



# Touchwood Investments Ltd.

Invest in Private Forestry and help save our tropical rainforests  
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June 14, 2006

Mrs. Surekha Sellahewa  
Senior Manager-Listing & Surveillance  
Colombo Stock Exchange  
04 01, West Block, World Trade Center  
Echelon Square,  
Colombo.

*Calculate*  
*S. Jey*  
*14/06*

Dear Madam,

Further to the discussion we had with you yesterday (13/06/06) we give below the information requested by you.

**Question No 01.**

We would like to inform you that we have not changed our accounting policies this financial year and adopted the same accounting policies as last F/y 2004/2005.

Further the increase of revenue and profits of 200% and 837% respectively over the past two years was calculated as follows.

<u>Year</u>	<u>Revenue</u>	<u>Profits</u>	<u>Percentage</u>
2003-2004	234M	35M	837%
2005-2006	705.4M	330M	200%

(Ref. Annual Report 2004/06 and unaudited financial statements 2005/06)

a & b) As requested the revenue breakdown for year is 2005-2006 given below

	2005/06	2004/05	2003/04
Plantation establishment & Maintenance	170,783,128.42	150,125,561	80,856,793
Gain arising from changes in fair values	518,985,965.00	390,897,091	153,581,320
Agarwood Sale	15,699,000.00	8,482,500	-
	<u>705,468,093.42</u>	<u>549,505,152</u>	<u>234,438,113</u>

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- 2 Fair value of consumable biological assets is determined based on the growth of the trees and the present market value. The key assumptions and the basis of valuation is given below for your information.

**Assumptions used for**

**1 Mahogany Valuation**

**1.1 Market value of a Tree**

Market Value of a tree is average market price of a mature tree as per the standard specification as at the balance sheet date, net of selling cost. Market price is mainly obtained from the State Timber Corporation.

**1.2 Value per tree**

Value per immature tree is determined by considering growth pattern of trees, age and the above said market price of a mature tree.

**1.3 Determination of growth patterns**

In determining the growth patterns, the following assumptions are made.

- a) Time period for maturity is 17.5 years
- b) A average mature tree would contain 26Cu ft timber
- c) Fully mature tree expected to have average height of 64 feet.
- d) Growth pattern corresponding to relevant height are based on published international growth patterns adjusted to suit the local conditions.

**2 Market value of a vanilla vine**

**2.1 Market value of a Tree**

Market Value of 1Kg of vanilla is average market price of a vanilla as per the standard specification as at the balance sheet date, net of selling cost. Market price is mainly obtained from the Department of Export Agricultural.

**2.2 Value per vanilla vine**

Value per immature vanilla vine is determined by considering expected harvest pattern of vine, Cost of Capital (20%) and the above said market price of 1Kg of vanilla.

### 2.3 Determination of expected harvest patterns

In determining the expected harvest patterns, the following assumptions are made

- a) Time period to obtain harvest is 3<sup>rd</sup> year from date of planted and up to 14<sup>th</sup> year.
  - b) A mature vanilla vine would give 15Kg of harvest until its maturity.
  - c) Harvest pattern corresponding to relevant harvest are based on published international harvest patterns adjusted to suit the local conditions.
3. As stated above if we are to calculate the EPS on the historical basis we have to reproduce the financial statements. Hence this is the reason why we mentioned in our letter, the EPS was calculated inclusive of the gain arising from the biological assets, which is in compliance of the accounting standards of Sri Lanka. Due to an oversight there was an omission in our previous letter, the changes in fair value (Biological assets) in the future, could be a **gain or loss**. However as mentioned by us "the gain arising from the biological assets increase each year", was a bona fide statement, considering the fact that the last 20 years Timber prices had never decreased both locally and internationally.
4. The rumor is incorrect since the board has not made any decision up to now and if such decision is made by the board, we will inform the relevant authorities accordingly.

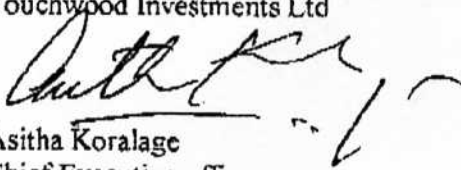
We hope that the information provided is sufficient to answer all your queries.

Please be good enough to contact the undersigned for any further any clarification.

Thanking you,

Yours faithfully,

Touchwood Investments Ltd

  
Asitha Koralage  
Chief Executive officer