11th January 2003 Island.

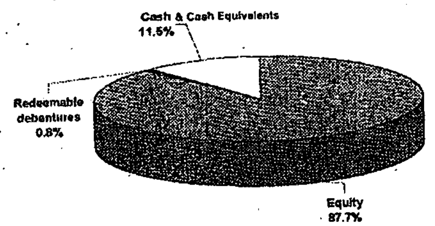
Economy on the up-turn once more

The Sri Lankan economy, which contracted by 1.3% in 2001, showed signs of recovery during the first nine months' of 2002. Following two successive quarters of negative growth, the real GDP increased by 1.4% in the first half of 2002, on a year-on-year basis. The main contributors to GDP growth this year have been the agriculture and services sectors, whilst the industry sector recorded a decline. During 2001, all these sectors recorded negative real growth. The development of these early signs into actual economic recovery would largely depend on the success of the peace process, political stability of the country and economic reforms that are taking place. Given the expectation that these positive factors will be in effect, the GDP growth for 2002 is expected to be in the region of 2.5 - 3.0%.

Interest rates have been stable around 12 - 14% during the first half of the year as against the turbulent environment, which was evident during the previous two years. On the back of improved liquidity, expected inflow of foreign funds and repo rate cuts by the Central Bank, the interest rate structure underwent a steady decline in the third quarter pushing down the yield curve by about 200bps. During the period under review the Central Bank recommenced the issuance of 4, 5 and 6-year Treasury bonds, after a lapse of about 2 years. Further, the Central Bank has been successfully raising more funds through the long-end of the yield curve than the short-end, while reserving a significant portion of the Treasury bill maturity rollovers. With the existing level of liquidity, and the anticipated foreign funds, we expect interest rates to remain at current low levels over the short-term.

The rate of inflation, based on the moving-average CCPI, was 10.42% for the year, ended 30 September 2002, down from 14.16% for the year ended 31 December 2001. In view of a more promising economic environment compared to that of last year, the rate of inflation is expected Lo further decline over the rest of the year.

The depreciation of the Sri Lankan Rupee against the US dollar has been stable during the first nine months of the year, as against a highly volatile period of 2001. The Rupee depreciation for the year was expected to be



Pyramid Unit Trust Interim Report for the period ended 30th.

9.5% at the beginning of the year. However, on the back of a weak dollar and improved foreign reserves, this figure is now expected to be 4.7%. Over the first nine months of 2002 the trade balance has deteriorated by 20.5% in Rupee terms on a year-on-year basis. The deterioration of the trade balance in terms of US dollars is 10.5%. The level of foreign reserves as at end-September 2002 was sufficient to finance 4.7 months of imports.

Share market

The upward trend of the stock market, which commenced during the latter part of 2001, continued during most of 2002. The market rally, which was investigated by political and peace factors, was later fueled by strategic buying of blue chip shares, and expectations of improved corporate earnings. Unfortunately profit taking has taken away part of this gain. Despite this the All Share Price Index rose by 37.92% during 9 months to September.

Backed by positive investor sentiment, market activity has significantly improved compared to that of last year. Both domestic and foreign turnover levels have reached healthy levels. During the year so far the market witnessed an improvement in foreign activity with net inflows, signifying buying interest of foreign investors in the Sri Lankan market.

Investment strategy

Throughout the first half of this financial year, your fund maintained an asset allocation in favour of equities. As at the 30th of September, equity exposure was nearly 87.7% of the fund. Apart from having a high equity asset allocation during a time of market upturn the "Blue chip" nature of the stocks selected for the portfolio combined to generate a very good performance of the fund in comparison to ASI returns for the same period.

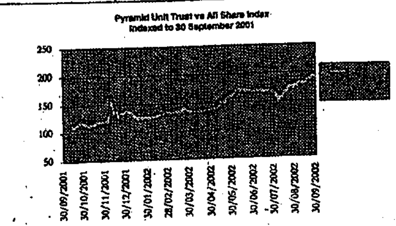
As shown in the sector allocation below the majority of the funds are invested in the sectors of Banks, Finance & Insurance and Diversified Companies. These two sectors together consist of the highest number of blue chip shares in the market. Further, shares in these sectors have been the targets of strategic and foreign buying and thus have seen considerable price appreciation.

Performance

The Net Asset value of the Trust was Rs. 275 million as at 30th September 2002, and the total number of unit holders stood at 2,421. The fund continued to perform well generating a return of nearly 39.19% for the six-month period under review in comparison to an ASI return of 38.68%.

In the 12 months period ended 30th September your fund generated a return of 90.22%. The relative underperformance of the Pyramid Fund in the short term can be attributed to the nature of your fund. As mentioned earlier, your fund is concentrated on the "blue chip" shares in the Banking, Diversified and Manufacturing sector, unfortunately these shares have been the first shares from which profit taking was witnessed in. This had a dampening effect on the share prices of these shares. The profit taking in the "blue chips" was very prevalent in the last quarter. The market also witnessed a rally in the so-called "second tiers" shares. The prices of these shares are not necessarily representative of fundamentals, but rather on the low value of its share price. On the bright side the companies that are representative of your portfolio, have posted very impressive profit growth in both the first quarter and half year results. We feel it is a matter of time when their share price reflect their earnings growth and their fundamental

	Pyramid Unit Trust Return %	ASI Return %
Last 3 months	14.18%	20.40%
Last 6 months	39.19%	38.68%
Last 12 months	90.22%	112.22%
Last 24 months	76.85%	63.58%



valuation.

Investment outlook

Investor confidence levels are high on the back of the peace process and economic developments. In view of the positive sentiment and improved corporate earnings, the equity market is expected to rise over the medium term. As seen in the first half of the year, there may be further strategic buying over the rest of the year causing further upward movements in prices. But the short-term picture is not as rosy. Short-term political instability, profit taking and investors maintaining liquidity for pending IPO's may govern the behaviour of the market. We will continuously monitor the market and make appropriate asset allocations based on fundamental research in order to deliver optimal returns for the levels of risks taken. We feel comfortable that your portfolio, of "blue chip" shares is geared to take advantage of any medium to long term market appreciation.

World tea production reached a new all time high of 3000m/tons in 2001, Forbes and Walker Tea Broker said.

"Consequently the year 2002 began with an excess and the majority of the increase comprised of CTC teas. The shortfall in the latter year ie. 2002 has possibly helped the surplus in 2001 to be absorbed. Therefore, it would be reasonable to assess a tight global supply position. Tea production during the first quarter of any year is normally low with North India and Bangladesh in winter and Kenya, Sri Lanka and South India experiencing dry weather conditions. Other producers too do not have large crops during this period. A further important factor is the quality of offerings from Sri Lanka, South India and Kenya during the first quarter which is fairly useful with Sri Lanka having its Western quality season. With low crops worldwide and demand likely to continue in the usual manner from major importing countries coupled with special interest for seasonal quality westerns, it would be reasonable to conclude that prices for the first quarter will be satisfactory in most of the major auction centres and Colombo in particular. In fact Colombo could record an appreciation on current levels and hopefully even in Dollar terms. It is our expectation that this market should continue into the second quarter and therefore reasonably satisfactory prices for the first half of 2003 barring any unforeseen circumstances such as an economic downturn in a major tea importing country or an outbreak of war in a tea importing region.