##### **Price risk**

Price risk is the risk that the fair value of the Fund's investment in trading securities, fluctuate as a result of changes in the price of the Fund's investments in trading securities.

According to the Fund Manager a hypothetical 100 basis points change in the yield rates of the held for trading financial assets at 31 December 2013 would impact net income by approximately Rs. Nil (2012 : Rs.64,949/-).

The above figures are calculated across the entire investment portfolio on an annual basis. There is a corresponding change to the fair value of trading securities within the Statement of Financial Position.

##### **Interest rate risk**

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

The Fund's exposure to interest rate risk primarily arises from changes in interest rates applicable to the financial assets. In Unit Trust valuation, short term instruments are valued at cost plus accrued interest basis and long term instruments are valued at mark to market basis.

#### (e) Liquidity risk

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

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

Guardian Acuity Fixed Income Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

4. GROSS INCOME	Year ended 31.12.2013 Rs.	10 months period ended 31.12.2012 Rs.
Interest on		
Fixed Deposits	25,861,469	9,021,853
Treasury Bill Reverse Repurchase Agreements (4.1)	1,664,371	1,314,917
Treasury Bills (4.1)	1,010,778	1,724,231
Debentures	2,662,833	1,926,038
Promissory Notes	1,964,571	2,992,469
Commercial Paper and Repo	1,375,603	1,326,205
Commercial Paper	12,556,754	4,915,082
	<u>47,096,379</u>	<u>23,220,795</u>
4.1 Interest on Treasury Bills and Treasury Bill Repurchase Agreements have been accounted for Gross of Notional Tax.		
5. TAXATION	Year Ended 31.12.2013 Rs.	10 months period ended 31.12.2012 Rs.
Tax expense for the year/period	4,411,105	2,193,603
Under/ (Over) provision with respect of prior period	(11,964.00)	-
	<u>4,399,141</u>	<u>2,193,603</u>
5.1 A reconciliation between the tax expense and the product of taxable profit multiplied by the statutory tax rate is as follows:		
Net profit before tax	44,014,457	21,816,391
Aggregate allowable net (gains)/losses	96,597	119,639
Total statutory income	<u>44,111,054</u>	<u>21,936,030</u>
<b>Income tax at the rate of 10% (2012 - 10%)</b>		
Income tax expense reported in the Statement of Comprehensive Income	<u>4,411,105</u>	<u>2,193,603</u>
6. CASH AND CASH EQUIVALENTS	2013 Rs.	2012 Rs.
Cash at Bank	89,052	45,033
	<u>89,052</u>	<u>45,033</u>
7. FINANCIAL ASSETS - HELD FOR TRADING	2013 Rs.	2012 Rs.
Government debt securities	-	9,886,896
	<u>-</u>	<u>9,886,896</u>

Guardian Acuity Fixed Income Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

<b>8. FINANCIAL ASSETS - LOANS AND RECEIVABLES</b>	<b>2013</b>	<b>2012</b>
	<b>Rs.</b>	<b>Rs.</b>
Treasury Bill Reverse Repurchase Agreement (Less than 3 months)	10,722,448	9,329,968
Commercial Papers (Note 8.1)	42,392,912	100,123,575
Commercial Papers Repo (Note 8.2)	-	15,784,726
Promissory Notes (Note 8.3)	-	35,193,222
Fixed Deposits (Note 8.4)	402,284,941	91,355,545
Unquoted Debentures (Note 8.5)	20,973,060	21,229,553
	<u>476,373,361</u>	<u>273,016,589</u>
<b>8.1 Commercial Papers</b>		
Merchant Bank of Sri Lanka PLC	42,392,912	-
Hayleys PLC	-	28,725,861
Sampath Leasing & Finance PLC	-	29,919,642
Singer Sri Lanka PLC	-	41,478,072
	<u>42,392,912</u>	<u>100,123,575</u>
<b>8.2 Commercial Paper Repo</b>		
NDB Bank PLC	-	15,784,726
	<u>-</u>	<u>15,784,726</u>
<b>8.3 Promissory Notes</b>		
People's Leasing and Finance PLC	-	35,193,222
	<u>-</u>	<u>35,193,222</u>
<b>8.4 Fixed Deposits</b>		
Hatton National Bank PLC	16,022,698	14,364,304
DFCC Bank	-	46,564,463
People's Bank	21,005,258	30,426,778
Senkadagala Finance Company PLC	63,466,533	-
People's Leasing and Finance PLC	69,180,560	-
Melsta Regal Finance Limited	69,036,196	-
National Development Bank PLC	101,335,238	-
Central Finance Company PLC	47,230,697	-
Bank of Ceylon	15,007,761	-
	<u>402,284,941</u>	<u>91,355,545</u>
<b>8.5 Unquoted Debentures</b>		
Central Finance Company PLC	20,973,060	21,229,553
	<u>20,973,060</u>	<u>21,229,553</u>
<b>9. ACCRUED EXPENSES</b>	<b>2013</b>	<b>2012</b>
	<b>Rs.</b>	<b>Rs.</b>
Management Fees Payable	219,629	320,104
Trustee Fee and Custodian Fee Payable	61,497	78,423
Audit Fee	137,088	137,088
	<u>418,214</u>	<u>535,615</u>

**Guardian Acuity Fixed Income Fund**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 December 2013

**10. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Determination of fair value and fair value hierarchy**

SLFRS 7 *Financial Instruments: Disclosures* require fair value measurements to be disclosed by the source of inputs, using a three level hierarchy. The hierarchy for measuring fair value consists of Levels 1 to 3:

Level 1 – An investment in a fund is classified in Level 1 of the hierarchy when that investment is quoted in an active market and measured at the unadjusted quoted price at the reporting date.

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

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

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

As at 31 December 2012	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets - Held for trading				
Government Treasury bills	9,886,896	-	-	9,886,896

There were no financial assets classified as held for trading as at 31 December 2013.

**11. CONTINGENCIES**

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

**12. POST BALANCE SHEET EVENTS**

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

**13. CAPITAL COMMITMENTS**

The Fund does not have significant Capital Commitments at the Reporting date.

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

Transactions in units for the year ended 31 December are summarised as follows:

	2013 Units	2012 Units
Units at the beginning of the year	25,613,215	-
Units sold	25,753,507	25,697,433
Units redeemed	(10,565,730)	(84,218)
Units at the end of the year	<u>40,800,992</u>	<u>25,613,215</u>

Units in issue and deemed to be in issue as at 31 December 2013 is 40,800,992 and the creation and redemption Unit price as at this date is 11.67



Guardian Acuity Fixed Income Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

15. RELATED PARTY TRANSACTIONS

The following institutions have been identified as related parties to the Fund in accordance with Sri Lanka Accounting Standards LKAS 24.

Name of Company	Names of Directors	Nature of Transactions
Guardian Acuity Asset Management Limited (Managing Company)	Mr.D.C.R Gunawardana	Guardian Acuity Asset Management Limited hold 3,745,318 units in Guardian Acuity fixed Value of the units held by Guardian Acuity Asset Management Limited in Guardian Acuity Fixed Income fund as at 31 December 2013 is Rs. 43,707,865/- (2012 : Rs. 41,273,408)
	Mr.Tyrone De Silva	
	Mr. D.P.N. Rodrigo	
	Mr. M. R. Abeywardena	
	Mr. K. Selvanathan	
Deutsche Bank (Trustee)	Mrs. W.Y.R. Fernando	Fund has paid Rs.2,104,067/- (2012 : 1,110,127/-) as management fees during the period. The fee payable as at 31 December 2013 is Rs.219,629/-(2012 : Rs.320,104)
		Fund has paid Rs. 589,150/- (2012 :285,581/- ) as trustee and custodial fees during the period. The payable as at 31 December 2013 is Rs.61,497/- (2012 :Rs.78,423/-)
Acuity Partners (Pvt) Ltd (Joint Venture partner in managing company)	Mr.R.Abeywardana	Acuity Partners (Pvt) Ltd hold 2,500,000 units in Guardian Acuity Fixed Income Fund Value of the units held by Acuity Partners (Pvt) Ltd in Guardian Acuity Fixed Income fund as at 31 December 2013 is Rs.29,175,000/-
	Mr.T.De Silva	
	Mr.D.Rodrigo	
Ceylon Guardian Investment Trust PLC (Joint Venture partner in managing company)	Mr.K Selvanathan	Ceylon Guardian Investment Trust PLC hold 3,750,000 units in Guardian Acuity Fixed Income Fund Value of the units held by Ceylon Guardian Investment Trust PLC in Guardian Acuity Fixed Income fund as at 31 December 2013 is Rs. 43,762,500/-
	Mr.D.C.R Gunawardana	
Ceylon Investment PLC (Subsidiary of Ceylon Guardian Investment Trust PLC)	Mr.D.C.R. Gunawardana	Ceylon Investment PLC hold 3,750,000 units in Guardian Acuity Fixed Income Fund Value of the units held by Ceylon Investment PLC in Guardian Acuity Fixed Income fund as at 31 December 2013 is Rs. 43,762,500/-
	Mr.K. Selvanathan	
HNB Assurance PLC (Subsidiary of Hatton National Bank PLC, one of the ultimate parent companies of Acuity Partners (Pvt) Ltd	Mr.D.Rodrigo	HNB Assurance PLC hold 1,998,002 units in Guardian Acuity Fixed Income Fund Value of the units held by HNB Assurance PLC in Guardian Acuity Fixed Income fund as at 31 December 2013 is Rs. 23,316,683/-

**Guardian Acuity Fixed Income Fund**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 December 2013

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**13. RELATED PARTY TRANSACTIONS (Contd.)**

<b>Name of Company</b>	<b>Names of Directors</b>	<b>Nature of Transactions</b>
Hatton National Bank PLC (Joint Parent company of Acuity Partners (Pvt) Ltd)		Total interest income from Hatton National Bank PLC Ltd is Rs.1,638,000/- Balance of outstanding fixed deposits maintained with Hatton National Bank PLC amounts to Rs 16,687,320/- Rs.16,022,698/-
Guardian Fund Management-Staff (Fund Management Company of Ceylon Guardian Investment Trust PLC and Ceylon Investment PLC)		Guardian fund management staff hold 346,075 units in Guardian Acuity fixed Income Fund (Value of the units held by Guardian fund management limited staff as at 31 December 2013 is Rs. 4,038,695)