

SG/199/2005

16 August 2005

The Board of Directors
Dialog Telekom Limited
475 Union Place
Colombo 2

Dear Sirs

Dialog Telekom Limited

Limited review report for the 6 months period ended 30 June 2005

We have reviewed the accompanying balance sheet of Dialog Telekom Limited as at 30 June 2005, and the related statements of income, changes in equity and cash flow for the six months period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Sri Lanka Auditing Practice Statement on Audit applicable to review engagements. This guidance requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurances than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view in accordance with Sri Lanka Accounting Standards.

(Signed) PricewaterhouseCoopers

CHARTERED ACCOUNTANTS

COLOMBO

DIALOG TELEKOM LIMITED

Income statement

(all amounts in Sri Lanka Rupees Thousands)

| | 6 Months ended 30 June | | Year ended |
|-----------------------------------|-------------------------------|-------------------------|-------------------------|
| | 2005 | 2004 | 31 December |
| | | | 2004 |
| Sales | 8,138,224 | 5,042,885 | 11,406,685 |
| Cost of sales | <u>(2,594,678)</u> | <u>(1,768,738)</u> | <u>(3,931,917)</u> |
| Gross profit | 5,543,546 | 3,274,147 | 7,474,768 |
| Other operating income | 15,763 | 13,828 | 30,092 |
| Administrative expenses | (965,748) | (605,053) | (1,597,415) |
| Distribution costs | <u>(1,019,294)</u> | <u>(633,453)</u> | <u>(1,555,080)</u> |
| Operating profit | 3,574,267 | 2,049,469 | 4,352,365 |
| Finance cost | <u>(99,307)</u> | <u>(98,577)</u> | <u>(212,464)</u> |
| Profit before tax | 3,474,960 | 1,950,892 | 4,139,901 |
| Tax | <u>(28,741)</u> | Nil | <u>(39,382)</u> |
| Net profit | <u>3,446,219</u> | <u>1,950,892</u> | <u>4,100,519</u> |
| Earnings per Ordinary share (Rs) | 2.36 | 51.27 | 107.90 |
| Par value per Ordinary share (Rs) | 1 | 10 | 10 |

The notes on page 6 form an integral part of these financial statements.

DIALOG TELEKOM LIMITED

Balance sheet - 30 June 2005

(all amounts in Sri Lanka Rupees Thousands)

ASSETS

Non - current assets

| | 30 June 2005 | 2004 | 31 December 2004 |
|-------------------------------|-----------------|------------|---------------------|
| Capital work-in-progress | 1,560,934 | 1,951,560 | 1,650,328 |
| Property, plant and equipment | 12,855,901 | 9,543,575 | 11,733,264 |
| Intangible assets | 120,009 | 67,431 | 82,300 |
| | 14,536,844 | 11,562,566 | 13,465,892 |

Current assets

| | | | |
|-----------------------------|-------------------|-------------------|-------------------|
| Inventories | 334,777 | 214,168 | 229,410 |
| Receivables and prepayments | 2,284,178 | 2,249,188 | 2,268,281 |
| Cash and cash equivalents | 2,544,589 | 2,115,962 | 3,190,744 |
| | 5,163,544 | 4,579,318 | 5,688,435 |
| Total assets | 19,700,388 | 16,141,884 | 19,154,327 |

EQUITY AND LIABILITIES

Capital and reserves

| | | | |
|---------------------|------------|-----------|-----------|
| Ordinary shares | 6,913,468 | 370,000 | 370,000 |
| Preference shares | Nil | 1,268,979 | 1,268,979 |
| Retained earnings | 3,335,265 | 5,331,094 | 7,068,281 |
| Revaluation reserve | 4,896 | 5,117 | 4,896 |
| | 10,253,629 | 6,975,190 | 8,712,156 |

Non - current liabilities

| | | | |
|--------------------------------|-----------|-----------|-----------|
| Subscription in advance | 2,460,000 | 3,414,190 | 3,414,190 |
| Borrowings | 3,663,894 | 3,261,833 | 3,137,717 |
| Retirement benefit obligations | 59,841 | 32,322 | 48,497 |
| | 6,183,735 | 6,708,345 | 6,600,404 |

Current liabilities

| | | | |
|-------------------------------------|-------------------|-------------------|-------------------|
| Trade and other payables | 2,811,414 | 2,052,078 | 3,483,757 |
| Current tax liabilities | 54,688 | Nil | 32,854 |
| Borrowings | 396,922 | 406,271 | 325,156 |
| | 3,263,024 | 2,458,349 | 3,841,767 |
| Total liabilities | 9,446,759 | 9,166,694 | 10,442,171 |
| Total equity and liabilities | 19,700,388 | 16,141,884 | 19,154,327 |

| | | | |
|--|-----------|--------|--------|
| Net Assets per share (Rs) | 1.48 | 154.22 | 201.16 |
| Number of ordinary shares in issue (thousands) | 6,913,468 | 37,000 | 37,000 |

The Board of Directors is responsible for the preparation and presentation of these financial statements.

These financial statements were approved by the Board on 16 August 2005.

Signed

Dr. S S H Wijayasuriya) Directors
Mr M R Prelis)

The notes on page 6 form an integral part of these financial statements.

DIALOG TELEKOM LIMITED

Statement of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

| | Ordinary share capital | Revaluation reserve | Retained earnings | Total |
|---|------------------------------|------------------------|----------------------|-------------------|
| Balance at 1 January 2004 | 370,000 | 5,117 | 3,833,826 | 4,208,943 |
| Net profit | Nil | Nil | 1,950,892 | 1,950,892 |
| Dividend paid | Nil | Nil | (453,624) | (453,624) |
| Balance at 30 June 2004 | 370,000 | 5,117 | 5,331,094 | 5,706,211 |
| Balance at 1 July 2004 | 370,000 | 5,117 | 5,331,094 | 5,706,211 |
| Depreciation transfer | Nil | (221) | 221 | Nil |
| Net profit | Nil | Nil | 2,149,627 | 2,149,627 |
| Dividend paid | Nil | Nil | (412,661) | (412,661) |
| Balance at 31 December 2004 | 370,000 | 4,896 | 7,068,281 | 7,443,177 |
| Balance at 1 January 2005 | 370,000 | 4,896 | 7,068,281 | 7,443,177 |
| Net Profit | Nil | Nil | 3,446,219 | 3,446,219 |
| Dividend paid | Nil | Nil | (2,858,936) | (2,858,936) |
| Conversion of preference shares to ordinary shares | 1,903,468 | Nil | (634,489) | 1,268,979 |
| Bonus share issue | 3,685,810 | Nil | (3,685,810) | Nil |
| New share issue against subscription in advance | 954,190 | Nil | Nil | 954,190 |
| Balance at 30 June 2005 | 6,913,468 | 4,896 | 3,335,265 | 10,253,629 |

DIALOG TELEKOM LIMITED

Cash flow statement

(all amounts in Sri Lanka Rupees Thousands)

| | 6 Months ended 30 June | |
|---|-------------------------------|--------------------|
| | 2005 | 2004 |
| Operating activities | | |
| Cash generated from operations | 5,052,842 | 3,172,844 |
| Interest received | 48,679 | 31,373 |
| Interest paid | (160,269) | (134,300) |
| Tax paid | (943,503) | (668,365) |
| Retirement benefit obligations paid | (656) | (258) |
| Net cash from operating activities | 3,997,093 | 2,401,294 |
| Investing activities | | |
| Purchase of property, plant and equipment | (206,140) | (354,929) |
| Expenditure incurred on capital work-in-progress | (1,429,534) | (782,624) |
| Proceeds from sale of property, plant and equipment | 7,316 | 87 |
| Net cash used in investing activities | (1,628,358) | (1,137,466) |
| Financing activities | | |
| Repayment of finance leases | (75,265) | (12,123) |
| Repayment of long term borrowings | (166,504) | (258,183) |
| Proceeds from long term borrowings | Nil | 1,060,000 |
| Dividend paid | (2,858,936) | (453,624) |
| Net cash used in financing activities | (3,100,705) | 336,070 |
| Increase / (decrease) in cash and cash equivalents | (731,970) | 1,599,898 |
| Movement in cash and cash equivalents | | |
| At start of year | 3,170,335 | 515,490 |
| Increase / (decrease) | (731,970) | 1,599,898 |
| At end of period | 2,438,365 | 2,115,388 |

The notes on page 6 form an integral part of these financial statements.

Notes to the Financial Statements**1. Accounting policies**

The financial statements of Dialog Telekom Limited for the 6 months ended 30 June 2005 have been prepared under the historical cost convention and are in accordance with Generally Accepted Accounting Principles and the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

The accounting policies have been followed consistently from one accounting period to another. There have been no significant changes in the accounting policies adopted during the 6 months ended 30 June 2005.

2. Events occurring after the balance sheet date**2.1 Issue of new shares**

Proceeds received via the offer for subscription of 290,073,982 ordinary shares with a par value of Rs 1 share and a premium of Rs 11 per share has been accounted for in the books of the Company in July 2005.

2.2 Sale of existing shares

Proceeds via the sale of 422,262,311 ordinary shares with a par value of Rs 1 per share and a premium of Rs 11 per share have been accounted for in the books of the Company in July 2005. The repayment of proceeds to TM International (L) Limited via the sale of 422,262,311 vendor shares with a par value of Rs 1 per share and a premium of Rs 11 per share, has been made after having deducted the direct cost incurred in relation to the offer for sale (as specified in the Company prospectus dated 23 June 2005 under section 7.5).

2.3 Initial Public Offer (IPO) related cost

The total direct cost incurred by the Company in relation to the initial public offering is approximately Rs 165 million. The Board resolved on the 29 of July 2005 that the cost associated with the issue of new shares will be set off against the share premium account.

2.4 Employees Share Options Scheme (ESOS) Trust shares

As per section 7.1.2.2 of the Company prospectus dated 23 June 2005, a loan has been granted by the Company to the ESOS Trust to subscribe for 199,892,741 ordinary shares at Rs 12 each - par value Rs 1 at premium of Rs 11 per share.

3. Facilities**3.1 Subscription in advance**

The Company has secured a loan facility from HSBC to pay the subscription in advance payable to TM International Sdn. Bhd.

3.2 International Finance Corporation (IFC)

The Company has drawn down USD 15 million from the approved facility of USD 50 million granted by IFC to the Company.