

SG/311/2005

8 November 2005

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

Dear Sirs

Dialog Telekom Limited

Limited review report for the 9 months period ended 30 September 2005

We have reviewed the accompanying balance sheet of Dialog Telekom Limited as at 30 September 2005, and the related statements of income, changes in equity and cash flow for the nine 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) | Quarter ended 30 September | | Nine Months ended 30 September | |
|--|-------------------------------|------------------|-----------------------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Sales | 4,674,474 | 2,978,725 | 12,812,698 | 8,021,610 |
| Cost of sales | (1,651,099) | (1,024,727) | (4,245,777) | (2,793,465) |
| Gross profit | 3,023,375 | 1,953,998 | 8,566,921 | 5,228,145 |
| Other operating income | 24,475 | 8,468 | 40,238 | 22,296 |
| Administrative expenses | (561,326) | (372,394) | (1,527,074) | (977,447) |
| Distribution costs | (711,403) | (362,899) | (1,730,697) | (996,352) |
| Operating profit | 1,775,121 | 1,227,173 | 5,349,388 | 3,276,642 |
| Finance cost | (73,065) | (3,922) | (172,372) | (102,499) |
| Profit before tax | 1,702,056 | 1,223,251 | 5,177,016 | 3,174,143 |
| Tax | (1,622) | (29,730) | (30,363) | (29,730) |
| Net profit | 1,700,434 | 1,193,521 | 5,146,653 | 3,144,413 |
| Earnings per Ordinary share (Rs) | 0.24 | 31.53 | 1.52 | 82.80 |
| Par value per Ordinary share (Rs) | 1 | 10 | 1 | 10 |
| Share split (Rs 10 to Rs 1) if it had occurred before the beginning of 2004, the earlier period presented, | | | | |
| Earnings per ordinary share (Rs) | 0.24 | 3.15 | 1.52 | 8.28 |

DIALOG TELEKOM LIMITED

Balance sheet - 30 September 2005

(all amounts in Sri Lanka Rupees Thousands)

ASSETS

Non - current assets

Capital work-in-progress
Property, plant and equipment
Intangible assets

| | 30 September 2005 | 2004 | 31 December 2004 |
|-------------------------------|----------------------|------------|---------------------|
| Capital work-in-progress | 4,763,292 | 1,555,945 | 1,650,328 |
| Property, plant and equipment | 13,762,149 | 10,538,905 | 11,733,264 |
| Intangible assets | 125,734 | 99,931 | 82,300 |
| | 18,651,175 | 12,194,781 | 13,465,892 |

Current assets

Inventories
Receivables and prepayments
Cash and cash equivalents

| | | | |
|-----------------------------|------------|-----------|-----------|
| Inventories | 265,899 | 166,908 | 229,410 |
| Receivables and prepayments | 5,233,418 | 2,303,765 | 2,268,281 |
| Cash and cash equivalents | 7,344,926 | 2,565,294 | 3,190,744 |
| | 12,844,243 | 5,035,967 | 5,688,435 |

Total assets

| | | | |
|--|-------------------|-------------------|-------------------|
| | 31,495,418 | 17,230,748 | 19,154,327 |
|--|-------------------|-------------------|-------------------|

EQUITY AND LIABILITIES

Capital and reserves

Ordinary shares
Share premium
Preference shares
Retained earnings
Revaluation reserve

| | | | |
|---------------------|------------|-----------|-----------|
| Ordinary shares | 7,403,435 | 370,000 | 370,000 |
| Share premium | 5,276,944 | Nil | Nil |
| Preference shares | Nil | 1,268,979 | 1,268,979 |
| Retained earnings | 5,035,699 | 6,111,954 | 7,068,281 |
| Revaluation reserve | 4,896 | 5,117 | 4,896 |
| | 17,720,974 | 7,756,050 | 8,712,156 |

Non - current liabilities

Subscription in advance
Borrowings
Retirement benefit obligations

| | | | |
|--------------------------------|-----------|-----------|-----------|
| Subscription in advance | Nil | 3,414,190 | 3,414,190 |
| Borrowings | 9,676,379 | 3,207,684 | 3,137,717 |
| Retirement benefit obligations | 65,748 | 33,784 | 48,497 |
| | 9,742,127 | 6,655,658 | 6,600,404 |

Current liabilities

Trade and other payables
Current tax liabilities
Borrowings

| | | | |
|--------------------------|-----------|-----------|-----------|
| Trade and other payables | 3,558,259 | 2,423,844 | 3,483,757 |
| Current tax liabilities | 52,652 | 23,202 | 32,854 |
| Borrowings | 421,406 | 371,994 | 325,156 |
| | 4,032,317 | 2,819,040 | 3,841,767 |

Total liabilities

| | | | |
|--|-------------------|------------------|-------------------|
| | 13,774,444 | 9,474,698 | 10,442,171 |
|--|-------------------|------------------|-------------------|

Total equity and liabilities

| | | | |
|--|-------------------|-------------------|-------------------|
| | 31,495,418 | 17,230,748 | 19,154,327 |
|--|-------------------|-------------------|-------------------|

Net Assets per share (Rs)

2.39 175.33 201.16

Number of ordinary shares in issue (thousands)

7,403,435 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 11 November 2005.

Signed

Dr. S.S.H. Wijayasuriya
Director/Chief Executive

Signed

M.R.Prelis
Director

DIALOG TELEKOM LIMITED

Statement of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

| | Ordinary share capital | Share Premium | Preference share capital | Revaluation reserve | Retained earnings | Total |
|--|------------------------------|------------------|--------------------------------|------------------------|----------------------|-------------------|
| Balance at 1 January 2004 | 370,000 | Nil | 1,268,979 | 5,117 | 3,833,826 | 5,477,922 |
| Net profit | Nil | Nil | Nil | Nil | 3,144,413 | 3,144,413 |
| Dividend paid | Nil | Nil | Nil | Nil | (866,285) | (866,285) |
| Balance at 30 September 2004 | 370,000 | Nil | 1,268,979 | 5,117 | 6,111,954 | 7,756,050 |
| Balance at 1 October 2004 | 370,000 | Nil | 1,268,979 | 5,117 | 6,111,954 | 7,756,050 |
| Depreciation transfer | Nil | Nil | Nil | (221) | 221 | Nil |
| Net profit | Nil | Nil | Nil | Nil | 956,106 | 956,106 |
| Balance at 31 December 2004 | 370,000 | Nil | 1,268,979 | 4,896 | 7,068,281 | 8,712,156 |
| Balance at 1 January 2005 | 370,000 | Nil | 1,268,979 | 4,896 | 7,068,281 | 8,712,156 |
| Net Profit | Nil | Nil | Nil | Nil | 5,146,653 | 5,146,653 |
| Dividend paid | Nil | Nil | Nil | Nil | (2,858,936) | (2,858,936) |
| Conversion of preference shares to ordinary shares | 1,903,468 | Nil | (1,268,979) | Nil | (634,489) | Nil |
| Bonus share issue | 3,685,810 | Nil | Nil | Nil | (3,685,810) | Nil |
| Share issue against subscription in advance | 954,190 | Nil | Nil | Nil | Nil | 954,190 |
| New share issue - IPO | 489,967 | Nil | Nil | Nil | Nil | 489,967 |
| Share premium | Nil | 5,389,634 | Nil | Nil | Nil | 5,389,634 |
| IPO Cost set off | Nil | (112,690) | Nil | Nil | Nil | (112,690) |
| Balance at 30 September 2005 | 7,403,435 | 5,276,944 | Nil | 4,896 | 5,035,699 | 17,720,974 |

DIALOG TELEKOM LIMITED

Cash flow statement

(all amounts in Sri Lanka Rupees Thousands)

| | Nine Months ended 30 September | |
|---|-----------------------------------|--------------------|
| | 2005 | 2004 |
| Operating activities | | |
| Cash generated from operations | 6,198,630 | 4,769,293 |
| Interest received | 103,769 | 71,389 |
| Interest paid | (230,702) | (187,144) |
| Tax paid | (3,659) | (6,528) |
| Retirement benefit obligations paid | (749) | (258) |
| Net cash from operating activities | 6,067,289 | 4,646,752 |
| Investing activities | | |
| Purchase of property, plant and equipment | (1,165,782) | (1,711,483) |
| Purchase of Intangible assets | (177,454) | (115,851) |
| Expenditure incurred on capital work-in-progress | (5,378,557) | (676,729) |
| Proceeds from sale of property, plant and equipment | 8,887 | 385 |
| Net cash used in investing activities | (6,712,906) | (2,503,678) |
| Financing activities | | |
| Repayment of finance leases | (21,245) | (22,944) |
| Repayment of long term borrowings | (191,314) | (395,312) |
| Proceeds from long term borrowings | 6,861,571 | 1,123,365 |
| Proceed from Issue of Shares | 489,967 | Nil |
| Repayment of Subscription in Advance | (2,460,000) | Nil |
| Share Premium from the Issue of Shares | 5,389,634 | Nil |
| Payment to ESOS Trust | (2,398,713) | Nil |
| Divident paid | (2,858,936) | (866,285) |
| Net cash generated from / (used in) financing activities | 4,810,964 | (161,176) |
| Increase in cash and cash equivalents | 4,165,347 | 1,981,898 |
| Movement in cash and cash equivalents | | |
| At start of period | 3,170,335 | 515,490 |
| Increase | 4,165,347 | 1,981,898 |
| At end of period | 7,335,682 | 2,497,388 |

DIALOG TELEKOM LIMITED

Notes to the Financial Statements

1. Market Price per share

| <i>For the nine months ended 30th September</i> | 2005 Rs. | 2004 Rs. |
|---|---------------------------|---------------------------|
| -Highest | 20 | N/a |
| -Lowest | 14 | N/a |
| -Last Traded | 19.75 | N/a |

2. Accounting policies

The financial statements of Dialog Telekom Limited for the nine months ended 30 September 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 nine months ended 30 September 2005.

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.

4. Fitch rating

Dialog has been assigned an AAA (sri) (Triple A 'sri') rating by Fitch Ratings Lanka Ltd.

5. Earnings per ordinary Share (EPS)

For the purpose of calculating basic earnings per ordinary share, the number of ordinary shares considered is the weighted average number of ordinary shares outstanding during the period.

The number of shares outstanding during the period is detailed in the ensuing table:

| Period | Number of shares in issue (after adjusting for the share split) |
|------------------|--|
| Jan to May 2005 | 370,000,000 |
| June to Jul 2005 | 6,913,468,000 |
| Aug to Sep 2005 | 7,403,434,913 |

Events occurring after the Balance Sheet date

6. Acquisition of MTT Networks (Pvt) Ltd

Dialog announced its proposed acquisition of 100% equity interest in MTT Networks (Private) Ltd.