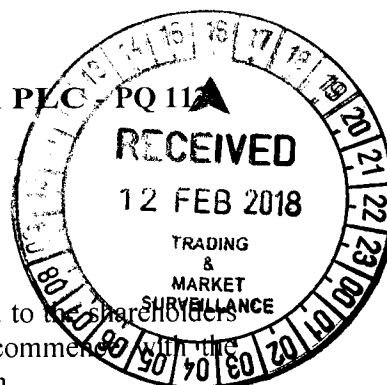


# DISTILLERIES COMPANY OF SRI LANKA PLC

## Circular to Shareholders

Dear Sir/Madam,

The Board of Directors of the Company have resolved to recommend to the shareholders the restructure of the balance sheet of the Company which will commence with the increase of the existing shares of the Company by way of a subdivision,



### SUBDIVISION OF EXISTING ORDINARY SHARES

The Board of Directors of the Company has decided that each ordinary share held by a shareholder be subdivided into ten (10) ordinary shares in conformity with Article 5(vi)(a) of the Articles of Association of the Company. The subdivided ordinary shares will have the same rights *vis-a-vis* the existing ordinary shares and the said subdivision will leave unaffected the relative voting and distribution rights of the holders of the ordinary shares.

The existing number of shares of the Company is three hundred million (300,000,000) ordinary shares. After the subdivision, the total number of shares of the Company will increase to three billion (3,000,000,000) ordinary shares.

It will be relevant that, in terms of the arrangement for reorganization of the shares of the Company under Part X of the Companies Act No.07 of 2007 (“**Companies Act**”), Melstacorp PLC (“**Melstacorp**”) was to allot ordinary shares to the then shareholders of the Company in the proportion of four (4) Melstacorp shares for every one (1) share held in the Company. This share swap is yet to be effected for a number of the shareholders of the Company, some of whom are deceased and some of whom are locked. The proposed subdivision will not affect the number of shares in Melstacorp that such shareholders are entitled to and accordingly, post subdivision, the allotment of Melstacorp shares to such shareholders will be two (2) Melstacorp shares for every five (5) shares held in the Company.

There will be no change to the stated capital of the Company pursuant to the subdivision.

The procedure by which the above subdivision will be effected is consistent with the provisions of the Companies Act.

Information on the dealing suspension and the procedure that will be followed for updating the records of the Company on the subdivision of shares is set out in the annexure to this Circular.

The requisite permission from the Controller of Exchange will be obtained if relevant, for the proposed subdivision of shares.

The Colombo Stock Exchange has been notified of the recommended subdivision of the ordinary shares in the Company. The Colombo Stock Exchange does not approve and/or assume any responsibility and/or regulate the modality adopted by the Company in

relation to the increase of shares by way of a subdivision and/or for the validity of the shares arising from such increase.

The said subdivision will be based on the shareholding as at the day of the Extraordinary General Meeting ("EGM") being called by the Notice of Meeting attached to this Circular viz, 14<sup>th</sup> February 2018.

In furtherance of the proposed restructure, the Board of Directors of the Company have resolved to recommend to the shareholders, following the above-mentioned subdivision of shares, a (i) a transfer of funds from the general reserves of the Company to its retained earnings, (ii) a private placement of shares to its holding company Melstacorp and (iii) a reduction of stated capital to enable the Company to wipe out negative retained earnings and facilitate the making of future distributions to its shareholders.

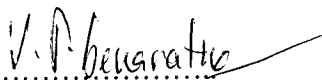
A separate circular together with notice of meeting will be sent to the shareholders on the proposed private placement and reduction of stated capital, such meeting to be held immediately following this meeting.

**You are requested to please treat the annexures as part and parcel of this circular and take the necessary steps set out therein to give effect to the said subdivision.**

If you are unable to be present at the Extraordinary General Meeting to be held on 14<sup>th</sup> February 2018 you are kindly requested to complete and return the Form of Proxy to reach the secretaries of the Company not later than 4 pm on 13<sup>th</sup> February 2018.

Yours faithfully

By order of the Board of  
DISTILLERIES COMPANY OF SRI LANKA PLC



Ms. V. J. Senaratne  
Company Secretary  
Colombo, on this 09<sup>th</sup> day of February 2018

## ANNEXURE

### PROCEDURE FOR UPDATING THE RECORDS FOR THE SUBDIVISION OF SHARES

For the purpose of updating the records of the shareholders whose shares are lodged in the Central Depository Systems (Private) Limited (CDS), the dealing of shares, which is currently suspended will remain suspended.

Shareholders whose shares are lodged in the CDS will have their shares directly deposited to their CDS account/s within 3 market days from and excluding the date of the EGM, i.e. by 19<sup>th</sup> February 2018.

For those shareholders whose shares are in both, the CDS and in the shareholders' register maintained by the Company, their total entitlement will be directly deposited to the CDS account/s.

In respect of shareholders who maintain multiple CDS accounts, the total entitlement will be directly deposited to the respective CDS accounts and into the respective balances (locked/trading) proportionately.

Please note that as per the Directive of the Securities and Exchange Commission made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the Central Depository System (Private) Limited (CDS) dated November 30, 2010, all shares must be directly uploaded to CDS accounts. As such, shareholders whose shares are registered only in the Share Register maintained by the Company, will not be issued share certificates for the shares. Such shareholders are advised to open a valid CDS account prior to the date of subdivision (i.e. date of EGM) and inform the Company of the same by forwarding the duly completed **Form A** attached to this circular, in order to facilitate the uploading of subdivided shares to their CDS account.

At the time of opening a CDS account, in the event the original share certificates are not available with the shareholder named therein, such shareholder must obtain a letter of Indemnity and Affidavit annexed hereto (**Form B and Form C**) and return the same to the Company Secretary, No. 110, Norris Canal Road, Colombo 10 or before the EGM scheduled to be held on 14<sup>th</sup> February 2018 in order for a duplicate share certificate to be issued to you to facilitate the opening of a CDS account and immediate lodgement of shares in the CDS. Please note that it is imperative that those shareholders who do not hold accounts with the CDS open the same on an immediate basis and thereafter fill Form A which shall be handed to Secretaries on or before the EGM scheduled to be held on 14<sup>th</sup> February 2018.

In the event a shareholder does not return Form A, the share entitlement will be registered in her/his/its name in the Share Register maintained by the Company, until such time the Company is informed of his/her/its CDS account details to enable the Company to upload the shares to his/her/its CDS account. Please note that **SHARE CERTIFICATES WILL NOT BE ISSUED**.

If you require any clarification with regard to the opening of a CDS Account, please contact the Company Secretaries on (+94) 11-2695295

**FORM A**

(To be completed only by those Shareholders whose shares are not lodged in the CDS)

Date .....

Secretaries, Distilleries Company of Sri Lanka PLC  
 No. 110, Norris Canal Road,  
 Colombo 10,  
 Sri Lanka

Dear Sir/Madam,

Share Certificate No.	Number of Shares

I/We hold ..... Ordinary Shares in Distilleries Company of Sri Lanka PLC as at ..... and forward the following share certificate pertaining to the said Ordinary Shares for cancellation and forward herewith the relevant details for the depositing of the subdivided shares:

Kindly directly deposit the number of subdivided shares to me/us to my/our securities A/C at the Central Depository Systems (Pvt) Ltd into the locked/trading balance as indicated below. My/Our CDS account number is also given below.

Please tick the required box.

CDS account number	Locked balance	Trading balance

Yours faithfully,

Full Name(s) of Shareholder(s) -- underline Surname(s)	NIC/Passport/Company Reg. No. (PP. No. is acceptable only if the NIC No. is not available)
(1) Mr./Mrs./Miss.	
(2) Mr./Mrs./Miss.	
(3) Mr./Mrs./Miss.	
Address	
Telephone No.	
Signature(s)	

1. The completed Form A must reach the Secretaries at No. 110, Norris Canal Road, Colombo 10 on or before 14<sup>th</sup> February 2018.
2. Please do not complete this form if your shares are already in the CDS or you intend to deposit your shares in the CDS prior to the date of EGM/entitlement for the subdivision i.e. end of trading on 14<sup>th</sup> February 2018 as your shares arising from the subdivision would be directly uploaded to the respective CDS accounts.
3. Kindly contact the Secretaries to obtain a Letter of Indemnity in connection with lost/misplaced share certificates.
4. The Directors of the Company or the Secretaries take no responsibility for any share certificate lost in post while being surrendered for cancellation.
5. Where an application is signed under a Power of Attorney (POA), a copy of same certified by a Notary Public must be lodged with the Secretaries along with this Form A.
6. In the case of Companies/Incorporated Bodies the common seal shall be placed and duly attested as per the Articles of Association/ Statute.

**FORM B**

**INDEMNITY -LOSS OF SHARE CERTIFICATE/S**

The original Certificate(s) of title relating to the undermentioned shares of the above named company has been lost or misplaced or destroyed.

Neither the shares nor the certificate(s) of title thereto have been transferred, charged, lent or deposited or dealt with in any manner affecting the absolute title thereto and the person named in the said certificate is the person entitled to be on the company's register of members in respect of such shares.

I request you to issue a duplicate certificate (to facilitate the opening of a CDS account and lodgement of shares in the CDS) of title to such shares and, in consideration of your doing so, I undertake to indemnify you and the company against all claims and demands and any expenses thereof, which you or the company may have to meet in consequence of your complying with this request and of the company permitting at any time hereafter a transfer of the said shares, or any part thereof, without the production of the said original certificate(s).

I undertake to deliver to the company for cancellation the said original certificate(s) should the same be ever recovered.

***PARTICULARS OF CERTIFICATE(S) LOST/MISPLACED/DESTROYED***

**FULL NAME OF SHARE HOLDER** :

**ADDRESS** :

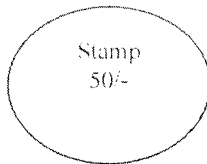
**CERTIFICATE NO.** :

**NO. OF SHARES** :

**NATIONAL I.D.NO.** :

Dated this ..... day of ..... 2018

Signature.....



Before Me .....  
Justice of the Peace/ Commissioner of oaths

*NOTE: Please attach a certified copy of the I.D. Card*

**FORM C**

**AFFIDAVIT – LOSS OF SHARE CERTIFICATE/S**

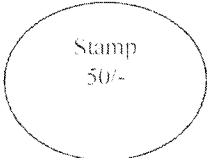
To the Directors of Distilleries Company of Sri Lanka PLC

I/We.....  
..... (name/s in full) holder of National Identity Card number/s ..... of  
..... (address) being a Buddhist/Hindu/Muslim solemnly,  
sincerely and truly declare and affirm\*/being a Christian make oath and swear\* as follows :-

1. that I/we am/are the affirmant/deponent\* above named.
2. that I/we am/are the registered holder/s of ..... shares in Distilleries Company of Sri Lanka PLC.
3. that the original share certificate/s for ..... shares bearing number/s ..... issued in my/our favour has/have been lost, misplaced or accidentally destroyed and cannot be found although diligent search and enquiry have been made by me/us therefor.
4. that I/we have not delivered the original share certificate/s to any person whether for safe keeping or by way of pledge or otherwise, nor has any transfer of the said shares been signed by me/us for the purpose of enabling any person to be the said shares registered at any time in his or her name or any other person whomsoever, and further I/we have not done anything whatsoever to enable any person to claim to be entitled to the said shares or any of them or to any monies payable under or in respect of them.

Declared and Affirmed\* / )  
made oath and sworn\* by )  
me/us above named at )  
..... )  
on..... )  
Two Thousand and..... )

.....  
Signature



Before me .....  
Justice of the Peace/ Commissioner of oaths

*NOTE: Please delete as applicable*

## NOTICE OF MEETING

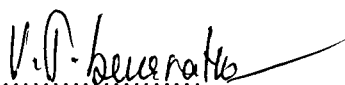
### DISTILLERIES COMPANY OF SRI LANKA PLC - PQ 112

NOTICE is hereby given that the Extraordinary General Meeting of the Shareholders of Distilleries Company of Sri Lanka PLC will be held on 14<sup>th</sup> February 2018 at 4pm at the Board Room of the registered office of the Company situated at No. 110, Norris Canal Road, Colombo 10 to consider and if thought fit pass the following resolution:

#### ORDINARY RESOLUTION:

**IT IS HEREBY RESOLVED** that that the Company do subdivide the existing three hundred million (300,000,000) shares, being all of the shares issued by the Company, into a greater number of shares in terms of Article 5 of the Articles of Association of the Company, which permits an increase of shares issued by the Company by way of a sub division of shares, by subdividing each share as at end of trading on 14<sup>th</sup> February 2018 into ten (10) shares of the Company without any change to the stated capital of the Company and leaving unaffected the relative voting and distribution rights of the holders of the said shares, so that consequent to such subdivision, the number of shares in the Company shall increase to a total of three billion (3,000,000,000) shares.

By Order of the Board of  
DISTILLERIES COMPANY OF SRI LANKA PLC



Ms. V. J. Senaratne  
Company Secretary  
Colombo, on this 09<sup>th</sup> day of February 2018

#### NOTES:

1. A Form of Proxy is attached hereto, for use if necessary, in which event it should be completed and returned to the Secretary of the Company not less than twenty four (24) hours before the start of the meeting.
2. A shareholder entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him/her and a proxy need not also be a shareholder of the Company
3. A person representing a corporation is required to carry a certified copy of the resolution authorising him/her to act as the representative of the Corporation.

## DISTILLERIES COMPANY OF SRI LANKA PLC - PQ 112

### *Circular to Shareholders*

Dear Sir/Madam,

Immediately following the conclusion of the extraordinary general meeting of shareholders' of the Company scheduled to be held at 4 pm on 14<sup>th</sup> February 2018 for the purposes of obtaining shareholder approval by way of ordinary resolution for the subdivision of existing ordinary shares of the Company and in pursuance of the continued restructure of the balance sheet of the Company, the Board of Directors of the Company have also resolved to recommend to the shareholders (i) a transfer of funds from the general reserves of the Company to its retained earnings (ii) a private placement of shares to its holding company Melstacorp PLC and (iii) a reduction of stated capital to enable the Company to wipe out negative retained earnings and facilitate the making of future distributions to its shareholders. It may for the avoidance of doubt be noted that (i), (ii) and (iii) above is to take place following the completion of the proposed subdivision of shares of the Company.

#### **TRANSFER OF FUNDS FROM GENERAL RESERVES TO RETAINED EARNINGS**

The Board of Directors of the Company has resolved that the Company do transfer the sum of Sri Lanka Rupees Eight Billion Two Hundred and Ten Million (LKR 8,210,000,000) lying to the credit of the general reserves of the Company from the said general reserves of the Company to its retained earnings.

#### **PRIVATE PLACEMENT OF SHARES OF THE COMPANY TO MELSTACORP PLC**

The Board of Directors of the Company has further decided that, a maximum number of one billion six hundred million (1,600,000,000) ordinary shares of the Company be issued at a price of Sri Lanka Rupees Twelve and Fifty Cents (LKR 12.50) each to Melstacorp PLC which is the holding company of the Company by way of a private placement of shares. The consideration of Sri Lanka Rupees Twelve and Fifty Cents (LKR 12.50) per share was set based on the valuation done by CT CLSA Capital (Pvt) Ltd. Please see the attached valuation report in this respect.

The Directors of the Company have resolved that the total consideration of Sri Lanka Rupees Twenty Billion (LKR 20,000,000,000) for which the shares are to be issued is fair and reasonable to the Company and to all existing shareholders of the Company.

The new ordinary shares issued by way of private placement to Melstacorp PLC will, upon the issue thereof, rank equally and *pari passu* in all respects with the existing ordinary shares of the Company.

As per the Directive of the Securities and Exchange Commission made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the Central Depository System (Private) Limited (CDS) dated November 30, 2010, the newly issued shares, pursuant to the private placement, will be directly uploaded to the CDS account of Melstacorp PLC.

The stated capital of the Company will increase from Sri Lanka Rupees Three Billion (3,000,000,000) to Sri Lanka Rupees Twenty Billion Three Hundred Million (LKR 20,300,000,000) on the completion of the above private placement.

On the completion of the private placement the total number of shares in issue will be four billion six hundred million (4,600,000,000).

The one billion six hundred million (1,600,000,000) shares to be issued to Melstacorp will, upon the issue thereof, amounts to 34.8% of the issued shares of the Company immediately following the said issue pursuant to the private placement.

The public holding percentage of the Company before the private placement is 0.05% and immediately following the private placement will be 0.04% of the issued shares of the Company.

The Securities and Exchange Commission has informed the Company, by letter dated 1<sup>st</sup> November 2017, that it has granted a waiver to the Company in terms of Section 5.4 (b) of the Listing Rules of the Colombo Stock Exchange, for an issue of shares by way of a private placement to Melstacorp PLC, subject to the Company taking all steps as undertaken by it to comply with the minimum public float requirements of the Listing Rules of the Colombo Stock Exchange, following the private placement.

The purpose for the private placement is to capitalize the Company, thereby improving its negative net asset position and strengthening the balance sheet.

On 10<sup>th</sup> March 2017 and 13<sup>th</sup> March 2017 the Company received Sri Lanka Rupees Ten Billion Two Hundred Million (LKR 10,200,000,000) and Sri Lanka Rupees Nine Billion Eight Hundred Million (LKR 9,800,000,000) respectively, amounting to a total of Sri Lanka Rupees Twenty Billion (LKR 20,000,000,000) from Melstacorp PLC, which is recorded as "Funds Received Pending Allotment" in the Company's financial statements. The aforesaid funds were utilized to settle dues to Melstacorp PLC resulting from the restructure of the Company carried out in 2016. The Company prioritized the settlement of the dues to Melstacorp PLC given that the liability owed to Melstacorp PLC is the sole long term interest bearing liability of the Company, whereas the other credit facilities are of short term. Out of the dues of LKR 24,863,170,680, a sum of LKR 5,000,000,000 was settled by a commercial borrowing in the first instance.

The Company will through the private placement, issue shares to Melstacorp PLC for the Funds Received Pending Allotment. The Company will also seek shareholder approval by way of a special resolution for the private placement due to it being a related party transaction in accordance with Section 9 of the Listing Rules of the Colombo Stock Exchange being of a value equal to, or more than 1/3 of the total assets of the Company as per the latest Audited Financial Statements of the Company;

The benefit of the private placement therefor to the existing Shareholders and to the Company is that the negative net asset position of the Company will improve pursuant thereto, and the balance sheet of the Company will be strengthened.

#### **REDUCTION OF STATED CAPITAL**

The Board of Directors of the Company has also decided to recommend to the shareholders that the stated capital of the Company be reduced from its post private placement sum of Sri Lanka Rupees Twenty Billion Three Hundred Million (LKR 20,300,000,000) to Sri Lanka Rupees Three Billion (3,000,000,000) in order to wipe out the negative retained earnings of the Company and facilitate the making of future distributions to its shareholders. The said reduction of stated capital will not cause any changes to the number of issued shares of the Company.

As required in terms of Section 59 (2) of the Companies Act, public notice of the proposed reduction of stated capital has already been given by the Company.

The reduction of stated capital, which is subject to the approval of the shareholders by way of special resolution, will be taken up at the Extraordinary General Meeting of the shareholders of the Company to be held immediately following the Extraordinary General Meeting of the shareholders scheduled to be held at 4 pm on the same date in order to approve the subdivision of shares of the Company.

The shareholders will at this meeting be requested to consider and if thought fit pass the special resolutions approving the issuance of the private placement shares and the reduction of stated capital. The Company will also seek shareholder approval by way of a special resolution for the private placement due to it being,

- (a) a related party transaction in accordance with Section 9 of the Listing Rules of the Colombo Stock Exchange being of a value equal to, or more than 1/3 of the total assets of the Company as per the latest Audited Financial Statements of the Company;
- (b) a major transaction in terms of Section 185 of the Companies Act; and
- (c) required in terms of Section 5.4 (d) of the Listing Rules of the Colombo Stock Exchange.

### **RESTORING THE PUBLIC FLOAT OF THE COMPANY**

In order for the Company to restore its public float and meet the minimum public holding in terms of the Directive of the Securities and Exchange Commission dated 17<sup>th</sup> November 2016 and bearing reference SEC/LEG/16/11/13 ("**Public Holding Directive**") also with a view to ensuring that the Company continues as a listed company, Melstacorp PLC has informed the Company that it will, subject to compliance with the applicable laws of the land and the rules and regulations of the Colombo Stock Exchange and the Securities and Exchange Commission as applicable, take all steps reasonably possible to enable the Company to satisfy the requirements of the Public Holding Directive. Disclosures will be made in relation to the above as per the law in due time.

If you are unable to be present at the Extraordinary General Meeting to be held immediately following the aforementioned Extraordinary General Meeting for the proposed subdivision of the shares of the Company to be held at 4 pm on 14<sup>th</sup> February 2018, you are kindly requested to complete and return the Form of Proxy to reach the secretaries of the Company not later than 4 pm on 13<sup>th</sup> February 2018.

Yours faithfully

By order of the Board of  
DISTILLERIES COMPANY OF SRI LANKA PLC



.....  
Ms. V. J. Senaratne  
Company Secretary  
Colombo, on this 09<sup>th</sup> day of February 2018

## NOTICE OF MEETING

### DISTILLERIES COMPANY OF SRI LANKA PLC - PQ 112

**NOTICE** is hereby given that an Extraordinary General Meeting of the Shareholders of Distilleries Company of Sri Lanka PLC will be held on 14<sup>th</sup> February 2018, immediately following the Extraordinary General Meeting of the Shareholders to be held at 4 PM on the same date in order to approve the subdivision of shares of the Company, at the Board Room of the registered office of the Company situated at No. 110, Norris Canal Road, Colombo 10 to consider and if thought fit pass the following resolutions:

#### **SPECIAL RESOLUTION 1:**

**IT IS HEREBY RESOLVED AS A SPECIAL RESOLUTION** that the Company do, following the subdivision of shares of the Company whereby each ordinary share held by a shareholder is subdivided into ten (10) ordinary shares, issue one billion six hundred million (1,600,000,000) shares of the Company, ranking equal and *pari passu* as to rights with the shares already in issue, by way of a private placement ("**Private Placement Shares**") to Melstacorp PLC at a consideration of Sri Lanka Rupees twelve and fifty cents (LKR 12.50) per Private Placement Share amounting to a total consideration of Sri Lanka Rupees twenty billion (LKR 20,000,000,000) and that the name of Melstacorp PLC be entered in the share register of the Company in relation to the said Private Placement Shares and a direct upload of the Private Placement Shares be made to the Central Depository Systems (Private) Limited;

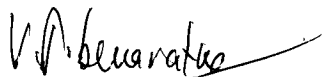
**IT IS HEREBY ALSO RESOLVED AS A SPECIAL RESOLUTION** that the said issue of Private Placement Shares to Melstacorp PLC be approved as

- (i) a major transaction of the Company in terms of Section 185 of the Companies Act No. 07 of 2007;
- (ii) a related party transaction in accordance with Section 9 of the Listing Rules of the Colombo Stock Exchange being of a value equal to, or more than 1/3 of the total assets of the Company as per the latest Audited Financial Statements of the Company; and
- (iii) required in terms of Section 5.4 (d) of the Listing Rules of the Colombo Stock Exchange.

#### **SPECIAL RESOLUTION 2:**

**IT IS HEREBY RESOLVED AS A SPECIAL RESOLUTION** that the stated capital of the Company be reduced from Sri Lanka Rupees twenty billion three hundred million (LKR 20,300,000,000) to Sri Lanka Rupees three billion (LKR 3,000,000,000).

By Order of the Board of  
DISTILLERIES COMPANY OF SRI LANKA PLC



.....  
Ms. V. J. Senaratne  
Company Secretary  
Colombo, on this 09<sup>th</sup> day of February 2018

04<sup>th</sup> September 2017

Board of Directors,  
Distilleries Company of Sri Lanka PLC,  
No.110, Norris Canal Road,  
Colombo 10.

Dear Sirs,

**Valuation of Distilleries Company of Sri Lanka PLC (DIST or the Company) as at 31<sup>st</sup> August 2017**

As Financial Advisors and Managers to the Balance Sheet Restructure of DIST, CT CLSA Capital (Pvt) Limited, wishes to submit the enclosed Valuation Report prepared to determine the Share Price for the proposed Private Placement of the Company.

Based on our analysis of DIST's business operations, we have derived an average Share Price of LKR 12.47 using the valuation methodologies as presented in the table below.

Method	Fair Value per Share (LKR)	Post – Private Placement Valuation (LKR Bn)
Relative Price to Earnings (PER)	12.89	59.3
Relative Enterprise Value to EBITDA (EV/EBITDA)	12.82	59.0
Discounted Cash Flow (DCF)	11.71	53.9
Average	12.47	57.4


Considering the above, we propose a Share Price of LKR 12.50 for the Private Placement of 1,600,000,000 DIST shares to Melstacorp PLC (MELS).

The detailed Valuation Report is enclosed herewith for your reference.

Thank You.

Yours faithfully,

**CT CLSA Capital (Pvt) Limited**



Director

## **BACKGROUND TO THE REPORT**

Distilleries Company of Sri Lanka (DIST) is the market leader in the hard alcohol and spirits industry in Sri Lanka<sup>1</sup>. The company's specialty lies in the production of coconut arrack, and their wide range of products includes Old Arrack, Coconut Arrack, Double Distilled Arrack, V.S.O.A. and Extra Special. DIST is a subsidiary of Melstacorp PLC (MELS) and was the largest contributor to Group revenue in FY17. In addition, the Company has the highest market share in the arrack segment, producing 75.2% of the Special Arrack that entered the market in 2015<sup>1</sup>.

In August 2016, the Board of Directors of DIST announced the intention to restructure the DIST Group to make MELS the holding company of DIST Group, by way of a share swap (an Arrangement under the part X of Companies act No 07, 2007). Prior to the restructure, MELS was a 100% owned subsidiary of DIST.

In October 2016, DIST became a ~100% owned subsidiary of MELS. The objective of the restructure was to make MELS the ultimate parent of DIST and other group companies in order to achieve group synergies (marketing and branding) and to unlock the value of DIST as a pure listed beverage company.

Under the ongoing second phase of the restructure for DIST, steps are being taken to comply with the minimum public holding requirements of CSE Listing Rules and to recapitalize DIST in order to improve its negative net asset position.

As part of the restructure, DIST has proposed a Private Placement of shares to MELS. In this regard, CT CLSA, as the Financial Advisors and Managers to the Balance Sheet Restructure of DIST, is submitting the Valuation Report to determine the Price per DIST Share for the purpose of the aforesaid Private Placement to MELS.

In March 2017 DIST received LKR 20 Billion from Melstacorp PLC, which is recorded as "Funds Received Pending Allotment" in DIST's financial statements. The aforesaid funds were utilized to settle the dues to Melstacorp PLC, which were created as part of the restructure of the Group in 2016. Through the Private Placement, DIST will issue shares to Melstacorp PLC for the Funds Received Pending Allotment.

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<sup>1</sup> Excise Department of Sri Lanka – Performance Report 2015

## VALUATION

The following valuation methodologies were considered in deriving a fair value for DIST as at 31<sup>st</sup> August 2017:

1. Relative Price to Earnings (PER)
2. Relative Enterprise Value to Earnings Before Interest, Tax, Depreciation and Amortization (EV/EBITDA)
3. Discounted Cash Flow (DCF)

PER, EV/EBITDA and DCF are the preferred valuation methods for a beverage company where the value is driven by the future cash generating capabilities.

Financial Advisors and Managers to the Transaction have established that all assumptions used in the forecasts and outlook section of this report are fair and reasonable to the best of their knowledge.

A summary of the prices derived and the applicable price multiples are shown below for the three valuation methodologies used on DIST:

Method	Fair Value per Share (LKR)	Price per Share (LKR)	(Discount)/Premium - %
PER	12.89	12.50	(3.0)
EV/EBITDA	12.82	12.50	(2.5)
DCF	11.71	12.50	6.7
<b>Average</b>	<b>12.47</b>	<b>12.50</b>	<b>(0.2)</b>

**Note: Valuations are done considering the number of shares post 1:10 subdivision to be carried out by the Company (Refer Note 02 under Assumptions on Page 7)**

All share prices used in this section are average closing prices for the three month period from 01<sup>st</sup> June 2017 to 31<sup>st</sup> August 2017. Average share prices have been used to avoid possible anomalies that may arise in share price movement on a single day.

DIST's investment in Hatton National Bank PLC (HNB) shares is valued separately, also based on average share price for the period of 01<sup>st</sup> June 2017 to 31<sup>st</sup> August 2017.

Based on the methodologies used the fair value of DIST's share ranges from LKR 11.71 – LKR 12.89 with an average value per share of LKR 12.47.

Based on the above we recommend a Share Price of **LKR 12.50 to be the Price per share for the Private Placement of DIST Shares to MELS.**

## 1. Relative Price to Earnings Method (PER)

Under the Relative PER method, DIST share was valued using the PER multiples of comparable listed peers in the market.

$$P = \frac{\text{Earnings} \times \text{PER}}{\text{Number of Shares}}$$

Where,

P	= Price per Share at year 0
Earnings	= Trailing Twelve Months Earnings
PER	= Applicable Price to Earnings multiple

### Comparable Listed Local Peers

Selected Local Peers	Market Capitalization*	PER	
		FY Dec 16/ Mar 17	TTM June 17**
Ceylon Tobacco Company PLC	181,516,386	14.5	14.4
Lion Brewery Ceylon PLC	33,956,870	N/A	N/A
Nestle Lanka PLC	105,972,609	24.1	29.6
Ceylon Cold Stores PLC	78,846,430	22.2	23.4
Cargills (Ceylon) PLC	45,735,505	21.4	21.5
<b>Selected Peer Average</b>		<b>20.5</b>	<b>22.2</b>

\* Using three month average closing share prices from 01<sup>st</sup> June 2017 to 31<sup>st</sup> August 2017

\*\*Trailing Twelve Months for the period ended 30<sup>th</sup> June 2017

Source: Company Financials, CSE

For the purpose of relative valuation of DIST, we have considered Ceylon Tobacco Company PLC (CTC), Lion Brewery Ceylon PLC (LION), Nestle Lanka PLC, Ceylon Cold Stores PLC and Cargills (Ceylon) PLC. Out of these CTC and LION are considered more relevant to DIST due to the regulated nature of the industries. However, LION's trading multiples are not considered for the valuation, due to non-recurring events having a negative impact on its performance during the period under consideration. Therefore, for the purpose of valuing DIST we have applied the TTM June 2017 PER multiple of CTC.

**Considering a Selected Peer PE multiple of 14.4x, DIST share is valued at LKR 12.89 based on the relative PER method.**

Relative PER	
DIST's TTM Earnings June 2017 (LKR 000')	3,949,273
Selected Peer TTM PER Multiple (x)	14.4
Equity Value (LKR 000')	56,868,841
HNB Investment (LKR 000')	2,425,306
<b>Equity Value + HNB Investment (LKR 000')</b>	<b>59,294,147</b>
Number of Shares (000')*	4,600,000
<b>Value per Share (LKR)</b>	<b>12.89</b>

\*Refer Note 02 under Assumptions on Page 7

## 2. Relative Enterprise Value to Earnings before Interest, Tax, Depreciation and Amortization Method (EV/EBITDA)

Under the Relative EV/EBITDA method, DIST share was valued using the EV/EBITDA multiples of comparable listed peers in the market.

$$P = \frac{EBITDA \times (EV/EBITDA)}{\text{Number of Shares}}$$

Where,

P = Price per Share at year 0

EBITDA = Trailing Twelve Months Earnings before Interest, Tax, Depreciation and Amortization

EV/EBITDA = Applicable EV/EBITDA multiple

### Comparable Listed Local Peers

Selected Local Peers	Market Capitalization*	EV/EBITDA	
		FY Dec 16/ Mar 17	TTM June 17**
Ceylon Tobacco Company PLC	181,516,386	8.1	7.6
Lion Brewery Ceylon PLC	33,956,870	326.7	72.9
Nestle Lanka PLC	105,972,609	16.7	20.5
Ceylon Cold Stores PLC	78,846,430	14.4	14.9
Cargills (Ceylon) PLC	45,735,505	8.7	8.3
<b>Selected Peer Average</b>		<b>74.9</b>	<b>24.8</b>
<b>Selected Peer Average – Excluding LION</b>		<b>12.0</b>	<b>12.8</b>

\* Using three month average closing share prices from 01<sup>st</sup> June 2017 to 31<sup>st</sup> August 2017

\*\*Trailing Twelve Months for the period ended 30<sup>th</sup> June 2017

Source: Company Financials, CSE

For the purpose of relative valuation of DIST, we have considered Ceylon Tobacco Company PLC (CTC), Lion Brewery Ceylon PLC (LION), Nestle Lanka PLC, Ceylon Cold Stores PLC and Cargills (Ceylon) PLC. Out of these CTC and LION are considered more relevant to DIST due to the regulated nature of the industries. However, LION's trading multiples are not considered for the valuation, due to non-recurring events having a negative impact on its performance during the period under consideration. Therefore, for the purpose of valuing DIST we have applied the TTM June 2017 EV/EBITDA multiple of CTC.

**Considering a Selected Peer EV/EBITDA multiple of 7.6x, DIST share is valued at LKR 12.82 based on the relative EV/EBITDA method.**

Relative EV/EBITDA	
DIST's TTM EBITDA June 2017 (LKR 000')	8,476,533
Selected Peer TTM EV/EBITDA Multiple (x)	7.6
DIST's Enterprise Value (LKR 000')	64,405,879
Net Debt June 2017 (LKR 000')	7,865,126
Equity Value (LKR 000')	56,540,753
HNB Investment (LKR 000')	2,425,306
<b>Equity Value + HNB Investment (LKR 000')</b>	<b>58,966,059</b>
Number of Shares (000')*	4,600,000
<b>Value per Share (LKR)</b>	<b>12.82</b>

\*Refer Note 02 under Assumptions on Page 7

### 3. Discounted Cash Flow Method (DCF)

DCF analysis uses Future Free Cash Flow projections and discounts them to arrive at a present value estimate, which is used to evaluate the potential for investment. Free Cash Flow would be the cash available to the equity holders of the company from the operations of the company after servicing debt.

$$V_o = C\&CE_0 + \left\{ \sum_{t=1}^{t-1} \frac{FCF^t}{(1+r)_t} \right\}$$

Where,

VO = Equity Value in year 0  
 C&CE0 = Book Value of Equity in year 0  
 FCFt = Free Cash Flow on Year t  
 r = Cost of Equity

DCF (LKR 000')	FY18E (9M)*	FY19E	FY20E	FY21E	FY22E
EBIT	4,867,605	9,099,967	10,255,640	11,544,636	12,982,063
Add: Depreciation and Amortization	265,149	416,937	432,568	452,031	475,523
Less: Tax Paid	(1,335,420)	(2,870,489)	(3,785,438)	(4,334,717)	(4,946,543)
Less : Capital Expenditure	(552,796)	(609,546)	(678,303)	(754,816)	(839,959)
Working Capital Changes	1,235,294	(647,529)	(202,344)	(225,168)	(250,567)
Free Cash Flow to Firm	4,479,831	5,389,340	6,022,123	6,681,966	7,420,517
Change in Debt	409,296	740,443	899,166	122,065	1,014,361
Interest Paid	(480,498)	(684,378)	(716,086)	(759,507)	(807,826)
FCF to Equity Holders	4,408,629	5,445,405	6,205,204	6,044,525	7,627,053
Secondary Growth Phase Value (FY23-26E)	-	-	-	-	27,734,395
Terminal Value	-	-	-	-	43,238,285
Total	4,408,629	5,445,405	6,205,204	6,044,525	78,599,732
Present Value	3,893,965	4,076,023	3,936,230	3,249,411	35,808,121
<b>NPV</b>	<b>50,963,751</b>				
Cash (June 2017)	479,429				
Equity Value	51,443,180				
HNB Investment	2,425,306				
<b>Equity Value + HNB Investment</b>	<b>53,868,486</b>				
Number of Shares (000')**	4,600,000				
<b>Value per Share</b>	<b>11.71</b>				

\*Cash flows for FY18 are discounted for 9 months

\*\*Refer Note 02 under Assumptions on Page 7

Assumptions	
5 Year Treasury Bond Secondary Market Rate (%)*	11.85
<b>Cost of Equity (%)**</b>	<b>18.00</b>
Terminal Growth Rate (%)	2.50
Medium Term Growth Rate (%) (FY23-26E)***	13.54

\*Source: Central Bank of Sri Lanka weekly average yield from 04<sup>th</sup> January 2017 to 30<sup>th</sup> August 2017

\*\*Managers and Financial Advisors to the Issue have established 6.15% as a fair equity premium, considering the future prospects and the risks associated with DIST

\*\*\* Medium term growth rate calculated using forecasted cash flows

Using a Cost of Equity of 18.0%, DIST share is valued at LKR 11.71 based on the Discounted Cash Flow Method.

A sensitivity analysis of value per share based on a range of cost of equity and terminal growth rates is shown below.

Terminal Growth Rate	Cost of Equity		
	16.0%	17.0%	18.0%
2.0%	13.46	12.44	11.56
2.5%	13.69	12.63	11.71
3.0%	13.94	12.83	11.87

## ASSUMPTIONS

The following assumptions were used in the valuation of DIST share.

### 01. Restructure

Step 01 - Sub Divide DIST shares in a ratio of 10 for 1 increasing the number of shares in issue from 300,000,000 to 3,000,000,000.

Step 02 - DIST to issue 1,600,000,000 shares to MELS via private placement at LKR 12.50 per share for a total consideration of LKR 20,000,000,000 (Twenty Billion Rupees).

Step 03 - A reduction of stated capital of LKR 17,300,000,000 (Seventeen Billion Three Hundred Million Rupees) will be carried out to reduce the stated capital from LKR 20,000,000,000 (Post-Private Placement) to LKR 3,000,000,000

### 02. Number of Shares

Number of Shares	
As at 30 <sup>th</sup> June 2017	300,000,000
Post-Subdivision – 10 for 1 (Step 01 above)	3,000,000,000
Add: To be issued for Private Placement – LKR 20 Bn   LKR 12.50 per share (Step 02 above)	1,600,000,000
<b>Total used for Valuation</b>	<b>4,600,000,000</b>

### 03. Revenue and Cost of Sales

	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
GP Margin	40.8%	27.5%	35.0%	35.0%	35.0%	35.0%
Dir. TO related Taxes as a % of Gross Rev.	-70.1%	-70.1%	-70.1%	-70.1%	-70.1%	-70.1%
Distilleries Co. of Sri Lanka (Proof Liters Mn)	33.7	33.7	35.0	36.4	37.9	39.4
Growth in Proof Liters	10.1%	0.0%	4.0%	4.0%	4.0%	4.0%
Gross Price per Proof Liter (LKR)	2,679.5	2,840.3	3,010.7	3,221.5	3,447.0	3,688.3
Growth in Gross Price	13.7%	6.0%	6.0%	7.0%	7.0%	7.0%
Net Price per Proof Liter (LKR)	802.0	850.1	901.1	964.2	1,031.7	1,103.9
Growth in Net Price	13.9%	6.0%	6.0%	7.0%	7.0%	7.0%

Note: Due to a temporary change in raw materials purchase mix, DIST experienced an increase in average prices of raw materials in the first two quarters of FY18. Therefore, GP margin for FY18E (27.5%) is expected to be lower than its long term average GP margin. This issue is rectified as of September 2017, and DIST is expected to record its long term average GP margin of 35% commencing from the third quarter of FY18.

### 04. Operating Expenses

	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Distribution Expenses as a % of Revenue	-2.0%	-2.1%	-2.1%	-2.1%	-2.1%	-2.1%
Admin Expenses as a % of Revenue	-5.1%	-4.9%	-4.6%	-4.2%	-3.8%	-3.5%
Growth in Admin Expenses	0.7%	2.3%	2.3%	2.3%	2.3%	2.3%
Growth in Distribution Expenses	17.2%	9.7%	10.2%	11.3%	11.3%	11.3%

### 05. Others

	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Effective Tax Rate	38.3%	40.0%	40.0%	40.0%	40.0%	40.0%
Dividend Payout	20.3%	0.0%	30.0%	30.0%	40.0%	40.0%
Finance Income as a % of Avg. Financial Investments	63.5%	5.0%	5.0%	4.5%	4.5%	4.5%
Finance Cost as a % of Avg. Borrowings	28.3%	9.0%	9.0%	8.5%	8.5%	8.5%
Short Term Loans as a % of Sales	25.2%	25.2%	25.2%	25.2%	23.0%	23.0%
Bank Overdraft as a % of Sales	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
PPE Additions as a % of Sales	0.5%	1.9%	1.9%	1.9%	1.9%	1.9%
PPE Depreciation as a % of Carrying Value	7.4%	5.9%	5.9%	5.9%	5.9%	5.9%

## FORECASTED FINANCIALS

STATEMENT OF PROFIT OR LOSS	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Gross Revenue	90,273,469	95,689,877	105,488,521	117,387,626	130,628,950	145,363,895
Net Revenue	27,019,445	28,640,612	31,573,410	35,134,891	39,098,107	43,508,373
Cost of Sales	(15,986,452)	(20,764,443)	(20,522,717)	(22,837,679)	(25,413,769)	(28,280,443)
<b>Gross Profit</b>	<b>11,032,993</b>	<b>7,876,168</b>	<b>11,050,694</b>	<b>12,297,212</b>	<b>13,684,337</b>	<b>15,227,931</b>
Other Operating Income	234,460	135,447	149,317	166,159	184,902	205,759
Distribution Expenses	(547,428)	(600,766)	(662,285)	(736,991)	(820,123)	(912,633)
Administrative Expenses	(1,373,995)	(1,405,515)	(1,437,758)	(1,470,741)	(1,504,480)	(1,538,994)
Other Operating Expenses	-	-	-	-	-	-
<b>Results from Operating Activities</b>	<b>9,346,030</b>	<b>6,005,334</b>	<b>9,099,967</b>	<b>10,255,640</b>	<b>11,544,636</b>	<b>12,982,063</b>
Finance Income	360,934	163,380	400,759	571,286	777,616	995,731
Finance Cost	(1,643,281)	(632,619)	(684,378)	(716,086)	(759,507)	(807,826)
<b>Net Finance Income</b>	<b>(1,282,347)</b>	<b>(469,238)</b>	<b>(283,619)</b>	<b>(144,799)</b>	<b>18,110</b>	<b>187,906</b>
<b>Profit Before Income Tax Expense</b>	<b>8,063,683</b>	<b>5,536,095</b>	<b>8,816,348</b>	<b>10,110,840</b>	<b>11,562,746</b>	<b>13,169,969</b>
Taxation	(3,088,682)	(2,214,438)	(3,526,539)	(4,044,336)	(4,625,098)	(5,267,987)
<b>Profit for the Year</b>	<b>4,975,001</b>	<b>3,321,657</b>	<b>5,289,809</b>	<b>6,066,504</b>	<b>6,937,647</b>	<b>7,901,981</b>

BALANCE SHEET	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
<u>Non Current Assets</u>						
Property, Plant and Equipment	6,214,121	6,362,979	6,555,799	6,801,295	7,103,587	7,467,366
Intangible Assets	7,211	6,183	5,972	6,211	6,704	7,362
Investments in Subsidiaries	-	-	-	-	-	-
Investment in Equity Accounted Investees	-	-	-	-	-	-
Other Non Current Financial Investments	4,176,692	4,176,692	4,176,692	4,176,692	4,176,692	4,176,692
Deferred Tax Asset	48,893	48,893	48,893	48,893	48,893	48,893
	<b>10,446,917</b>	<b>10,594,747</b>	<b>10,787,356</b>	<b>11,033,091</b>	<b>11,335,876</b>	<b>11,700,313</b>
<u>Current Assets</u>						
Inventories	4,488,626	5,830,176	5,762,304	6,412,292	7,135,599	7,940,494
Trade and Other Receivables	6,943,758	7,360,383	8,114,087	9,029,356	10,047,867	11,181,266
Amounts Due From Related Companies	667,264	707,300	779,727	867,681	965,555	1,074,470
Other Current Financial Investments	46,432	46,432	46,432	46,432	46,432	46,432
Cash and Cash Equivalents	259,481	4,108,195	8,432,841	13,468,341	17,603,062	23,162,339
	<b>12,405,561</b>	<b>18,052,486</b>	<b>23,135,392</b>	<b>29,824,101</b>	<b>35,798,515</b>	<b>43,405,001</b>
<b>Total Assets</b>	<b>22,852,478</b>	<b>28,647,233</b>	<b>33,922,748</b>	<b>40,857,193</b>	<b>47,134,391</b>	<b>55,105,314</b>
<u>Share Capital And Reserves</u>						
Stated Capital	20,300,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Reserves	11,725,604	1,725,604	1,725,604	1,725,604	1,725,604	1,725,604
Retained Earnings/(Losses)	(29,790,745)	(169,088)	3,533,779	7,780,332	11,942,920	16,684,109
<b>Total Equity</b>	<b>2,234,859</b>	<b>5,556,516</b>	<b>9,259,383</b>	<b>13,505,936</b>	<b>17,668,524</b>	<b>22,409,713</b>
<u>Non Current Liabilities</u>						
Interest Bearing Loans and Borrowings	-	-	-	-	-	-
Deferred Tax Liabilities	1,263,734	1,263,734	1,263,734	1,263,734	1,263,734	1,263,734
Employee Benefits	122,230	124,842	127,549	130,349	133,236	136,209
	<b>1,385,964</b>	<b>1,388,576</b>	<b>1,391,283</b>	<b>1,394,083</b>	<b>1,396,970</b>	<b>1,399,943</b>
<u>Current Liabilities</u>						
Trade and Other Payables	8,067,670	10,478,915	10,356,926	11,525,188	12,825,229	14,271,915
Amount due to Related Companies	2,949,577	2,272,647	2,505,366	2,787,971	3,102,454	3,452,411
Income Tax Payable	875,226	1,107,219	1,763,270	2,022,168	2,312,549	2,633,994
Interest Bearing Loans and Borrowings	6,821,594	7,230,890	7,971,333	8,870,499	8,992,565	10,006,926
Bank Overdrafts	517,588	612,470	675,187	751,348	836,100	930,412
	<b>19,231,655</b>	<b>21,702,141</b>	<b>23,272,082</b>	<b>25,957,174</b>	<b>28,068,897</b>	<b>31,295,658</b>
<b>Total Liabilities</b>	<b>20,617,619</b>	<b>23,090,717</b>	<b>24,663,365</b>	<b>27,351,257</b>	<b>29,465,867</b>	<b>32,695,601</b>
<b>Total Equity and Liabilities</b>	<b>22,852,478</b>	<b>28,647,233</b>	<b>33,922,748</b>	<b>40,857,193</b>	<b>47,134,391</b>	<b>55,105,314</b>

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The following sources were used in compiling this report:-

- Public information provided by the Central Bank of Sri Lanka
- Annual Reports and Interim Financial Statements of the Companies Listed on the CSE
- Annual Reports of Department of Excise - Sri Lanka
- Corporate Websites of Local Peers
- Audited Financials and Management Accounts of DIST
- Information provided by DIST and discussions held with the management

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