

MTN NETWORKS (PRIVATE) LIMITED**Income statement****(all amounts in Sri Lanka Rupees Thousands)**

	Notes	Year ended 31 December	
		2004	2003
Sales	2	11,406,685	7,476,924
Cost of sales		(3,931,917)	(2,973,094)
Gross profit		7,474,768	4,503,830
Other operating income		30,092	16,994
Administrative expenses		(1,597,415)	(991,609)
Distribution costs		(1,555,080)	(862,547)
Operating profit	3	4,352,365	2,666,668
Finance cost	5	(212,464)	(252,881)
Profit before tax		4,139,901	2,413,787
Tax	6	(39,382)	445,150
Net profit		4,100,519	2,858,937
Earnings per ordinary share (Rs)	7	107.90	74.35

The accounting policies on pages 101 to 104 and the notes on pages 105 to 117 form an integral part of these financial statements.

MTN NETWORKS (PRIVATE) LIMITED

Balance sheet - 31 December 2004

(all amounts in Sri Lanka Rupees Thousands)

	Notes	31 December	
		2004	2003
ASSETS			
Non - current assets			
Capital work-in-progress	9	1,650,328	1,226,149
Property, plant and equipment	10	11,733,264	9,682,329
Intangible assets	11	82,300	76,655
		13,465,892	10,985,133
Current assets			
Inventories	12	229,410	173,579
Receivables and prepayments	13	2,268,281	1,546,397
Cash and cash equivalents	14	3,190,744	611,922
		5,688,435	2,331,898
Total assets		19,154,327	13,317,031
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shares	22	370,000	370,000
Preference shares	23	1,268,979	1,268,979
Retained earnings		7,068,281	3,833,826
Revaluation reserve	24	4,896	5,117
		8,712,156	5,477,922
Non - current liabilities			
Subscription in advance	17	3,414,190	3,414,190
Borrowings	16	3,137,717	2,347,662
Retirement benefit obligations	19	48,497	29,449
		6,600,404	5,791,301
Current liabilities			
Trade and other payables	15	3,483,757	1,515,342
Current tax liabilities		32,854	Nil
Borrowings	16	325,156	532,466
		3,841,767	2,047,808
Total liabilities		10,442,171	7,839,109
Total equity and liabilities		19,154,327	13,317,031

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board on 24 February 2005.

..... Signed
 Directors
 Signed

The accounting policies on pages 101 to 104 and the notes on pages 105 to 117 form an integral part of these financial statements.

MTN NETWORKS (PRIVATE) LIMITED
Statement of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

	Note	Ordinary Share Capital	Revaluation Reserve	Retained Earnings	Total
Balance at 1 January 2003		370,000	Nil	1,472,363	1,842,363
Revaluation surplus	24	Nil	5,117	Nil	5,117
Net profit		Nil	Nil	2,858,937	2,858,937
Dividend paid	8	Nil	Nil	(497,474)	(497,474)
Balance at 31 December 2003		370,000	5,117	3,833,826	4,208,943
Balance at 1 January 2004		370,000	5,117	3,833,826	4,208,943
Depreciation transfer		Nil	(221)	221	Nil
Net Profit		Nil	Nil	4,100,519	4,100,519
Dividend paid		Nil	Nil	(866,285)	(866,285)
Balance at 31 December 2004		370,000	4,896	7,068,281	7,443,177

The accounting policies on pages 101 to 104 and the notes on pages 105 to 117 form an integral part of these financial statements.

MTN NETWORKS (PRIVATE) LIMITED

Cash flow statement

(all amounts in Sri Lanka Rupees Thousands)

	Notes	Year ended 31 December	
		2004	2003
Operating activities			
Cash generated from operations	25	7,151,974	3,628,828
Interest received		100,914	22,691
Interest paid		(276,112)	(174,835)
Tax paid		(6,528)	Nil
Retirement benefit obligations paid	19	(165)	(136)
Net cash from operating activities		6,970,083	3,476,548
Investing activities			
Purchase of property, plant and equipment		(645,310)	(493,177)
Purchase of intangible assets		(136,830)	(91,368)
Expenditure incurred on capital work-in-progress		(3,285,736)	(3,354,746)
Proceeds from sale of property, plant and equipment		7,248	1,521
Net cash used in investing activities		(4,060,628)	(3,937,770)
Financing activities			
Repayment of finance leases		(18,564)	(21,888)
Repayment of long term borrowings		(424,498)	(430,803)
Proceeds from long term borrowings		1,054,737	904,519
Dividend paid		(866,285)	(760,262)
Net cash used in financing activities		(254,610)	(308,434)
Increase / (decrease) in cash and cash equivalents		2,654,845	(769,656)
Movement in cash and cash equivalents			
At start of year		515,490	1,285,146
Increase / (decrease)		2,654,845	(769,656)
At end of year	14	3,170,335	515,490

The accounting policies on pages 101 to 104 and the notes on pages 105 to 117 form an integral part of these financial statements.

MTN NETWORKS (PRIVATE) LIMITED

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1 Basis of accounting

The financial statements are prepared in accordance with and comply with Sri Lanka Accounting Standards. The financial statements are prepared under the historical cost convention except for the revaluation of buildings.

2 Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Such balances are translated at year-end exchange rates unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used.

3 Intangible assets

All intangible assets are stated at historical cost less accumulated amortisation. Amortisation is calculated on the straight line method to write off the cost of each asset over their estimated useful lives, over one year from the date of purchase.

Cost associated with the maintenance of existing computer software programmes are expensed as incurred.

4 Property, plant and equipment

All property, plant and equipment is initially recorded at cost. Buildings are subsequently shown at market value, based on triennial valuations by external independent valuers, less subsequent depreciation for property. All other property, plant and equipment is stated at historical cost less depreciation.

Increase in the carrying amount arising on revaluation are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from revaluation and other reserves to retained earnings.

Cost in the case of telecommunication network comprises expenditure incurred up to and including the last distribution point before customers' premises and includes contractors' charges, materials, direct labour and related overheads. A fee of 1% payable on addition to capital investments, to Sri Lanka Telecommunication Regulatory Commission, is capitalised along with the property, plant and equipment.

Depreciation is calculated to write off the cost or valuation of property, plant and equipment on a straight line basis over the expected useful lives of assets concerned.

MTN NETWORKS (PRIVATE) LIMITED

Accounting policies (Contd)

4 Property, plant and equipment (Contd)

The principal annual depreciation rates used are :

	<u>% per annum</u>
Buildings	2.5 - 2.59
Building - electrical installation	12.5
Building - leasehold property	33 1/3
Computer equipment	20
Telecom equipment - other than prepaid system	10
- prepaid system	10 and 20
Office equipment	20
Furniture and fittings	20
Toolkits	10
Motor vehicles	20

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

5 Accounting for leases where Company is the lessee.

Leases of property, plant and equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges are included in other long term payables. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes all expenses incurred in bringing the inventories to their present location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

MTN NETWORKS (PRIVATE) LIMITED

Accounting policies (Contd)

7 Trade receivables

Trade receivables are carried at anticipated realisable values. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

8 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

9 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

10 Current taxes

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act.

11 Deferred income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates excluding any surcharges are used to determine deferred income tax.

Under this method the Company is required to make provision for deferred income taxes on the revaluation of certain non-current assets and, in relation to an acquisition, on the difference between the fair values of the net assets acquired and their tax base.

The principal temporary differences arise from depreciation on property, plant and equipment and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

12 Trade and other payables

Liabilities classified as trade and other payables in the balance sheet are those which fall due for payment on demand or within one year from the balance sheet date. Items classified as non-current liabilities are those which fall due for payment beyond a period of one year from the balance sheet date.

MTN NETWORKS (PRIVATE) LIMITED

Accounting policies (Contd)

13 Defined benefit plan

Terminal benefits are provided for all employees of the Company at the rate of one half of the basic or consolidated wage or salary, applicable to the last month of the financial year, for each year of completed service.

14 Defined contribution plans

All employees of the Company are members of the Employees' Provident Fund and Employees' Trust Fund, to which the Company contributes 12% or 15% and 3% respectively, of such employees' basic or consolidated wage or salary.

15 Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, if any, or performance of services, net of sales taxes and discounts.

Other revenues earned by the Company are recognised on the following bases :

Interest income - as it accrues (taking into account the effective yield on the asset)
 unless collectibility is in doubt.

Rental income - on an accrual basis.

16 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

MTN NETWORKS (PRIVATE) LIMITED

Notes to the financial statements

(In the notes all amounts are shown in Sri Lanka Rupees Thousands unless otherwise stated)

General information

1 MTN Networks (Private) Limited is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at 475, Union Place, Colombo 2.

Sales

2	2004	2003
Local call revenue	6,583,988	4,240,643
International call revenue	199,399	138,789
International roaming revenue	1,703,855	1,323,313
Rental income	1,273,758	883,344
Value added services	153,734	108,799
Other billing income	44,314	43,421
ISP revenue	20,098	22,461
Thuraya revenue	12,606	11,214
Sales of phones and accessories	512,220	319,818
Revenue from reconnection charges	2,945	4,383
International terminating revenue - EGO	544,215	120,908
ILAC revenue	320,759	255,211
Other income	39,861	7,036
	11,411,752	7,479,340
Less : Turnover Tax	(5,067)	(2,416)
	11,406,685	7,476,924

Operating profit

3 The following items have been charged / (credited) in arriving at operating profit :

	2004	2003
Directors' emoluments		
- as directors	2,040	195
- for management services	4,190	3,150
Auditors' remuneration		
- Audit fees	750	660
- Other professional services	1,275	250
Amortisation of computer software (Note 11)	142,706	79,008
Depreciation on property, plant and equipment (Note 10)		
- owned assets	1,433,305	983,221
- leased assets under finance leases	18,936	17,372
Repair and maintenance expenditure on property, plant and equipment	454,317	242,776
Provision for bad debts	277,919	247,588
Operating lease rentals		
- office	49,572	39,260
- base stations and lease circuits	547,004	462,235
Cost of inventories (included in 'cost of sales')	403,821	377,087
Staff costs (Note 4)	420,760	260,624
Profit on disposal of property, plant and equipment	(3,153)	(358)

MTN NETWORKS (PRIVATE) LIMITED

Notes to the financial statements (Contd)

Staff costs	2004	2003
4		
Wages and salaries	338,035	214,675
Social security costs	20,589	8,892
Pension costs - defined contribution plans	42,923	25,937
Pension costs - defined benefit plan (Note 19)	19,213	11,120
	420,760	260,624

Average number of persons employed during the year

- Full time	1,215	815
- Part time	60	20

Finance cost

5	2004	2003
Net foreign exchange transaction gain / (loss)	14,712	(94,742)
Interest income on call deposits	107,005	24,338
Interest expense on:		
- bank overdrafts	(250)	(2,460)
- term loans	(319,289)	(170,365)
- parent company loan	(2,128)	(2,010)
- finance leases	(12,514)	(7,642)
	(334,181)	(182,477)
	(212,464)	(252,881)

Tax

6 Under the agreement entered into between the Company and the Board of Investment of Sri Lanka, the Company is exempt from income tax for fifteen years (initial tax exemption period of seven years was extended to fifteen years as per the amendment made to BOI agreement on 17 April 2003) commencing either from the year in which it first makes a profit, or in the fifth year subsequent to the start of commercial operations whichever is earlier. The Company commenced commercial operations during the year 1995 and profits were first recorded during the year ended 31 December 1998. Accordingly, the tax exemption period commenced from 1 January 1998 and the Company has current tax liability only for the interest income earned from fixed and call deposits for the year under review.

	2004	2003
Current tax	39,382	Nil
Deferred tax (Note 18)	Nil	(445,150)
	39,382	(445,150)

MTN NETWORKS (PRIVATE) LIMITED

Notes to the financial statements (Contd)

Earnings per share

7 Basic earning per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2004	2003
Net profit after tax	4,100,519	2,858,937
Preference share dividend (8.5%)	(107,863)	(107,863)
Net profit attributable to ordinary shareholders	3,992,656	2,751,074
Weighted average number of ordinary shares in issue (thousands)	37,000	37,000
Basic earnings per share (Rs)	107.90	74.35

Dividend

8 Dividend for the year ended 31 December 2004 is to be proposed at the Annual General Meeting. Dividends for the year ended 31 December 2003 were declared and paid during the year are as follows :

Ordinary share dividends of Rs 629,714,850 (Rs17.02 per share)

Cumulative preference share dividends of Rs 236,570,423.

Capital work-in-progress

	2004	2003
As at 1 January	1,226,149	1,217,713
Expenditure incurred during the year	3,285,736	3,354,746
Amount capitalised as property, plant and equipment (Note 10)	(2,850,036)	(3,309,383)
Amount transferred to intangible assets (Note 11)	(11,521)	(36,927)
As at 31 December	1,650,328	1,226,149

MTN NETWORKS (PRIVATE) LIMITE
Notes to the financial statements (Contd)
Property, plant and equipment

10 (a)	Buildings	Computer Systems	Telecom equipment	Furniture, fittings & Other equipment	Motor vehicles	Total
Year ended 31 December 2003						
Opening net book amount	193,650	511,160	6,021,798	67,861	66,590	6,861,059
Revaluation	5,117	Nil	Nil	Nil	Nil	5,117
Additions	97,154	256,772	77,250	56,778	20,572	508,526
Transferred from capital WIP (Note 9)	Nil	272,470	3,036,913	Nil	Nil	3,309,383
Disposals	Nil	Nil	Nil	Nil	(1,163)	(1,163)
Depreciation charge (Note 3)	(16,205)	(143,238)	(795,026)	(23,857)	(22,267)	(1,000,593)
Closing net book amount	279,716	897,164	8,340,935	100,782	63,732	9,682,329
At 31 December 2003						
Cost / valuation	299,280	1,146,776	10,694,676	161,932	136,173	12,438,837
Accumulated depreciation	(19,564)	(249,612)	(2,353,741)	(61,150)	(72,441)	(2,756,508)
Net book amount	279,716	897,164	8,340,935	100,782	63,732	9,682,329
Year ended 31 December 2004						
Opening net book amount	279,716	897,164	8,340,935	100,782	63,732	9,682,329
Additions	90,753	166,766	247,589	87,070	65,057	657,235
Transferred from capital WIP (Note 9)	Nil	266,518	2,583,518	Nil	Nil	2,850,036
Disposals	Nil	(2,036)	Nil	(196)	(1,863)	(4,095)
Depreciation charge (Note 3)	(18,700)	(201,304)	(1,166,525)	(37,321)	(28,391)	(1,452,241)
Closing net book amount	351,769	1,127,108	10,005,517	150,335	98,535	11,733,264
At 31 December 2004						
Cost / valuation	390,033	1,577,410	13,525,783	242,832	192,107	15,928,165
Accumulated depreciation	(38,264)	(450,302)	(3,520,266)	(92,497)	(93,572)	(4,194,901)
Net book amount	351,769	1,127,108	10,005,517	150,335	98,535	11,733,264

(b) The Company's buildings were revalued during the year ended 31 December 2003, by a professional independent valuer. Valuations were made on the basis of the market value for existing use. The book value of the properties were adjusted to the revalued amount and the surplus arising was credited to revaluation reserve in shareholders' equity.

If the buildings were stated on the historical cost basis, the amount would be as follows:

	2004	2003
Cost	389,928	299,175
Accumulated depreciation	(43,055)	(24,487)
Net book amount	346,873	274,688

MTN NETWORKS (PRIVATE) LIMITED

Notes to the financial statements (Contd)

Property, plant and equipment (Contd)

- (c) Property, plant and equipment includes motor vehicles acquired under finance leases, the net book value of which is made up as follows :

	2004	2003
Cost	100,567	91,497
Accumulated depreciation	(58,870)	(39,934)
Net book value	41,697	51,563

- (d) Property, plant and equipment includes fully depreciated assets still in use, the cost of which amounted to Rs 398,366,185 (2003 - Rs 107,248,090) at the balance sheet date.

- (e) Borrowing cost of Rs 25,728,452 arising on financing specifically for the construction of telecom equipment, were capitalised during the year and is included in additions to property, plant and equipment shown in note 9. Capitalisation rates of LIBOR + 0.7% and AWPLR + 0.1% were used representing the borrowing cost of the loans used to finance the project.

Intangible assets

11

Computer software

Year ended 31 December

	2004	2003
Opening net book amount	76,655	27,368
Additions	136,830	91,368
Transferred from capital WIP	11,521	36,927
Amortisation charge (Note 3)	(142,706)	(79,008)
Closing net book amount	82,300	76,655

At 31 December

Cost	329,474	181,123
Accumulated amortisation	(247,174)	(104,468)
Net book amount	82,300	76,655

Inventories

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	2004	2003
Phone stock	48,916	35,020
Accessories and consumables	180,494	138,559
	229,410	173,579

MTN NETWORKS (PRIVATE) LIMITED**Notes to the financial statements (Contd)****Receivables and prepayments**

13	2004	2003
Trade receivables	1,748,525	1,267,358
Prepayments	170,406	90,429
Amount due from parent company (Note 27)	1,000	1,000
Amounts due from related companies (Note 27)	12,740	14,174
Other receivables	335,610	173,436
	2,268,281	1,546,397

Cash and cash equivalents

14	2004	2003
Cash at bank and in hand	884,399	271,779
Short term bank deposits	2,306,345	340,143
	3,190,744	611,922

The weighted average effective interest rate on short term bank deposits was 5.64%. For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following :

	2004	2003
Cash and bank balances	3,190,744	611,922
Bank overdrafts (Note 16)	(20,409)	(96,432)
	3,170,335	515,490

Trade and other payables

15	2004	2003
Trade payables	596,546	387,125
Amount due to parent company (Note 27)	24,461	100,780
Amount due to related companies (Note 27)	264,845	113,083
Accrued expenses and provisions	1,607,233	217,591
Customer deposits	780,170	515,420
Other payables	210,502	181,343
	3,483,757	1,515,342

Amount due to parent company is unsecured, interest free and is payable on demand.

MTN NETWORKS (PRIVATE) LIMITED**Notes to the financial statements (Contd)****Borrowings****16****2004****2003****Current**

Bank overdrafts	20,409	96,432
Bank borrowings	269,698	408,103
Loan from ultimate parent company	12,780	11,762
Lease liabilities	22,269	16,169

325,156	532,466
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Non current

Bank borrowings	3,102,216	2,291,812
Loan from ultimate parent company	13,408	21,017
Lease liabilities	22,093	34,833

3,137,717	2,347,662
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Maturity of non current borrowings (excluding finance lease liabilities):

Between 1 and 2 years	2,235,754	1,177,891
Between 2 and 5 years	812,446	803,855
More than 5 years	67,424	331,083

3,115,624	2,312,829
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The bank loans and the overdrafts are secured on the letter of comfort given by Telekom Malaysia Berhad, the ultimate parent company.

The term loan has been obtained from Public Bank Berhad. This loan is repayable in US Dollars and the final instalment of US \$ 771,685 was paid during the year.

A syndicated loan has been obtained from commercial banks in order to purchase and construct telecommunication equipment and network. This loan is secured by a letter of guarantee from Telekom Malaysia Berhad. Facilities have been obtained in Rupee and Dollar terms. The balance outstanding as at the balance sheet date amounted to Rs 1,097,329,640 and US \$ 3,041,379. The loans will be settled in 29 quarterly instalments commencing from March 2003.

A loan has been obtained from Standard Chartered Bank in order to meet working capital requirements including licensing and other related acquisition costs in relation to the international gateway licence. The loan is secured by a Corporate Guarantee for LKR equivalent of US \$ 25 Mn from Telekom Malaysia Berhad. The balance outstanding as at the balance sheet date amounted to Rs 1,956,000,000. Loan will be repaid at final maturity.

MTN NETWORKS (PRIVATE) LIMITED

Notes to the financial statements (Contd)

Borrowings (Contd)

16

The loan obtained from Telekom Malaysia Berhad, the ultimate parent company is repayable in US Dollars and the balance outstanding as at 31 December 2004 amounted to US \$ 250,000 (2003 - US \$ 340,000). The loan is repayable in five equal annual instalments commencing 24 months from the first draw down period (i.e. 19 August 1999).

	2004	2003
Weighted average effective interest rates :		
- bank overdrafts	12%	10%
- bank borrowings - term loan	SIBOR + 1.25%	SIBOR + 1.25%
- lease liabilities	12.61%	15.12%
- bank borrowings - syndicated rupee loan	AWPLR + 0.1%	AWPLR + 0.1%
- bank borrowings - syndicated US\$ loan	LIBOR + 0.7%	LIBOR + 0.7%
- loan obtained from ultimate parent company	LIBOR + 3.5%	LIBOR + 3.5%
- bank borrowings	AWPLR + 0.35%	AWPLR + 0.35%

Finance lease liabilities - minimum lease payments:

	2004	2003
Not later than one year	26,844	21,613
Later than one year and not later than five years	24,397	43,100
	51,241	64,713
Future finance charges on finance leases	(6,879)	(13,711)
Present value of finance lease liabilities	44,362	51,002

Representing lease liabilities:

- Current	22,269	16,169
- non current	22,093	34,833
	44,362	51,002

Subscription in advance

17

	2004	2003
At beginning of year	3,414,190	3,414,190
Received during the year	Nil	Nil
At end of year	3,414,190	3,414,190

Subscription in advance represents cash received from the parent company, TM International Sdn. Bhd. The Company intends to issue shares for the rupee value of the advances received. No interest is payable on the amount received as subscription.

MTN NETWORKS (PRIVATE) LIMITED

Notes to the financial statements (Contd)

Deferred income taxes

18 Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30%. As per the amendment to BOI agreement made on 17 April 2004 initial tax exemption period of 7 years was extended to 15 years. Accordingly the Company has no tax liability until 31 December 2012. Hence no deferred tax liability arises at the balance sheet date.

The movement on the deferred income tax account is as follows :

	2004	2003
At the beginning of the year	Nil	445,150
Credited to income statement (Note 6)	Nil	(445,150)
	Nil	Nil

Retirement benefit obligations

19

	2004	2003
At beginning of year	29,449	18,465
Current service cost (Note 4)	19,213	11,120
Contributions paid	(165)	(136)
At end of year	48,497	29,449

This obligation is not externally funded nor actuarially valued.

Contingencies

20 Contingent liabilities

There were no material contingent liabilities outstanding at the balance sheet date.

Commitments

21 Capital commitments

The Company has following commitments to pay for the supply of telecommunication equipment and services.

MTN NETWORKS (PRIVATE) LIMITED

Notes to the financial statements (Contd)

Commitments (Contd)

21

Name of the Company	Amount (Rs)
Alcatel CIT - France	2,239,574,764
Ericson AB - Sweden	888,853,801
ETA Melco - UAE	2,403,500
ERICO	19,077,625
DANCOM - Malaysia	39,744,799
Shayam Telecom - India	5,656,794
Powerware Intl - India	673,691
Stratex Networks	111,620,483
HAZE Company Limited - China	4,820,376
Gemplus - Singapore	15,152,500
Avitec - Sweden	10,042,868
Comba Telecom - Hong Kong	1,567,500
LPG Allogan - Sweden	18,162,100
Delta Energy Systems	16,618,498
Carmanah Technology	8,757,100
Microqual Techno - India	682,239
Eagle Press - India	10,841,875
ESTA France	11,110,492
Richardson	23,742,424
NAPS Systems - Finland	9,496,876
Allam Marine - UK	3,060,410
	3,441,660,715

There were no other material capital commitments outstanding at the balance sheet date.

Financial commitments

The Company has an annual commitment to pay Sri Lanka Rupees equivalent of US \$ 4,000 as annual fee to the Board of Investment of Sri Lanka.

The Company has an annual commitment to pay Rs 77,735,952 as rent to base station site owners.

The Company has an annual commitment to pay Rs 7,920,000 as rent to TM International Lanka (Private) Limited.

The Company has an annual commitment to pay 1% on the value of all the additions to property, plant and equipment and 0.3% of the annual turnover to Sri Lanka Telecom Authority.

There were no other material financial commitments outstanding at the balance sheet date.

Ordinary shares

22

	Number of shares (thousands)	Value of shares (thousands)
At 31 December 2003	37,000	370,000
At 31 December 2004	37,000	370,000

The total authorised number of ordinary shares is 469,442,124 shares (2003 - 469,442,124) with a par value of Rs 10 per share. All issued shares are fully paid.

MTN NETWORKS (PRIVATE) LIMITED**Notes to the financial statements (Contd)****Preference shares**

23

US \$	Rs	Issue date	Date of Redemption	Dividend Rate
6,000,000	323,400,000	01 August 1997	The date of redemption was initially agreed as 31 December 2000 (renewable on a yearly basis subject to the approval of shareholders) but extended to 31 December 2005 amount during the period.	8.5% per annum from the date of issue and for any dividend not paid on the dividend payment date, an additional dividend will be payable at a rate of 8.5% per annum on any such outstanding
10,000,000	597,703,800	01 July 1998	The date of redemption was initially agreed as 31 December 2001 (renewable on a yearly basis subject to the approval of shareholders) but extended to 31 December 2005 amount during the period.	8.5% per annum from the date of issue and for any dividend not paid on the dividend payment date, an additional dividend will be payable at a rate of 8.5% per annum on any such outstanding
5,500,000	347,874,960	01 December 1998	The date of redemption was initially agreed as two years from the date of allotment (renewable on a yearly basis subject to the approval of shareholders) but extended to 1 December 2005	8.5% per annum from the date of issue and for any dividend not paid on the dividend payment date, an additional dividend will be payable at a rate of 8.5% per annum on any such outstanding amount during the period.
21,500,000	1,268,978,760			

The total authorised number of redeemable, cumulative and convertible preference shares is 21,759,646 (2003 - 21,759,646) with a par value of Rs 60 per share. All issued shares are fully paid.

These shares are redeemable at par or convertible into fully paid ordinary shares of Rs 10 each of the Company.

All preference shares and ordinary shares in issue at the balance sheet date are held by the parent company, TM International Sdn. Bhd. Total amount of cumulative preference share dividend in arrears was paid during the year.

MTN NETWORKS (PRIVATE) LIMITED

Notes to the financial statements (Contd)

Revaluation reserve

24

	2004	2003
Buildings :		
At beginning of year	5,117	Nil
Revaluation surplus	Nil	5,117
Transfer of depreciation to retained earnings	(221)	Nil
At end of year	4,896	5,117

The revaluation reserve is non-distributable.

Cash generated from operations

25 Reconciliation of profit before tax to cash generated from operations :

	2004	2003
Profit before tax	4,139,901	2,413,787
Adjustments for :		
Exchange loss / (gain) on borrowings	35,167	(1,515)
Profit on sale of property, plant and equipment [Note 3]	(3,153)	(358)
Interest expense [Note 5]	334,181	182,477
Interest income [Note 5]	(107,005)	(24,338)
Depreciation [Note 10]	1,452,241	1,000,593
Amortisation [Note 11]	142,706	79,008
Retirement benefit obligation [Note 19]	19,213	11,120
Changes in working capital		
- trade and other receivables	(715,793)	(551,436)
- inventories	(55,830)	35,994
- payables	1,910,346	483,496
Cash generated from operations	7,151,974	3,628,828

Directors' interests in contracts with the Company

26 The directors of the Company are also directors of the following companies.

	Telekom Malaysia Bhd	TM International Lanka (Private) Limited
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	X	-
Dato' Dr Abdul Rahim bin Haji Daud	X	-
Ir. Prabahar Nagalingam Kirupala Singam	X	-
Dr Shridhir Sariputta Hansa Wijayasuriya	-	X
Jaffa Sany bin Md Arffin	-	-
Moksevi Preliis	-	-

"X" denotes the companies of which each of the persons mentioned was a director.

Dr Shridhir Sariputta Hansa Wijayasuriya is a trustee of Change Trust Fund.

MTN NETWORKS (PRIVATE) LIMITED

Notes to the financial statements (Contd)

The nature of the transactions are summarised below :

	2004	2003
i) Sales of services		
TM International Lanka (Private) Limited - Management Services	2,700	2,700
ii) Purchase of services		
TM International Lanka (Private) Limited - Rental	7,920	7,920
iii) Telekom Malaysia Berhad. - Lease rental	67,587	35,142

The above transactions were carried out on commercial terms and conditions and at a price agreed upon by the management.

Related party transactions

27 Related party disclosures, other than those disclosed in Note 26 to the financial statements are as follows :

The Company is a fully owned subsidiary of TM International (L) Limited. TM International Lanka (Private) Limited is also a fully owned subsidiary of TM International (L) Limited. The ultimate parent company is Telekom Malaysia Berhad.

Outstanding balances arising from related party transactions are as follows:

		2004	2003
Amount due from parent company TM International Sdn.Bhd.	(Note 13)	1,000	1,000
Amounts due from related companies	(Note 13)		
- Sotelgui S.A.		140	446
- TM International Lanka (Private) Limited		12,062	13,728
- Telecom Malaysia - Bangladesh		538	Nil
		12,740	14,174
Amount due to parent company TM International Sdn.Bhd.	(Note 15)	24,461	100,780
Amounts due to related companies	(Note 15)		
- Telekom Malaysia Berhad		162,698	112,029
- Change Trust Fund		102,147	1,054
		264,845	113,083
Loan from ultimate parent company, Telekom Malaysia Berhad	(Note 16)	26,188	32,779

Parent Company

28 TM International (L) Limited is the parent company of MTN Networks (Private) Limited. The ultimate parent company is Telekom Malaysia Berhad.

Post balance sheet events

29 No material events have occurred since the balance sheet date which require adjustments to, or disclosure in, the financial statements.