

DIRECTORS' REPORT TO THE SHAREHOLDERS

The directors of your company take pleasure in presenting the Annual Report together with your Company's Annual Audited Financial Statements for the year ended June 30, 2009.

Economic Outlook

Exacerbated by electricity shortages and security issues, real GDP growth has decelerated to 2.0 percent in FY09, down from 4.1 percent a year earlier. Large-scale manufacturing activity has already seen a record run of consecutive declines, together with almost a nil growth in credit to private sector. Given the numerous structural constraints faced by the country in economic, social, and political spheres, *recovery could be slow and painful*.

More importantly, the country is facing serious electricity shortages that have hurt economic growth and productivity of factors of production, which, in turn, is adversely affecting the potential output of the economy. Moreover, uncertainty related to the size and timing of foreign inflows can potentially put pressure on fiscal operations and the fragile foreign exchange reserves.

The impact of a slowing economy could permeate to deteriorate the fiscal position of the country for next year as well.

Inflationary pressures eased further since March 2009 with CPI inflation (YoY) declining by 7.9 percentage points to 11.2 percent in July 2009. However, core inflation is still at a relatively high level and recent trends in monthly inflation indicators are showing a degree of stickiness in inflation.

A number of factors explain persistence in inflation. First, the benefits of falling international commodity prices, in particular oil prices, were not fully transferred to the domestic economy. Second, even when the domestic administered prices were adjusted, other prices did not respond accordingly due to structural downward rigidities in the system. Third, nominal exchange rate depreciation during the first four months of FY09 diluted some of the gains of falling international commodity prices. Fourth, fiscal consolidation measures, such as elimination of subsidies, adjustment in power tariffs, revisions in GST and import duties, added to the existing price pressures. Fifth, loss in productivity due to severe electricity and gas shortages is another reason why the gains of contracting demand pressures could not be fully realized.

