



GAINING MOMENTUM
ANNUAL REPORT 2010





GAINING MOMENTUM

Over the past year we have laid the foundation for appropriate initiatives to build an enduring market for the future.

This report shows how we are gaining momentum for:

- Energizing Investor Participation through Market Development
- Optimizing Rigour, Responsiveness and Balance through Regulatory Affairs
- Unifying Trading via Next Generation Systems through Information Technology
- Enhancing the Post Trade Value Chain through Clearing and Settlement

We have set the foundation right. The challenge now is to turn the prevailing opportunities into beneficial results.

The Colombo Stock Exchange. We are gaining momentum.....



Year 2010 was a critical juncture for the rise and reshaping of the Sri Lankan economy. Supported by multi-polar sources, a spirited trajectory has been forged for future economic expansion.

Within this setting the CSE has a responsibility to the nation at large to serve as a dependable platform for capital market activity whilst evolving towards a more robust and sustainable future.

Our Vision

To be the preferred choice for creation of wealth and value

Our Mission

- Encourage issuers to raise capital through the CSE
- Increase the number of active investors
- Provide facilities to trade Equity, Debt and Derivative products
- Ensure balanced regulation to maintain market integrity and investor confidence

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GROWTH-ORIENTED AND ACCOUNTABLE

Keeping Score

Even as a non-profit mutual we scrutinize our core business and responsibilities. Our stakeholders currently include our regulator, listed issuers, investors, members and other market participants, our staff and the community at large.

The following scorecard allows these stakeholders to measure our progress and understand our accountability towards diverse goals.

		2010	2009	YoY
Selected Operational Revenues	CSE and CDS Fees (Rs. Mn)	1,149.2	341.7	+236%
	Listings Fees (Rs. Mn)	32.0	15.3	+109%
	Listed Company Fees (Rs. Mn)	50.3	19.0	+165%
	Brokers' Fees (Rs. Mn)	15.4	14.5	+6%
Equity Capital Flows and Listed Wealth	Initial Capital Raised (Rs. Bn)	4.3	0.7	+514%
	Capital Raised from Rights Issues (Rs. Bn)	21.0	5.2	+304%
	Market Capitalization (Rs. Bn)	2,210.5	1,092.1	+102%
	Market Capitalization as percentage of GDP	39.5%	22.6%	*
Market Supervision	Referrals made to the SEC for further investigation (No.)	22	12	+83%
	Client complaints investigated (No.)	39	09	+333%
	Operational Members and Trading Members (No.)	23	21	+10%
IT Services and Infrastructure	System Uptime			
	Trading System (ATS)	99.99%	99.99%	*
	Depository System (CDS)	100.00%	100.00%	*
	Network	100.00%	100.00%	*
	External Connections			
	Member Firms (No.)	26	21	+24%
	Custodian Banks (No.)	04	-	*
	Company Secretaries/Registrars (No.)	20	-	*
	Data Vendors (No.)	05	05	*
	Total External Connections (No.)	55	26	+112%
	ATS Front End Users (No.)	621	542	+15%
	ATS Performance			
	Maximum No. of Orders/Day	66,385	36,706	+81%
	Maximum No. of Trades/Day (Includes cancelled Trades)	36,917	15,290	+141%
	Total Orders Processed (No.)	6,582,751	2,835,709	+132%
	Total Trades Processed (No.) (Includes cancelled Trades)	3,363,626	1,266,542	+166%
Clearing and Settlement	CDS Accounts (No.)	554,192	496,907	+12%
	Deposits (No.)	363,880	43,933	+728%
	Securities held by the CDS (No. Bn)	23.8	14.3	+66%
	Value of securities held by the CDS (Rs. Bn)	1,373.3	618.9	+122%

Keeping Score (contd)

		2010	2009	YoY
Our Staff	Gender Balance (Male:Female)	58:42	58:42	*
	Age Analysis			
	% of staff below 25 years	8%	5%	*
	% of staff aged 25-35 years	59%	60%	*
	% of staff aged 36-55 years	33%	35%	*
	People cost as percentage of turnover	9.1%	28.3%	*
	Training programmes attended (No.)	112	87	+29%
	Employment satisfaction survey participants as percentage of total staff	69%	n/a	*
	Response rate of staff participating in employment satisfaction survey	100%	n/a	*
Community	Donations to approved charities (Rs. Mn)	7.2	0.5	+1340%
	Page views by the public of the CSE website, www.cse.lk (No. Mn)	25.8	8.7	+198%
	Banner views by the public for online education through the CSE website (No.)	86,403	31,341	+176%
	Number of presentations for students and teachers	161	148	+9%
	Percentage of turnover captured through branches of the CSE	7.0%	5.0%	*

Source : Colombo Stock Exchange

*YoY variance calculated only where relevant / applicable to indicator.

Certain data has been approximated. YoY variances are subject to rounding error.

Market Highlights

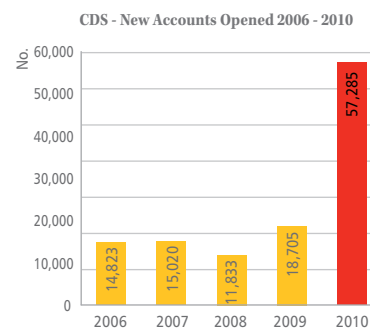
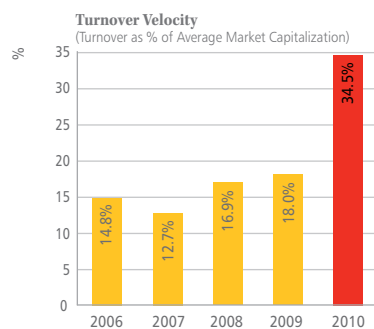
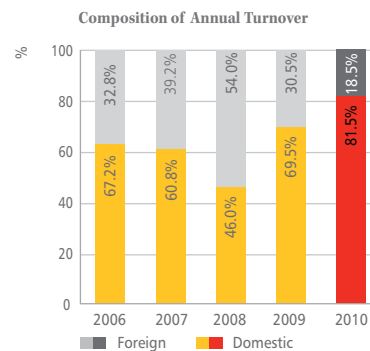
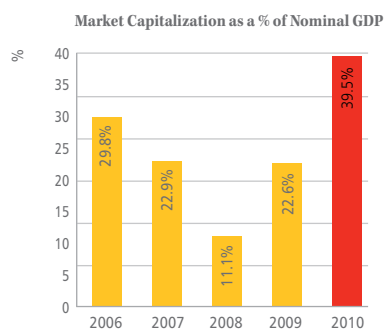
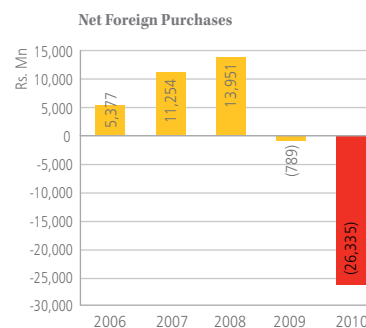
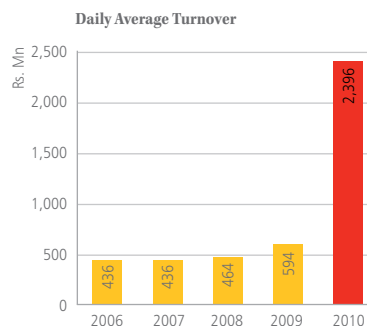
Market Highlights	2010	2009	2008
Equity			
Annual Turnover (Rs. Mn)	570,326.8	142,462.6	110,453.9
Domestic (Rs. Mn)	464,733.6	99,010.8	50,796.9
Foreign (Rs. Mn)	105,593.2	43,451.8	59,656.9
Daily Average Turnover (Rs. Mn)	2,396.3	593.6	464.1
Shares Traded (No. Mn)	18,489.2	4,762.7	3,154.9
Domestic (No. Mn)	16,684.5	3784.2	1934.9
Foreign (No. Mn)	1804.7	978.4	1220.0
Trades (No.)	3,355,126	1,266,299	776,244
Domestic (No.)	3,225,041	1,190,822	730,415
Foreign (No.)	130,085	75,477	45,829
Market Capitalization (Rs. Bn)	2,210.5	1,092.1	488.8
Market Capitalization as a % of GDP	39.5	22.6	11.1
Turnover Velocity (%)	34.5	18.0	16.9
Initial Capital Raised (Rs. Bn)	4.3	0.7	0.4
New Listings (No.)	10	2	2
Foreign Trading Activity			
Annual Turnover (Rs. Mn)	105,593.2	43,451.8	59,656.9
Purchases (Rs. Mn)	92,425.5	43,057.3	66,632.2
Sales (Rs. Mn)	118,760.9	43,846.3	52,681.7
Net Foreign Flow (Rs. Mn)	(26,335.3)	(789.0)	13,950.5
Returns, Yields and Valuation Multiples			
All Share Price Index	6,635.9	3,385.6	1,503.0
Y-O-Y Change (%)	96.0	125.3	(40.9)
Milanka Price Index	7,061.5	3,849.4	1,631.3
Y-O-Y Change (%)	83.4	136.0	(50.4)
Market PER Year End (Times)	25.2	16.6	5.4
Price to Book Value Year End (Times)	3.0	1.7	0.8
Dividend Yield Year End (%)	1.2	3.0	5.6
Debt			
Corporate Debt			
Turnover (Rs. 000)	72,288	136,765	102,639
Trades (No.)	92	42	27
Debentures Traded (No. 000)	693	1,020	953
Government Debt			
Turnover (Rs. 000)	45,673	98,977	195,157
Trades (No.)	18	42	69
Debentures Traded (No. 000)	46,794	102,778	208,183

Market Highlights (contd)

Market Highlights	2010	2009	2008
New Debt Listings (No.)	2	2	5
Initial Capital Raised (Rs. Bn)	15.0	0.6	5.6
Warrants			
Turnover (Rs. Mn)	19,581.2	1,688.1	142.2
Trades (No.)	227,671	35,826	7,830
Warrants Traded (No. Mn)	1,531.6	148.8	24.8
No. of Warrants Traded (as per type of warrant)	16	5	3
New Warrants Listed (Types)	12	2	2
Closed End Funds			
Turnover (Rs. Mn)	621.3	4.6	n/a
Trades (No.)	8,302	228	n/a
Units Traded (No. 000)	8,221.7	87.0	n/a
Funds Listed (as at 31st December, No.)	1	1	n/a
New Funds Listed (No.)	Nil	1	n/a
Capital Raised (Rs. Mn)	n/a	537.6	n/a
Additional Data			
Companies Listed (as at 31st December, No.)	242	232	235
Companies Traded (No.)	239	232	232
Delistings (No.)	1	6	2
Market Days (No.)	238	240	238

Source : Colombo Stock Exchange

Graphical Review





STRENGTHENING OUR FOUNDATIONS

Chairman's Message



I am happy to have the opportunity yet again to address the stakeholders of the Colombo Stock Exchange (CSE).

The phenomenal performance of the CSE continued in 2010 from where it left off in 2009. It will be evident from the performance highlights given in this annual report that new all time records were created in 2010 in respect of key equity market indicators such as the All Share Price Index, Milanka Price Index, annual turnover, annual transactions, number of trades in a single day and market capitalization. The CSE admitted 8 new trading members increasing the number of broker firms to 29. The turnover velocity, which is a measure of the level of liquidity almost doubled to 34.5% and 8 initial public offerings added 1,688 million shares raising Rs.4.3 billion of new equity in the process. The significant increase in volume was handled with a 99.99% uptime in the trading system.

Domestic investors lead the way but institutional trading volumes low.....

The market price earnings ratio at the year-end was amongst the highest in the region at 25.2 times. This had the effect of making the market less attractive to foreigners who were net sellers to the tune of Rs.26.3 billion but in absolute terms foreign investor related market turnover also reached an all time high of Rs.106.0 billion surpassing the previous high of Rs.60.0 billion in 2008. However, domestic investors have firmly established themselves as the dominant investor segment, thereby increasing the depth of the market. The increase in the number of depository accounts and the more than five-fold increase to Rs.168.0 million, being 7% compared to 5% in 2009, in the average daily turnover contribution in 2010 from the five CSE branches outside Colombo including the new Jaffna Branch in the Northern Province are manifestations

Chairman's Message (contd)

of increasing domestic investor interest. Although the increased domestic interest is welcome and is consistent with the national policy of broad basing share ownership, the contribution to total turnover from domestic individual investors at about 44% appears high in comparison to many other markets.

Reach and investor education to be built on

The CSE remains committed to further expanding its presence and reach and to help new domestic retail entrants to the market to become responsible investors. On a face to face basis the CSE reached out to more than 15,000 potential investors and 10,000 school children through 70 seminars and 75 workshops held all over the country in three languages during 2010. Media coverage was also increased. These activities will be further expanded and delivered more efficiently in the future. The website was also revamped and recorded more than 25 million views, almost a three-fold increase over the previous year and a further upgrade to improve access is under way.

Success poses its own challenges

While the strong performance was indeed worthy of celebration, that very success brought with it some challenges that had to be dealt with for the overall benefit of investors and other stakeholders. In particular there were clear signs that the speculative component of retail trades was reaching unhealthy levels fuelled by the herd mentality of small investors and excessive credit provided by stockbrokers and financial intermediaries including banks. Steps taken included the introduction of price bands to control sharp price movements in relatively illiquid shares, reducing broker credit limits, hiving off of margin trading from broking companies and controlling the banking sector credit exposure to the market.

In parallel, steps were also taken to improve disclosure and governance by issuers and as a responsible Exchange, the CSE fully supported the actions taken by the Securities and Exchange Commission of Sri Lanka (SEC) and the Central Bank of Sri Lanka to prevent overheating, which had it continued unchecked, may well have led to the Colombo bourse being subjected to the same trauma that some frontier markets have been subjected to. As can be expected, these actions were criticized by some but I believe that with constant monitoring and adjustment as required, the regulatory actions will help in the development of an orderly and sustainable market.

The relatively high level of retail trading by individuals can also lead to unhealthy volatility and it is hoped

that, as in other markets, mutual funds will expand and become the preferred vehicle for retail investments in the stock market and that the proportion of trading by institutional investors will increase in time to come.

The increase in the new listings that is expected will also lead to the unintended consequence where annual general meetings of listed companies will tend to pile up in the last few days of June. This is partly due to the marking scheme adopted in the Best Annual Report Competition conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL) which assigns additional marks if the meetings are held within three months of the closing of the financial year. Although participation is voluntary, the competition is popular and is a useful tool for the continuous improvement in the standards of disclosure. However, it is also important to facilitate shareholder participation at general meetings in the interests of good corporate governance. The CSE has therefore requested the ICASL to consider changes to the marking scheme in order to overcome this problem without diluting the quality and timeliness of information provided to shareholders.

Operational reforms slow but there is action behind the scenes

I have referred to various changes that are necessary if the CSE is to evolve to the next level in previous Annual Reports. It has to be admitted that overall reforms and changes have been slow although there has been progress and it is useful to examine where we stand. On transaction costs, the CSE still remains relatively expensive. There was a reduction in the total cost of transactions up to Rs.50.0 million but the minimum cost for larger transactions increased slightly. Some measures to improve market microstructure, such as a reduction of tick size and increasing the threshold for crossings that were first proposed a few years ago were also made effective. The evolution to a Delivery versus Payment settlement system with a Clearing House acting as a Central Counterparty which has been identified as a key initiative for reducing some of the existing risks is being worked on by a joint task force from the SEC and the CSE. Given the significant impact that it will have on brokers and investors regarding the way trading and settlement is done, implementation will probably be in 2012. Until then interim measures are being taken from time to time to reduce settlement risk. The Exchange operates entirely as a cash market and there have been no new products to enable investors to hedge positions.

Demutualization needs to be progressed

The government is working on the necessary legislative amendments to enable the CSE to be demutualized thereby paving the way for separating ownership from trading rights. This is an important initiative that needs to be fast tracked as under the current membership based structure, the interests of member stockbrokers take precedence at times over the interests of other stakeholders. However, the contribution made by our members who have contributed over the years, including during some very difficult times in the past, to making the CSE what it is today should not be forgotten and they should be justly rewarded in the demutualization process.

Corporate debt market all but forgotten

In the euphoria surrounding the performance of the equity market, the corporate debt market has received very little attention. The high level of liquidity that prevailed in the banking system and the relative ease with which good quality borrowers can still access bank credit have made it difficult for the debt market to develop. At the macro level, the absence of a reliable long term yield curve and withholding tax regime that was applicable to coupon interest payments were also inhibiting factors.

There were some corporate debt listings in 2010 by state owned enterprises which raised Rs.15.0 billion in initial capital. The market value of corporate debt securities as at year end amounted to about Rs.32.8 billion which was approximately 1.5% of the market capitalization of the equity market. Also there was very little trading in the secondary market with most investors holding the securities to maturity. A large and liquid corporate debt market is an essential component of a capital market. The situation in Sri Lanka is in stark contrast to other markets where the value of listed debt is significantly higher, sometimes being twice or thrice the value of the equity markets. From a national perspective, over dependence on the banking system for credit is not desirable and a larger corporate debt market will provide strong support to the ambitious national development agenda of the government. Although recent amendments to tax legislation has placed the withholding tax regime for corporate debt on a par with government securities, thereby making secondary market pricing simpler, this may not be sufficient to stimulate the growth of the long term corporate debt market since paying withholding tax upfront on long term debt instruments has adverse cash flow implications. Consideration should be given to making listed corporate debt with maturities over three years exempt from withholding tax and to collect the tax revenue applicable to interest income through alternative enforcement mechanisms.

More to do

The CSE should also position itself to benefit from the broader policy initiatives of the government. Exchange Controls are being progressively liberalized which should pave the way for the larger Sri Lankan companies to seek dual listings. While there is a natural fear that such a move could affect liquidity in the local market, a holistic view focusing on the medium term benefits that will accrue to the CSE from transforming our companies from local to regional or even global players should outweigh those concerns. Opportunities to permit overseas companies to list on the CSE should also be explored. However, in doing so, ensuring effective regulation and enforcement are important for the preservation of the reputation of the CSE.

Many have helped

The CSE does not work in isolation. There was a high level of interaction with the Securities and Exchange Commission of Sri Lanka and I am grateful to the Chairperson, Commissioners, Director General and the Management of the SEC for assisting the CSE to maintain market stability and for supplementing market development activities.

The staff of the CSE led by the Chief Executive, Ms Surekha Sellaheewa showed great commitment during a year that saw a significant increase in workloads to deliver exceptional results balancing the expectations of stakeholders. I thank them all.

I acknowledge Mr. Moksevi Prelis who joined the Board during the year and I thank all the Directors for the support extended to the CSE and to me. When the Board invited me last year to serve another year as Chairman, I accepted but I have informed the Board that I will not seek a further term and will relinquish office shortly. It has been a remarkable five years as Chairman and I acknowledge that broader responsibility to stakeholders beyond our member brokers compelled me at times to disagree with some members. I thank all members for their understanding. The last two years have been good but I leave with the confidence and satisfaction that the CSE is very well placed to scale much greater heights in time to come.



Nihal Fonseka
Chairman
13th May 2011

Chief Executive Officer's Message



"I am pleased to recount the CSE's strategic direction in consolidating and preparing to transform into a truly sustainable market place. Even as we are optimistic about the opportunities prevalent within the current growth phase of our economy, we remain acutely aware of the challenges ahead."

Buoyant equity market

The past year has been one of euphoric market activity. Market performance broke new ground surpassing previous all time highs: The ASPI ended the year at 6,635.9 points, up 96.0% YoY; The MPI ended the year at 7,061.5 points, reflecting an increase of 83.4% YoY; Annual turnover reached a record Rs.570.3 billion, up 300.3% YoY; Equity market volumes for the year rose 165.0% YoY; Market capitalization as at year end was Rs.2,210.5 billion, up 102.4% from the previous year's closing of Rs.1,092.1 billion.

The bullish performance speaks for the confidence that a predominantly domestic investor base has in our market. It was underpinned by a resilient economy for which 2010 marked a critical time. As anticipated during the previous year, a spirited trajectory has been forged for economic growth with Sri Lanka's Real GDP growing at a record level of 8.0% in 2010. The ensuing year and the medium term continue to bid strong for the Sri Lankan economy.

Strategic momentum

In the current context of economic growth, it is useful to review the CSE's strategic focus during year 2010 which was the second year of our Strategic Plan 2009-2013. In this medium term plan, the undertakings of the CSE were expressed under the following themes:

- Enhancing Liquidity;
- Improving Risk Management, and
- Introducing Product Variety.

With the primary focus being on liquidity, we envisaged a stock exchange which would attain the following Key Performance Indices:

- increase turnover velocity to 25.0% from the 12.0% rate during the time of plan formulation; and
- increase new equity listings to 5 each year.

A year of vibrant market activity in part contributed to the strategic momentum and the year closed gaining headway in terms of targets set:

- a turnover velocity of 34.5% in relation to the past-3-year average rate of 15.9% was recorded; and
- equity listings of 10 new companies were facilitated, 8 of which raised initial capital.

Liquidity as cornerstone

Arguably, a core measure of an exchange's ability to attract issuers and investors is best demonstrated by its liquidity. Driven in part by the paradigm shift in the socioeconomic environment and prevailing peace, trading activity in Sri Lanka has risen in the recent past. Approximately 81.0% of turnover was generated by domestic investors, a considerable portion of which is prone to short-term trading strategies.

As Sri Lanka's visibility becomes more pronounced on the sub regional economic development map, this is an opportune time to activate wider investor networking. We also face considerable compulsion to actively promote high quality listings because as a frontier market, size and liquidity continue to be concerns which downplay Sri Lanka's competitiveness in relation to the more developed emerging markets.

Listings

Currently our listings platform combines both the Main Board and Diri Savi Board. The Main Board captures the interest of largely capitalized companies. Through the latter niche medium and small capital companies are proffered listing.

We were pleased to welcome 10 new companies, 8 of which listed equity through initial public offerings and 2 through introduction. The 8 new equity listings raised initial capital of Rs.4.3 billion. This is in contrast to the previous year in which 2 companies were listed, raising initial capital of Rs.0.7 billion. In addition, Bank of Ceylon and the Urban Development Authority raised Rs.15.0 billion initial debt capital collectively.

This result would not have been possible without the efforts made at maintaining continuous dialogue with potential new entrants from the time of identification of such candidates through to listing. The IPO pipeline looks promising for both debt and equity during the ensuing year.

Structural enhancements

As an acid test of our commitment to improve liquidity it should be noted that in addition to attracting new listings, we seek to introduce enabling market microstructure refinements and regulatory reforms. We believe further improvements are possible in achieving competitive transaction costs. It is encouraging to note that some broker firms are becoming relatively more active in providing value added services such as online trading, aiding growth in volumes thereby mitigating any negative impact of transaction cost revisions.

Directives by the SEC have necessitated the revisiting of both transaction costs and tick size during the year. However, as the transaction cost revision is perhaps more advantageous for the retail or smaller institutional investor there can be no room for complacency as the CSE initiates its programmes to capture an optimal investor mix, with a focal point being strategic foreign investors.

Enabling internal processes

In as much as capturing greater capital flows and energizing and expanding the investor base are significant, so is setting the stage for internal processes and structures that supports continued growth.

To maintain the integrity of the marketplace, investment in technology is paramount. Over the year, the foundation has been set for the introduction of an upgraded trading engine which offers more functionality, scalability and efficiency.

On the clearing and settlement side particular emphasis is on progressing towards inducting a Delivery vs. Payment model and addressing Counterparty Risk for which groundwork has been completed during the year,

Chief Executive Officer's Message (contd)

under the guidance of the National Stock Exchange of India. Collectively, transforming our technological landscape and enhanced risk management would be crucial for both enhancing liquidity and product variety. Simultaneously, in our role as market supervisor we continue to court balanced regulation, the core for creating confidence in investors and issuers.

Activities during the year in improving the quality and efficiency of our core operations while expanding our business offerings selectively have been detailed on pages 21 through 32 of this Report.

Strategy in context **Probing the paradigm shift**

The CSE maintains a strong commitment to the country's development as a capital market conduit of resources from savers and investors to new ideas, projects and opportunities. The reshaping of Sri Lanka's economic landscape and its impact on market dynamics makes it timely and relevant to reassess some of the numerical goals and timeframes set in our Strategic Plan. To ensure that we are goal oriented and current, we formulate annual interim work plans which target liquidity enhancement, improving product variety and sound risk management which inevitably define core strategy of stock exchanges, globally.

Building a unique value proposition for this frontier market can be attained insofar as we are change agents as well as beneficiaries of change at this decisive time. As the Strategic Plan 2009-2013 had not pre-empted the altered economic growth trajectory, we are now probing this paradigm shift. To achieve greater congruence with the new growth path we have initiated action to review and revise our strategic targets.

Appreciation

There are many contributors to our advancement over the year.

I would like to extend my sincere gratitude to the Board of Directors for their stewardship during the year. I especially wish to thank our Chairman, Mr. Nihal Fonseka for his invaluable contributions to the CSE over the past five years. The CSE was much strengthened by his unstinting and generous service and wise leadership. I wish him the best in his future endeavours.

I wish to thank my management team for their invaluable support and dedication. My thanks also go to all members of staff for their contribution and continued pride in their work.

I thank Mrs. Indrani Sugathadasa, Chairperson of the SEC, Mr. Malik Cader, Director General, SEC and the Directors of the Commission, for their concerted efforts to enhance the CSE's significance as a conducive destination for greater capital flows and investment.

I wish to also thank our listed companies, investors, members and other market participants, whose confidence in the CSE is inspiring. As we strive towards enduring growth, the success of our strategic initiatives in product and other innovations would be greatly enhanced through your constant dialogue, feedback and input.



Surekha Sellahewa
Chief Executive Officer
13th May 2011

Equity Market

... Bullish on Opportunities

Market Highlights

The equity market reached unprecedented levels in year 2010, surpassing all records set in the post-war period starting May 2009. The CSE retained its position as the second best performing stock exchange in the world as ranked by Bloomberg News and was also ranked the top performing broad equity market index from among members of the World Federation of Exchanges (WFE).

the upward trend set in 2009, closing the year at 6,635.9 points. The benchmark index reached its highest level in history of 7,147.8 points on 1st October 2010. The Milanka Price Index (MPI), which follows the growth of 25 selected companies, closed the year at 7,061.5 points recording a growth of 83.4% for the year. The MPI reached its highest level in history of 7,829.1 points on 1st October 2010.

The All Share Price Index (ASPI) recorded a growth of 3,250.3 points or 96.0% for the year 2010, continuing

Figure 1: Market Highlights

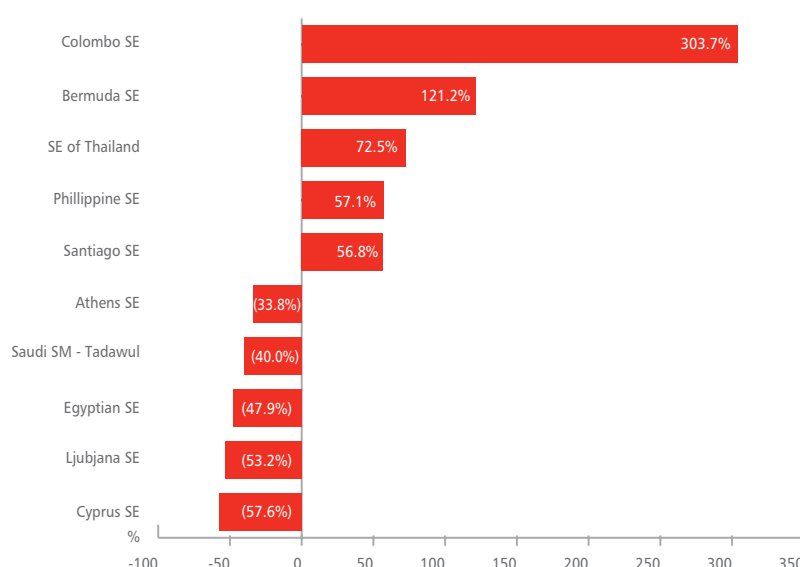
	New Record		Previous Record	
Highest ASPI	7,147.8	1st Oct 2010	3,385.6	30th Dec 2009
Highest MPI	7,829.1	1st Oct 2010	4,214.8	26th Feb 2007
Highest Annual Turnover	Rs. 570.3 Bn	2010	Rs. 142.5 Bn	2009
Highest Average Daily Turnover	Rs. 2,396.3 Mn	2010	Rs. 593.6 Mn	2009
Highest Annual No. of Transactions	3.36 Mn	2010	1.27 Mn	2009
Highest No. of Trades for a Trading Day	36,888	21st Sep 2010	15,290	18th June 2009
Highest Market Capitalization	Rs.2,358.5 Bn	1st Oct 2010	Rs.1,092.1 Bn	30th Dec 2009

Source: Colombo Stock Exchange

Turnover

The CSE generated an equity turnover of Rs.570.3 billion during the year 2010, the highest trading activity in CSE history, surpassing the previous record of Rs.142.5 billion for the year 2009. The WFE ranks the growth in the turnover (in US Dollar terms) of the CSE as the highest among all member exchanges in the year 2010.

Figure 2: Top 5 & Last 5 WFE Members in terms of Growth in Total Turnover in 2010 (in USD)



Source: WFE 2010 Market Highlights, World Federation of Exchanges

Equity Market (contd)

Figure 3: Investor Contribution to Total Market Turnover 2008-2010

Year	Total Market Turnover (Rs. Bn)	Domestic		Foreign	
		Institutional	Individual	Institutional	Individual
2008	110.5	24%	22%	49%	5%
2009	142.5	34%	36%	27%	4%
2010	570.3	37%	44%	15%	3%

Source: Colombo Stock Exchange
Totals are subject to rounding error

Foreign investors remained net sellers during the year, with a record net outflow of Rs.26.3 billion. However, the annual turnover by foreign investors was also at an all-time high at Rs.105.6 billion for year 2010, surpassing the previous record of Rs.59.6 billion generated in 2008.

The market depth through domestic investor participation was sufficient to absorb the negative price impact of foreign selling and as such, price indices did not witness a pronounced downward adjustment.

Closer inspection of turnover makeup points to the predominantly domestic investor base, which characterizes our market (Figure 3).

Trading Volumes

An average of 14,097 trades was executed each day, with 36,888 trades, the highest number of transactions at the CSE being executed on 21st September 2010.

Market Capitalization

The Market Capitalization of the CSE crossed the two trillion Rupee level on 13th September 2010 and closed the year at Rs.2,210.5 billion. The Market Capitalization recorded a growth of 102.4% for the year 2010, the highest growth recorded by a WFE member (in US Dollar terms).

Market Liquidity

The CSE has shown an improved level of liquidity as measured by turnover velocity, due in part to the vibrant market conditions impacting both price and participation levels. Turnover velocity increased to 34.5% in 2010 from 18.0% in 2009. Liquidity on the CSE still remains lower when compared to other regional emerging markets.

Figure 4: Turnover Velocity of selected Asian Stock Exchanges

Exchange	Turnover Velocity (%)*	
	2010	2009
Colombo Stock Exchange	34.5	18.0
Bursa Malaysia	31.7	35.5
Hong Kong Stock Exchange	59.4	82.5
National Stock Exchange of India	56.8	86.8
Singapore Exchange	51.3	66.2
Stock Exchange of Thailand	94.2	90.8

Source: World Federation of Exchanges, Colombo Stock Exchange

* The turnover velocity is calculated as share turnover / average market capitalization for the year

Figure 5: Initial Public Offerings (Equity) in 2010

Sector	No of Issues	No of Shares Indexed	Value (Rs.)
Banks Finance & Insurance	1	20,775,300	114,400,000
Beverage Food & Tobacco	2	683,457,320	470,000,000
Services	1	114,000,000	28,000,000
Information Technology	1	228,933,334	629,566,674
Footwear & Textiles	1	144,950,000	250,500,000
Power & Energy	2	496,088,198	2,855,000,000
Total	8	1,688,204,152	4,347,466,674

Source: Colombo Stock Exchange

New Equity Listings

Recovering from the low level of activity in the IPO market in 2009, eight new companies raised Rs.4.3 billion through IPOs in 2010, adding approximately 1.7 billion shares to the quantity indexed. Two further companies listed their ordinary shares by way of Introduction during the year, adding a further 45.9 million new shares to the quantity indexed.

As a market characterized by low overall market size and small deal sizes of IPOs relative to even those of traditional emerging markets, capturing quality listings remains a priority for the CSE.

Market Valuations

Our market Price Earnings Ratio continues to be higher than those of traditional emerging markets.

At 25.2 times, the multiple was among the highest in the Asian region making the market relatively expensive for diversification in the international portfolio context.

Figure 6: Market PER as at Year End 2010

Exchange	Price Earnings Ratio
Colombo Stock Exchange	25.2
Singapore Exchange	19.0
Bursa Malaysia	17.3
National Stock Exchange of India	24.5
Stock Exchange of Thailand	15.4
Hong Kong Stock Exchange	16.7
Ho Chi Minh Stock Exchange	10.3

Source: World Federation of Exchanges members



ADDING VALUE TO BUSINESS OFFERINGS

Market Development

... Energizing Investor Participation

The Market Development Division is responsible for broadening the investor base of the CSE by ensuring a wide and equitable spread of market information and knowledge. The Division strives to deliver value through maintaining close issuer relations and also works to identify potential candidates for listing. The Division oversees the CSE's branch network through which access is provided and participation by the regional investor base in our market is energized.

Local Reach

Our branch network aids in capturing greater visibility and provides easy access to a growing cross section of domestic investors. The CSE expanded its network to the Northern Province with the opening of a branch in Jaffna on 27th April 2010. The branch houses six stockbroker firms and has attracted over 600 new investors from the region to the market since its inception. In 2010 the branch generated an average daily turnover of Rs.2.6 million.

The CSE's branches in Matara, Kandy, Kurunegala and Negombo continued to attract new investors and additional turnover to the market during the year. Approximately 7.0% of average daily turnover of the CSE was contributed by its branches during the year under review, relative to 5.0% in year 2009.

Investor Relations and Awareness Raising Engaging via Awareness Raising Programmes

The CSE conducted numerous educational activities in the year 2010 in terms of developing its investor base. A series of educational workshops and capital market awareness days were key among them.

The main focus of educational activities was continuous education for new and existing investors. An eight week Investor Course was organized by the CSE in association with the Financial Services Academy of the SEC. The programme was designed to provide participants with an in-depth understanding of the importance of obtaining and interpreting market information, financial planning as well as the benefits of investing in the stock market. Two such courses were conducted during the year, attracting more than 300 potential and new investors.

The CSE together with CFA Sri Lanka also conducted two Workshops for Beginners during the year for newcomers interested in obtaining a basic understanding of investing in the market. A workshop on "Investing in Unit Trusts" was also conducted by the CSE during the second quarter of the year 2010, in association with the Unit Trust Association of Sri Lanka. Over the year, the CSE also educated students and teachers through 161 presentations.

Engaging through Branches

The five branches of the CSE conducted 70 seminars in 2010 and educated more than 15,000 potential

Figure 7: Average Daily Turnover generated at CSE Branches in 2010

	Average Daily Turnover (Rs. Mn)			New Accounts Opened		
	2010	2009	Variance	2010	2009	Variance
Matara	50.9	9.7	422.5%	1,542	575	168.2%
Kandy	53.5	9.1	485.3%	3,447	1,488	131.6%
Kurunegala	21.7	5.8	274.1%	1,908	441	332.6%
Negombo	39.2	5.6	605.0%	1,610	601	167.9%
Jaffna	2.6	-	-	640	-	-
Total	167.9	30.2		9,147	3,105	

Source: Colombo Stock Exchange

Market Development (contd)

investors in the surrounding areas. 75 educational workshops were also conducted through the branch network for over 10,000 Ordinary and Advanced Level students in their relevant districts.

Website

The CSE website, www.cse.lk, continues to act as the main information portal of the CSE and provides access to a comprehensive array of services. Page views have steadily increased since the existing site was launched in 2007, reaching approximately 25.8 million in 2010, reflecting a 198.0% increase YoY.

Figure 8: Page views on CSE Website from 2007 to 2010

Year	Page Views
2007	3,893,532
2008	5,810,039
2009	8,657,217
2010	25,798,343

Source: Site Report Nov 2007 – Feb 2011, EFutures

The memory capacity of the application servers was increased in September 2010, taking the above into consideration. A hardware upgrade, which includes upgrading of the disaster recovery site, is in progress.

A “Did You Know” banner series was initiated in the latter part of the year, to create awareness about the features of the website. The main banner section of the home page carried 11 such banners.

Cyber Education

A new feature comprising education guides for investors was introduced to the website under the ‘Workshops & Seminars’ section. Through this feature website users can access presentations (in PDF format) from awareness programmes conducted in Colombo and at branch level which serves as an online education tool focusing on basics of investing in the stock market. Presentations are made available in Sinhala, Tamil and English. Online education through this feature and other sections including ‘Getting Started’ and the ‘Interested in Investing?’ banners recorded 86,403 unique visitors in 2010 reflecting an increase of 176% YoY.

Media Reach

The CSE published over 100 articles focusing on creating awareness on stock market investments, in local print and online media in all three languages. The CSE also began the publication of the daily market summary in the Daily Lankadeepa and Udayan for the first time in 2010, while continuing to publish the summarized trading statistics in all daily English newspapers.

During the year, the CSE was also featured on local TV and Radio programmes, apart from the daily market updates given to three local English Radio Stations.

Trade Fairs and Exhibitions

The CSE also participated in five trade fairs and exhibitions in the year 2010, including the 25th anniversary exhibition of the SEC and the Deyata Kirula trade fair and exhibition held in Pallekele.

Issuer Relations

The CSE continued to create awareness and assist unlisted companies to consider the option of listing on the Colombo Stock Exchange during the year under review. One to one meetings with 14 such unlisted companies during the year focused on apprising areas in the Listing Rules introduced in April 2009. Of the 12 potential companies with which the Issuer Relations unit met during the previous year, 3 companies have been listed during 2010.

Regulatory Affairs

... Optimizing Rigour, Responsiveness and Balance

The Regulatory Affairs Division plays the central role in ensuring that the market is fair, orderly and transparent.

New issuers and listed companies rely on the confidence created by the Division in pursuing new listings and satisfying capital raising aspirations. Investors draw confidence from a sound regulatory framework of investor protection. Crucially, the CSE remains competitive as a destination of investment and capital raising insofar as fairness, orderliness and transparency are attained.

In its course of business, the Regulatory Affairs Division and under its auspices the Listings and Corporate Affairs Division interact extensively with 242 listed companies and 29 Members and Trading Members, in addition to various investment banks and candidates for listing.

Trading and Market Surveillance Market Surveillance

Against a backdrop of increased market activity during the year, trading and market surveillance activities focused on maintaining a fair and orderly exchange space, through the conduct of relevant and timely regulatory measures. From a surveillance perspective, the year was challenging, mainly due to higher price volatility witnessed on certain securities, especially during the middle of the year.

In view of increased market activity and the spillover effect on volumes, greater market vigilance was necessitated. A key challenge for the year in a bullish market was striking the optimum balance between regulatory objectives and the exuberance shown by market participants.

Referrals

During the year, to preserve fair and orderly trading in the market and safeguard investors' interests the Division referred 22 cases of suspected market malpractices (consisting of 6 insider dealing, 2 front running and 14 market manipulation cases) to the SEC.

The Division continuously monitors the market to detect inappropriate behaviour and facilitates the process of enforcement of sanctions via the SEC.

Trading Enhanced Services - Disclosure Standards

As a disclosure based market we have a strong focus on adequacy and timeliness of disclosures. During the year we witnessed an increase of routine as well as ad-hoc announcements.

Efforts were heightened to ensure issuers make appropriate and meaningful disclosure on all material to aid informed decisions. This applied in particular to disclosure of price sensitive information. There was greater engagement with listed issuers to enhance the content of announcements, thereby raising the standards of disclosure.

Facilitating Continuous Trading

While issuers have an obligation to disclose price-sensitive information to the market in a timely manner, we are mindful of minimizing interruptions to trading when material announcements are released by listed issuers during trading hours. Our policy is aimed at increasing market efficiency and facilitating continuous trading whilst providing sufficient time for dissemination of information.

Directives Relating to Price Volatility Management

As per a directive issued by the SEC in view of managing price volatility, a market wide 10% upward and downward price band (a Limit Up Limit Down rule) was imposed on all securities from 4th August 2010.

Regulatory Affairs (contd)

As per a subsequent directive issued by the SEC on 20th September 2010, the aforementioned market wide price band was removed and a 10% upward and downward price band was imposed only on securities which were captured as a result of applying a formula based on price volatility and volume traded, adjusted to public holdings of the respective securities.

The 10% price band imposed on a security was effective for 15 market days. Presently it is only applicable for 5 market days. During 2010, 15 securities were captured by the said formula.

Under this directive, Broker Firms were also required to obtain not less than 50% of the settlement value upfront in the form of realized funds from investors who wished to purchase securities captured under this formula. This requirement has been removed by the SEC subsequently.

Directive Relating to Market Microstructure

Improving liquidity in the secondary market has been an ongoing priority for both the SEC and CSE. As an initial step towards this goal, the SEC and the CSE held deliberations and agreed in principle to a proposed amendment of the ATS rules to facilitate changes to market microstructure. A set of amendments agreed upon by the SEC and the CSE, later whetted based on deliberations by the Colombo Brokers' Association, was approved by the SEC in April 2010 and recommended for implementation through a directive. The said directive was complied with by the CSE and as such the following market microstructure changes were facilitated.

- **Revision of Transaction Costs**

In terms of the said directive, the two band fee structure previously applicable for trades up to Rs.1.0 million and over Rs.1.0 million was removed. A simplified fee structure was introduced for trades up to Rs.50.0 million and over Rs.50.0 million. For trades up to Rs.50.0 million, the transaction costs pertaining to Brokerage, CSE & CDS Fees and SEC Cess were reduced by 20% on the fee structure previously applicable for transactions over Rs.1.0 million.

Figure 9: Transaction costs up to 31st July 2010

Up to 31st July 2010 Fees for transactions up to Rs.1.0 Mn, (%)	
Total Transaction Cost	1.4250
Brokerage Fees	1.0000
CSE Fees	0.1050
CDS Fees	0.0300
SEC Cess	0.0900
Share Transaction Levy	0.2000
Up to 31st July 2010 Fees for transactions over Rs.1.0 Mn, (%)	
Total Transaction Cost	1.2250
Brokerage Fees	0.8000
CSE Fees	0.1050
CDS Fees	0.0300
SEC Cess	0.0900
Share Transaction Levy	0.2000
Up to 31st July 2010 Fees for transactions over Rs.100.0 Mn, (%)	
Total Transaction Cost (Minimum)	0.4125
Brokerage Fees (Minimum)	0.1000
CSE Fees	0.0525
CDS Fees	0.0150
SEC Cess	0.0450
Share Transaction Levy	0.2000

The threshold applicable for negotiable brokerage was reduced from Rs.100.0 million to Rs.50.0 million with a minimum brokerage of 0.2%. The revised transaction costs were applicable from 1st August 2010.

The transaction costs upto 31st July 2010 are tabulated in Figure 9.

Succeeding compliance with the relevant SEC directive, transaction costs were revised as tabulated in Figure 10.

Figure 10: Transaction costs w.e.f 1st August 2010

With Effect From 1st August 2010 Fees for transactions up to Rs.50.0 Mn, (%)	
Total Transaction Cost	1.0200
Brokerage Fees	0.6400
CSE Fees	0.0840
CDS Fees	0.0240
SEC Cess	0.0720
Share Transaction Levy	0.2000*
Fees for transactions over Rs.50.0 Mn, (%)	
Total Transaction Cost (Minimum)	0.5125
Brokerage Fees (Minimum)	0.2000
CSE Fees	0.0525
CDS Fees	0.0150
SEC Cess	0.0450
Share Transaction Levy	0.2000*

* The Share Transaction Levy was increased to 0.3% from 1st January 2011.

- **Reduction of Tick Size**
The tick size was reduced across the board to Rs.0.10 effective from 1st August 2010.
- **Increase of Crossings Threshold**
Additionally, the crossings threshold was also increased from Rs.10.0 million to Rs.20.0 million effective from 1st August 2010.

Supervision of Member Firms

New Members

Seven new Trading Members were admitted during 2010, of which five obtained licenses from SEC to operate as stockbrokers during the year. In addition, one new Trading Member was admitted for debt securities.

Client Complaints

The CSE Secretariat received and resolved 39 complaints submitted by clients against their Broker Firms. With regard to decisions given by the CSE Secretariat in respect of two complaints, the relevant Broker Firm appealed to the Dispute Resolution Committee of the CSE against the decisions. Subsequently the two complaints were settled by the clients and the Broker Firm.

Broker Audits

A total of 21 systems audits were conducted on Broker Firms during 2010. These audits focused primarily on identifying the risk factors relating to the operations of Broker Firms.

Listing and Corporate Affairs

Listing

Primary Markets

Through the Listing and Corporate Affairs division, we continue to ensure that companies listing on our markets are able to access our markets simply and effectively.

We have continued to process applications for new equity listings and handle pre-IPO enquiries in an increasingly more streamlined manner and assisted listing applicants to adhere to initial listing application rules and adequate disclosure. To aid the listing process we continue reviewing the Listing Rules to make them as unambiguous and user-friendly as possible.

New Listings

During 2010 a sum of Rs.4.3 billion was raised through eight equity IPOs. Two companies were listed by way of introductions. During the year under review initial debt offerings of Bank of Ceylon and the Urban Development Authority raised Rs.15.0 billion.

Secondary Markets

We also continued to process an increased number of applications for additional listing applications. A total of Rs.21.0 billion was raised by listed companies through Rights Issues in 2010. Three listed companies raised Rs.511.5 million through private placements and approval was granted for the listing of four warrant issues valued at Rs.50.0 billion.

Review and Amendment of Rules

In ensuring that our markets are fair, orderly and transparent having adequate arrangements for monitoring and enforcing the suite of rules under which listed companies, broker firms, investors and other market users interact with the market and each other, is paramount.

We review this set of rules, in particular the Listing Rules from time to time to ensure that they address developments in the market and international best practice, and also represent acceptable standards in line with its commitment to operate a transparent, market-oriented, efficient and well-regulated market place.

Regulatory Affairs (contd)

Figure 11: New Listings in 2010

Name of Company	Equity Listing/ Debenture Listing	Type of Listing	Amount Raised (Rs. Mn)
Renuka Agri Foods	Equity	IPO	270.00
Ceylon Tea Brokers	Equity	IPO	28.00
Raigam Wayamba Salterns	Equity	IPO	200.00
Vallibel Finance	Equity	IPO	114.40
Odel	Equity	IPO	250.50
PC House	Equity	IPO	629.57
Hydro Power Free Lanka	Equity	IPO	350.00
Laugfs Gas	Equity	IPO	2,505.00
Sinhaputhra Finance	Equity	Introduction	-
Citizens Development Business Finance	Equity	Introduction	-
Bank of Ceylon	Debentures	IPO	5,000.00
Urban Development Authority	Debentures	IPO	10,000.00

Source: Listing Division, Colombo Stock Exchange

Amendments to Listing Rules in compliance with SEC Directives

Pursuant to directives issued by the SEC, the following new rules were incorporated to the CSE Listing Rules.

Issue of Warrants

The company must maintain, at the time the Board of Directors decides to issue Warrants, a Public Holding of 25% for shares listed on the Main Board and 10% for shares listed on the Diri Savi Board. The number of shares to be listed by exercising the warrants to be issued (together with the warrants already issued which have not been exercised) shall not exceed 15% of the entity's total number of voting shares in issue at the time of the submission of the listing application for the Warrants. The tenure of the Warrants shall not exceed two years from the date of issue.

Disclosure requirements on related party transactions

The company must include in the Annual Report related party transactions exceeding 10% of the equity or 5% of the total assets of the company, as per the Audited Financial Statements, whichever is lower. Details of investments in a related party and/or amounts due from a related party must be set out separately. The details shall include, as a minimum, the following:

- The date of the transaction
- The name of the Related Party

- The relationship between the Entity and the Related Party
- The amount of the transaction and terms of the transaction
- The rationale for entering into the transaction.

Listed companies are also required to make an immediate disclosure to the CSE on related party transactions meeting the above criteria.

Amendments to Listing Rules

With the objective of improving the caliber of companies which are listed on the CSE, the CSE raised the standard of the listing criteria on the Main Board and Diri Savi Board. Accordingly, the following amendments have been made to the Listing criteria in the Listing Rules:

Main Board

- Minimum stated capital increased from Rs.100.0 million to Rs.500.0 million
- Positive net assets for the last two financial years

Diri Savi Board

- Minimum stated capital increased from Rs.35.0 million to Rs.100.0 million
- 10% 'public' holding requirement should be in relation to at least 100 'public' shareholders having not less than 100 shares each
- Positive net assets for the past financial year

4. Operating history of at least one year
- These amendments are effective from 1st April 2011.

Consultation Papers

New Stockbroker Rules

The CSE has revised the Member Regulations and has drafted a new set of rules titled "Stockbroker Rules" to incorporate the following:

1. the current practices adopted by the CSE in relation to regulation of Member Firms;
2. the best practices that should be adopted by Member Firms;
3. provisions which are required to safeguard the interests of clients.

The Stockbroker Rules have been approved by the CSE's Board. The Rules will be implemented after approval is granted by the SEC for the new Stockbroker Rules.

Internet Trading Guidelines

Presently most of the Broker Firms operating on the CSE offer internet trading facilities to their clients. However, there were no specific rules or guidelines relating to these functions. Therefore, it was felt that the internet trading functions of Brokers should be streamlined in order to identify the minimum requirements and standards relating to such functions.

With this objective, the CSE issued Internet Trading Guidelines to Broker Firms during the year. These guidelines will be incorporated to the new Stockbroker rules, after obtaining the feedback of Brokers.

Proposed Amendments to Rules

Amendments to Automated Trading Rules (ATS Rules)

Amendments will be made to ATS Rules to be in line with the new version of the trading system, ATS version 7. The CSE has identified the amendments and has consulted the Brokers and the SEC regarding these amendments. ATS Rules will be amended prior to implementation of ATS version 7 in 2011.

Exchange Traded Fund (ETF) Rules

The CSE, in consultation with the SEC, has drafted new rules on ETFs. In this regard, the CSE and SEC met officials of the Securities and Exchange Board of India to obtain their feedback. It was identified that the CSE should have a liquid Index to launch an ETF.

Information Technology

...Unifying Trading via Next Generation Systems

The CSE's core business lines depend on technology which is secure, stable and performs to high levels of availability and throughput. It is the Information Technology Division which ensures the effective operation of the networks and systems that enable price discovery, trading and clearing and settlement.

With the dramatic increase in trading volumes and record highs reached by operating indicators over the year, it is timely and relevant for the Information Technology Division to enhance infrastructure and introduce technology solutions that can accommodate a continued phase of growth.

A core focus for the Division is providing the technological landscape which will enable integrated trading, as our market continues to expand and diversify.

Foundation Set for System Upgrade

As technology and market activity constantly evolve, it is critical that the CSE's systems and network infrastructure are upgraded continually with access, capacity and performance in mind. Over the past year, sound progress was made in setting the platform for renewing the IT infrastructure to create a more scalable, efficient and functionally richer platform which can be operated at lower cost.

The Division's work over the year forms the basis to implement a new integrated Trading System - ATS version 7 that will replace ATS version 4 used at present time. The new version of the Trading System has been deployed at the London Stock Exchange (LSE) successfully. The system to be introduced at the CSE is a customised version of the LSE system with the relevant business functionality incorporated to specifically cater to the Colombo market. The necessary changes required for the new system were identified during the year through a comprehensive gap analysis.

Integrated Platform

MillenniumIT, the Trading System provider is in the process of incorporating the required changes to the new system. Final acceptance and testing of the new system will pave the way to migrate onto one platform, a broader set of traded products that would initially include equities, debt and subsequently derivatives.

The new system's ability to support trading that straddles multiple assets will be a genuine benefit to brokers and their clients. The present product slate which encompasses equity and debt products currently trade on segregated platforms. An important benefit of integration would be to enable both equity and debt markets to be in closer proximity than would be possible with segregated systems, thus helping facilitate improved trading.

Within a longer term perspective, the new system is also relevant in that it sets the stage for the introduction of derivatives to the existing product slate. ATS version 7 is expected to be in operation in the second half of 2011.

Systems Uptime

Even in the comparatively more demanding market environment over the past year, the Division continued to accommodate rising volumes of activity through its existing trading technology. There have been no trading outages due to capacity during the year. A reliable and efficient service was provided to our users through the year's growing trade volume, with 99.99% uptime.

Network Enhancements

The Division successfully implemented the new firewalls with higher throughput in anticipation of implementing the new Trading System. The network security system

is fully fault tolerant and failover is transparent to the Trading System user. The dual backbone trading network was isolated from the office network further strengthening the security of the Trading System environment.

CDS Software Upgraded to Oracle Application Server Environment

The performance of our clearing and settlement system is reinforced by the innovative, high-reliability systems in place. The Division upgraded the Client Server based Central Depository Equity System software to Oracle 11g Application Server. The Application Server system has been implemented on a fully fault tolerant server cluster system. Uptime of the Central Depository Equity System has been 100% for the year 2010.

Virtual Servers

The Division implemented virtualization on several of its non-trading environment servers. This enabled the CSE to maximize utilization of its existing servers and thus save costs on the purchase of new servers.

Connectivity of Custodian Banks, Secretaries and Registrars

The Division implemented a Virtual Private Network (VPN) to provide CDS connectivity to the Custodian Banks, Secretaries and Registrars. This facilitates all subscribing organisations to connect to the CDS system to obtain real-time information and market information. The Custodian Banks were also facilitated to download files of trading and all CDS transactions on a daily basis.

Clearing and Settlement

...Enhancing the Post Trade Value Chain

Central Depository Systems (Pvt.) Limited

At present, the Central Depository Systems (Pvt.) Limited (CDS), a fully owned subsidiary of the CSE forms the interface between trading and post trading tasks including depository and clearing and settlement services in order to facilitate dealings in securities on the CSE. The CDS is licensed by the SEC and is guided in its day-to-day activities by the CDS Rules and Regulations.

Financial Performance

During a record year on multiple fronts in the market, revenue from the CDS amounted to Rs.319.9 million, an increase of 214.6% when compared to Rs.101.7 million for the previous year.

Operational Highlights

Clearing and Settlement

Reflecting the year's robust trading activities, the

number of trades cleared and settled in 2010 increased by 165.0% to 3,355,126 trades.

Depository

The CDS experienced significant growth in the volumes of most of the services provided. Account openings which averaged 78 per day in 2009 grew by 208.8% to average over 240 accounts per day. A total of 57,285 new accounts were opened during the year, which was

Figure 12: CDS Operations 2008-2010

Operational Highlights, (No.)			
	2010	2009	2008
New Accounts	57,285	18,705	11,833
Deposits	363,880	43,933	72,474
Withdrawals	204	920	10,726
Transfers	27,293	43,151	17,326
Trades – Equity	3,355,126	1,266,299	776,244
Trades – Closed End Funds	8,302	228	N/A
Listed Companies inclusive of closed end funds, as at 31st December	242	232	235
Participants	39	37	36
Securities Accounts as at 31st December, (No.)			
Local Individuals	410,936	371,862	361,643
Foreign Individuals	3,345	2,867	2,675
Local Companies	6,114	5,262	5,042
Foreign Companies	3,893	3,713	3,604
(The above break-up excludes the number of multiple registrations sought by the same client through different participants.)			
Total Number of Registrations	554,192	496,907	478,202
Value of Securities held by the CDS as at 31st December, (Rs.Mn)			
Domestic Clients	941,975	387,688	162,325
Foreign Clients	431,283	231,218	108,006
Market Value of Securities	1,373,258	618,906	270,332
Shares %	62%	56%	55%
Debt Securities %	41%	34%	51%
Quantity of Shares held by the CDS as at 31st December, (No.Mn)			
Domestic Clients	17,185	9,351	7,684
Foreign Clients	6,648	4,984	4,457
Total	23,833	14,335	12,140

a historic high. The CDS handled 363,880 deposits over the year 2010, an increase of 728.3% when compared to year 2009.

The volume of securities held in the custody of CDS increased 66.3% from 14.3 billion in 2009 to 23.8 billion securities. The share of securities held in custody of the CDS increased for both equity and debt with 62% of equity and 41% of debt being held in custody at year end.

Service Enhancements to Stakeholders Listed Companies

The CDS implemented an electronic download facility for listed companies whereby companies could download entitlement schedules and share transaction lists using an internet based Secure Socket Layer Virtual Private Network (SSL - VPN). This circumvents the necessity to collect printouts or CD's from the CDS, thus saving time, resources and costs. It has proved popular with 144 listed companies presently using this service.

The CDS now offers listed companies a service which will enable companies to complete a sub division expeditiously. Companies have already commenced utilizing this service.

Account Holders

The SEC issued a directive making it mandatory for new listings of securities to be in dematerialised form with effect from 1st January 2011. The directive has also mandated that all shares of listed entities be dematerialised by 1st January 2012. The CDS

introduced a locked balance facility for account holders in compliance with the SEC directive. Shares which are locked cannot be traded by brokers and can only be unlocked with the written consent of the account holder.

Custodian Banks

The CDS improved the connectivity between Custodian Banks and the CDS to electronically download information by providing a more cost effective solution to Custodian Banks through an SSL - VPN using the internet replacing the dedicated line connection method.

Brokers

The CDS provided Member Firms the facility to electronically download Rights entitlement schedules at the close of trading replacing the print out method thus giving stockbrokers more time to process Rights entitlements.

The CDS also worked closely with Member Firm documentation staff in order to reduce the number of documents that are returned due to various deficiencies. It is heartening to note that Member Firms responded very well and the CDS has been able to significantly reduce the number of document returns, thus minimizing inconvenience to account holders.

New CDS Rules

A new set of CDS rules was approved by the SEC and published in December 2010. These rules replace the earlier set which was in existence since 2000.

A Turning Point for Clearing and Settlement

The procedure in which transactions in securities are cleared and settled, plays a crucial role in the ability of any market to attract investors. Mitigating capital market infrastructure risk and abating costs, act as incitements to investment, helping increase liquidity and aiding in the development of markets.

The process of enhancing risk management and the advent of a broader product set which includes derivatives are reliant on the introduction of a Clearing House which acts as a Central Counterparty. The Clearing House would concentrate on aspects such as trade, collateral, position and risk management amongst others. The clearing and settlement activities hitherto performed by the CDS would become a function of the proposed Clearing House. As such, after the introduction of the Clearing House, the CDS would concentrate on core depository operations.

As a market intent in attracting international investors, it is a priority for the CSE to work towards international standards in clearing and settlement services. The steps taken over the year mark a turning point in enhancing post trade functions of the CSE.

Risk Management Initiatives

Identification of Key Risks

The Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions (IOSCO) published a set of recommendations for Central Counterparties through the Bank for International Settlements (BIS) in 2004 which is now the standard for clearing and settlement systems worldwide.

The CSE has identified two principal risks from the BIS recommendations that are prevalent in our market, namely the Asset Commitment Risk in the absence of a Delivery vs. Payment system and the Counterparty Risk in the absence of a Central Counterparty.

Risk Committee

A committee comprising two Commissioners of the SEC, two Directors of the CSE, the Director General of the SEC, the Chief Executive Officer of the CSE and other senior officials of the SEC and CSE was set up to address the aforementioned principal risks.

The Committee is facilitating the establishing of a Clearing House to act as a Central Counterparty in order to address the Counterparty Risk and introduce a system of Delivery vs. Payment to address the Asset Commitment Risk in the market.

In order to implement these initiatives the CSE is presently working with the National Stock Exchange of India.

CSE in the Community

As a responsible corporate citizen, the CSE is not limited by its role as the operator of the Sri Lankan stock market. The CSE is proud to support charitable causes from a broad list. During the year under review approximately Rs.7.7 million was donated to charities of which Rs.7.2 million was to approved charities. Our key donations for the year under review are as listed below:

1. A donation of approximately Rs.5.2 million was approved by the Board towards the purchase of medical equipment by the National Cancer Institute, Maharagama
2. Donated Rs.750,000/- to The Ceylon School for The Deaf and Blind
3. Donated Rs.600,000/- to HelpAge Sri Lanka for the cost of 100 cataract surgeries
4. Donated Rs.500,000/- to Lanka Alzheimer's Foundation
5. Donated Rs.60,000/- to SOS Children's Villages Sri Lanka for Annual Corporate Sponsorship
6. Donated Rs.100,000/- for the Armed Forces Remembrance Day & Poppy Campaign
7. Donated Rs.12,000/- to SOS Children's Villages Sri Lanka for the sponsorship contribution of Haritha Nuwan for the period of June 2010 to May 2011
8. Donated Rs.10,000/- to the Sri Lanka Welfare Society of the Blind Adults

Management Team



Order of Appearance, L to R:

Mr. Lalin Paranavitana

Assistant General Manager, Information Technology

Mr. Chatura Kulatilaka

Manager, Systems Operation

Mr. Charita Dumbukola

Senior Manager, IT Security Administration and Projects

Ms. Renu Ranatunge

Manager, Legal



Mr. Rajeeva Bandaranaike
Assistant General Manager, Clearing and Settlement

Ms. Surekha Sellahewa
Chief Executive Officer

Mr. Renuke Wijayawardhane
Assistant General Manager, Regulatory Affairs

Mr. Kusal Nissanka
Manager, Finance and Administration

Board of Directors



Order of Appearance, L to R:

Mr. Vajira Kulatilaka
Mr. Krishan Balendra
Mr. Hiran de Alwis
Mr. Nihal Fonseka (Chairman)



Mr. Dakshitha Thalgodapitiya
Dr. Saman Kelegama
Mr. Moksevi Prelis
Mr. Ashroff Omar
Dr. Laksiri Fernando (not appearing in picture)

Board of Directors (contd)

Mr. NIHAL FONSEKA, is a career banker and is the Chief Executive Officer of DFCC Bank. He is the Chairman of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). He is also a member of the National Payments Council, Inter Regulatory Institutions Council and served as a member of the Presidential Commission on Taxation. He was recently appointed as the first President of the Sri Lanka Committee of the Chartered Institute for Securities & Investment, UK. Mr. Fonseka is a Graduate of the University of Ceylon, Colombo, and a Fellow of the Chartered Institute of Bankers, UK.

Mr. KRISHAN BALENDRA, President and member of the Group Executive Committee of John Keells Holdings, is responsible for the Retail sector, John Keells Stock Brokers and the Corporate Finance and Strategy function of the group. He is also a Director of Union Assurance and Nations Trust Bank. His career includes investment banking at UBS Warburg, Hong Kong, and corporate finance at Aitken Spence and Co. PLC, Sri Lanka. He holds an LLB (University of London) and an MBA (INSEAD).

Mr. VAJIRA KULATILAKA, is the Chief Executive Officer – Investment Banking Cluster of the NDB Group, overseeing the operations of NDB Investment Bank, NDB Stockbrokers, NDB AVIVA Wealth Management and NDB Capital, Bangladesh. Prior to joining NDB, he functioned as the Chief Executive Officer at CKN Fund Management (Pvt) Limited. He is a Chartered Financial Analyst and an FCMA, UK. He has a BSc in Civil Engineering (University of Moratuwa) and MEng in Industrial Engineering and Management (Asian Institute of Technology).

Dr. SAMAN KELEGAMA, is the Executive Director of the Institute of Policy Studies of Sri Lanka. He is a Fellow of the National Academy of Sciences of Sri Lanka and was the President of the Sri Lanka Economic Association (1999-2003). He has published books on Sri Lankan and South Asian economic issues and published extensively in both local and foreign journals. He serves and has served in a number of government and private sector Boards as an independent member. An Economist by training, he completed his doctoral work at the University of Oxford in 1990.

Mr. MOKSEVI PRELIS, counts a 27 year career in banking with 21 years collectively as Chief Executive Officer /Director of the DFCC Bank and the Nations Trust Bank. He has held the posts of Chairman-Ceylon Electricity Board, National Institute of Business Management, Association of Development Finance Institutions of Asia & Pacific headquartered in Manila, and SME Bank. He is currently the Chairman of the Capital Trust Securities Group and an independent director of Dialog Axiata.

An Honors graduate in Mechanical Engineering (University of Ceylon), he also holds a Masters in Industrial Engineering and Management from Purdue University USA as a Fulbright Scholar. He is a Chartered Engineer of UK, a Fellow of the Institution of Engineers Sri Lanka, a Member of the Institute of Personnel Management and a Fellow of the Institute of Bankers Sri Lanka.

Mr. ASHROFF OMAR, is the Chief Executive Officer of Brandix Lanka Limited and serves as Director of Phoenix Ventures Limited and many of its subsidiaries. He was founder Chairman of The Joint Apparel Association Forum and the former Chairman of the Sri Lanka Apparel Exporters Association. He is a Director of John Keells Hotels Limited and NANCO (Pvt) Limited which is the pioneering nanotech park in Sri Lanka for initiating and researching nanotechnology. He is also the Chairman of the Export Development Board Advisory Committee on Garments and a member of the EDB Advisory Committee on Export Market Promotion. He is Hon. Consul General of the Republic of Finland since March 2007. He is a Chartered Member of The Textile Institute International, UK and a senior member of the Society of Plastics Engineers, Connecticut, USA.

Mr. DAKSHITHA THALGODAPITIYA, an accountant by profession, is CEO/Secretary General of the Chamber of Construction Industry Sri Lanka. He is a member of the Board of Governors of the Sri Lanka Arbitration Centre. He has served the public sector as Chairman/CEO of Sri Lanka Land Reclamation and Development Corporation, River Valleys Development Board, and Lanka Machine Leasers Limited. He has also carried out many assignments with international organizations. He holds postgraduate qualifications in Management from the George Washington University, Washington D.C.

Dr. LAKSIRI FERNANDO, BA (Ceylon); MA (New Brunswick); PhD (Sydney), was Senior Professor in Political Science, University of Colombo, and Director, National Centre for Advanced Studies (NCAS) until September/October 2010. He was Secretary for Asia/Pacific, World University Service, Geneva; Executive Director, Diplomacy Training Program, University of New South Wales and Dean, Faculty of Graduate Studies, University of Colombo among others. A Japan Foundation Fellow, he has been Visiting Professor, Ryukoku University and University of Sydney. His publications cover human rights, labour, ethnic issues and economic development.

Mr. HIRAN DE ALWIS, Attorney-at-Law, is a Legal Counsel in Colombo, specializing in Civil and Commercial Law and Commercial Arbitrations. He is a Law graduate of the University of Colombo holding Post-Graduate qualifications from the University of London in International Dispute Resolution, is a Chartered Arbitrator and a Member of the Chartered Institute of Arbitrators, London. He is a Member of the Board of Governors of the Sri Lanka National Arbitration Centre and also its Honorary Chief Legal Advisor.

Board Committees

1. Rules Committee

The Rules Committee of the CSE approves rules and regulations of the CSE pertaining to listed companies and broker firms. The Committee ensures that the rules strike a sound balance between market development and regulation.

Mr. Nihal Fonseka - Chairman

Mr. Moksevi Prelis

Mr. Hiran de Alwis

Mr. Krishan Balendra

Two representatives from the Colombo Stockbrokers Association

2. Audit Committee

The Audit Committee comprises three Non-Executive Directors and the Committee ensures the detailed reviews of the financial statements audited by the external auditors, internal control procedures, accounting policies, compliance with accounting standards and emerging accounting issues, review of risk management process and regulatory compliance and such other related functions as the Board may delegate to the Committee.

Mr. Dakshitha Thalgodapitiya - Chairman

Mr. Vajira Kulatilaka

Mr. Krishan Balendra

3. Arbitration and Disciplinary Committee

The Arbitration and Disciplinary Committee reviews any disputes or disciplinary matters arising between the Members of the CSE.

Dr. Laksiri Fernando - Chairman

Mr. Ashroff Omar

Mr. Nihal Fonseka

Mr. Hiran de Alwis

Mr. Moksevi Prelis

4. Dispute Resolution Committee

The Dispute Resolution Committee of the CSE reviews the decisions of the Secretariat on disputes arising between investors and Member Firms as well as any disputes arising among Member Firms (relating to a breach of the rules of CSE with reference to share transactions).

Mr. Hiran de Alwis - Chairman

Mr. Nihal Fonseka

Mr. Ashroff Omar

Dr. Saman Kelegama

Mr. Moksevi Prelis



Financial Information

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Annual Report of the Board of Directors on the affairs of the Company

The Board of Directors of the Colombo Stock Exchange has pleasure in presenting their report to the Members, together with the audited Consolidated Financial Statements for the year ended 31st December 2010.

This Annual Report on the affairs of the Company contains the information required in terms of the Companies Act, No. 7 of 2007.

The Financial Statements were reviewed and approved by the Board of Directors on 13th May 2011.

General

The Colombo Stock Exchange (CSE) is a company limited by guarantee, incorporated in Sri Lanka on 02nd December 1985, under the Companies Act No.17 of 1982 and is licensed by the Securities and Exchange Commission (SEC). The CSE was re-registered as per the Companies Act No.7 of 2007 on 13th May 2008 with GL 12 as the new number assigned to the Company.

The CSE is a mutual exchange and has fifteen Members & Fourteen Trading Members. All Members are licensed by the SEC to operate as Stockbrokers. All Members are corporate entities. The CSE became the first South Asian member of the World Federation of Exchanges (WFE) in 1998. CSE is also a member of the South Asian Federation of Exchanges (SAFE).

The policy making body of the CSE is the Board of Directors composed of nine members. Five Directors are elected by the fifteen Members, while the Minister of Finance nominates four.

The Board of Directors has appointed four subcommittees to administer the operations of the CSE. The CSE Secretariat, headed by the Chief Executive Officer is responsible for the operations of the CSE, and is accountable to the Board of Directors.

Principal Activities

The principal activity of the Company is the operation of a Stock Exchange. The subsidiary, Central Depository Systems (Pvt) Ltd operates the clearing & settlement of securities traded on the Colombo Stock Exchange and acts as a depository for such securities.

The Central Depository Systems (Pvt) Ltd is a fully owned subsidiary of the CSE.

There were no significant changes in the nature of principal activities of the Company and its subsidiary during the financial year under review.

Financial Statements & Auditor's Report

The Financial Statement of the Company and its subsidiary for the year ended 31st December 2010 duly signed by the Manager Finance & Administration and two of the Directors of the Company are given on pages 48 to 67 and form an integral part of the annual report of the Board.

Messrs. KPMG Ford, Rhodes, Thornton and Co. the Auditors of the Company carried out the audit on the Consolidated Financial Statements for the year ended 31st December 2010 and their report on those statements which forms an integral part of the Report of the Board of Directors, is given on page 47 of this Annual Report.

A sum of Rs.497,500/- (Rs.395,000/- in 2009) was paid to them on account of providing audit services. A sum of Rs.376,259/- (Rs.366,258/- in 2009) was paid on account of tax related services. The detail of their remuneration is given in Note 22 to the financial statements. As far as the Directors are aware the Auditors do not have any interest with the CSE or its subsidiary other than those disclosed above.

Board Audit Committee

The composition of the Board Audit committee, comprising of Non Executive Directors is provided on page 40.

The report of the Board Audit Committee is given on page 45.

Significant Accounting Policies

The accounting policies adopted in preparation of the Financial Statements and the impact of the changes in Sri Lanka Accounting Standards during the year are given on pages 52 to 55. There have been no changes in the accounting policies adopted by the company & its subsidiary, during the year under review.

Going Concern

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the going-concern basis in preparing these Financial Statements.

Donations

Donations made during the year amounted to Rs.7,746,635/- (Rs.629,310/- in 2009). From this amount, a sum of Rs.7,222,000/- (Rs.500,000/- in 2009) was made to approved charities.

Taxation

The income tax rate applicable on the Company is 30% (2009 – 30%) and the subsidiary company is taxed at 35% (2009 – 35%). It is the Company's policy to provide for deferred taxation on all known temporary differences under the liability method.

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.

Property, Plant & Equipment (PPE)

Details of property, plant & equipment are given in Note 4 to the Financial Statements. There was no significant change in the property, plant & equipment of the Company.

Outstanding Litigation

In the opinion of the Directors and the Company's Lawyers, pending litigation against the Company disclosed in Note 24 of the Financial Statements will not have a material impact on the financial position of the Company or its future operations.

Events occurring after the Balance Sheet date

No material events have taken place after the Balance Sheet date up to the date of the Report of the Auditors which require adjustment to, or disclosure in the Financial Statements.

Board of Directors

The following Directors held office as at the balance sheet date.

Name of the Director	Status
Mr. A.N. Fonseka (Chairman)	Elected
Mr. K. Balendra	Elected
Mr. C.V. Kulatilaka	Elected
Dr. S. Kelegama	Elected
Mr. M.R. Prelis	Elected
Mr. M.A. Omar	Appointed
Mr. D.T.W. Thalgodapitiya	Appointed
Dr. H.L.P. Fernando	Appointed
Mr. H.M.C. de Alwis	Appointed

Mr. C.V. Kulatilake and Dr. S. Kelegama retire by rotation at the conclusion of the Annual General Meeting in terms of Article 50 of the Articles of Association, and being eligible are offering themselves for re-election.

In terms of Section 211 (2) of the Companies Act, the Board of Directors have given notice to the Company that Mr. M. R. Prelis, aged 74 years be elected as a Director and that the age limit of 70 years referred to in Section 210 of the Companies Act shall not apply to Mr. M. R. Prelis.

Directors' Interest Register

The CSE maintains a Directors' Interests Register as stipulated by the Companies Act No. 7 of 2007. The Directors of the CSE have disclosed their interests in other companies to the Board and those interests are recorded in the Interests Register conforming to the provisions of the Companies Act No.7 of 2007. The particulars of those entries are set out on pages 65 to 67 of the Financial Statements which form an integral part of the Annual Report of the Board.

Directors interest in contracts and related party transactions are given on Note 26 of the Financial Statements which form an integral part of the Annual Report of the Board.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company and its subsidiary to reflect a true and fair view of the state of its affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007 and Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

Directors' Remuneration

In compliance with the provisions of the Articles of Association, the CSE has not made any payments on account of Directors' remuneration other than payment pertaining to meet out of pocket expenses for attending Board Meeting as given in Note 26 to the Financial Statements.

Annual Report of the Board of Directors on the affairs of the Company (contd.)

Appointment of Auditors

The Auditors have expressed their willingness to continue in office. A resolution to re-appoint the Auditors and to authorize the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at the Auditorium of the Colombo Stock Exchange, 4 – 1, West Block, World Trade Centre, Echelon Square, Colombo 01 (Registered Office), on Tuesday, 14th June 2011 at 5.30 p.m.

For and on behalf of the Board of Directors.



Chairman



Director



Secretarial Services Limited

Secretaries
13th May 2011
Colombo.

Audit Committee Report

The Audit Committee of the Colombo Stock Exchange (CSE) comprises 2 elected Directors and one appointed Director.

The members of the Board appointed Audit Committee are:

Mr. D.T.W. Thalgodapitiya - Chairman
Mr. K. Balendra
Mr. C.V. Kulatilaka

All 3 members of the Audit Committee are Non-Executive Directors. The Chief Executive Officer, Assistant General Manager, CDS, Manager Finance & Administration and Internal Auditor attend the meeting of the Audit Committee on invitation. The Company Secretary functions as the Secretary to the Audit Committee. The committee had one meeting during the year under review.

The Committee is empowered to examine matters relating to the financial affairs of the CSE and its subsidiary Central Depository Systems (Private) Limited (CDS). Its duties include detailed reviews of the financial statements, internal control procedures, accounting policies, compliance with accounting standards and emerging accounting issues, review of risk management process and regulatory compliance and such other related functions as the Board may delegate to the Committee.

The independence of the External Auditor was evaluated by the committee and also reviewed the non audit services provided by the Auditors to ensure that provision of such services does not impair the External Auditors' independence. The Audit Committee reviewed the Financial Statement audited by KPMG Ford Rhodes Thornton & Company for the financial year ended 31st December 2010 together with the management comments on the observations made by the Auditors and approved the Financial Statement at the Audit Committee meeting held on 20th April 2011 for submission to the Board. The Committee reviewed & approved the draft Letter of Representation & the Letter of Engagement to be given to the External Auditors for the year 2010. The Audit Committee has recommended to the Board of Directors the re-appointment of the external Auditor KPMG Ford Rhodes Thornton & Company and fixed the Auditors' remuneration, for approval at the Annual General Meeting.

The internal audit function is outsourced to Ernst & Young Advisory Services (Pvt) Ltd. During the year, the Audit Committee reviewed the performance of the internal audit function, the findings of the internal audits completed and their evaluation of the Company's internal control including internal control system.

On behalf of the Audit Committee.



DTW Thalgodapitiya
Chairman - Audit Committee
13th May 2011
Colombo.

Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the financial statements, is set out in the following statement. The responsibility of auditors, in relation to financial statements, is set out in the Report of the Auditors on the Annual Report.

As per the provisions of the Companies Act No. 07 of 2007 the Directors are required to prepare financial statements for each financial year and place them before a General Meeting. The financial statements comprise the Balance Sheet as at 31st December 2010, and the Income Statement, Statement of Changes in Equity and Cash Flow for the year then ended and Notes thereto.

The financial statements of the Company & its Subsidiary give a true and fair view of:

the state of affairs of the Company & its Subsidiary as at Balance Sheet date and

the Profit or Loss of the Company & its Subsidiary for the financial year ended on the balance sheet date.

The Directors have ensured that, in preparing these financial statements:

1. The appropriate accounting policies have been selected and applied in a consistent manner. Material departures, if any have been disclosed and explained;
2. All applicable accounting standards as relevant have been followed;
3. Judgments and estimates have been made which are reasonable and prudent.

The Directors confirm that the Financial Statements of the Colombo Stock Exchange (CSE) and its subsidiary Central Depository Systems (Private) Limited (CDS) for the year ended 31st December 2010 presented in this report have been prepared in accordance with the Sri Lanka Accounting Standards, Companies Act No: 07 of 2007 and Sri Lanka Accounting and Auditing Standard Act No: 15 of 1995.

The Directors have adopted the going concern basis in preparing the Financial Statements. The Directors are of the view that the CSE & CDS have adequate resources to continue in operation.

The Directors have taken reasonable steps to safeguard the assets of the CSE and its subsidiary CDS and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

Directors are required to prepare the Financial Statements and to provide the Company's External Auditors, with every opportunity to carry out any reviews and tests that were considered appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the CSE and its subsidiary CDS as at the Balance Sheet date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



Secretarial Services Limited

Secretaries

13th May 2011

Colombo.

Independent Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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Colombo 00300,
Sri Lanka.

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TO THE MEMBERS OF THE COLOMBO STOCK EXCHANGE

Report on the Financial Statements

We have audited the accompanying financial statements of Colombo Stock Exchange, the consolidated financial statements of the Company and its subsidiaries as at 31 December 2010 which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates

made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2010 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion-Group

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2010 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the Members of the Company.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 153(2) to 153(7) of the Companies Act No. 07 of 2007.

For *KPMG Ford, Rhodes, Thornton & Co.*

CHARTERED ACCOUNTANTS

Colombo,
13 May 2011.

KPMG Ford, Rhodes, Thornton & Co., a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

A.N. Fernando FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyratne ACA

M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA

Ms. M. P. Perera FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

Balance Sheet

As at 31st December 2010					
	Note	Consolidated		CSE	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
ASSETS					
Non Current Assets					
Property and Equipment	4	57,717,660	59,996,440	57,717,616	59,996,396
Intangible Assets	5	21,649,466	26,166,253	21,649,466	26,166,253
Capital Work in Progress	6	65,367,613	6,650,477	65,367,613	6,650,477
Investments in Subsidiary	7	-	-	25,000	25,000
Investments in Units Trusts	8	1,440,000,001	800,000,000	1,440,000,001	800,000,000
Investments in LFSB	9	1,000,000	1,000,000	-	-
Deferred Tax Assets	16	218,097	-	218,097	-
Total Non Current Assets		1,585,952,837	893,813,170	1,584,977,793	892,838,126
Current Assets					
Inventories		5,557,330	3,338,841	5,444,636	3,305,763
Investments in Treasury Bills and Repos		304,667,278	80,098,526	304,667,278	80,098,526
Investments in Unit Trusts	8	639,400,359	387,645,125	639,400,359	387,645,125
Trade and Other Receivables	10	90,580,906	66,082,328	78,842,955	60,989,970
Cash and Cash Equivalents	11	58,948,298	47,852,958	40,284,841	30,234,148
Total Current Assets		1,099,154,171	585,017,778	1,068,640,069	562,273,532
Total Assets		2,685,107,008	1,478,830,948	2,653,617,862	1,455,111,658
EQUITY AND LIABILITIES					
Accumulated Fund		1,861,079,718	1,148,066,219	1,861,079,718	1,148,066,219
Revenue Reserve of CDS		200,910,272	57,653,380	-	-
Capital Reserve	12	99,975,000	99,975,000	-	-
Conference Fund Account	12	-	558,713	-	558,713
Total Equity		2,161,964,990	1,306,253,312	1,861,079,718	1,148,624,932
Non Current Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	13	66,939,970	61,689,970	66,939,970	61,689,970
Retirement Gratuity Obligation	14	31,478,202	29,888,522	31,478,202	29,888,522
Deferred Grants	15	211,027	531,434	211,027	531,434
Deferred Tax Liabilities	16	-	686,801	-	686,801
Total Non Current Liabilities		98,629,199	92,796,727	98,629,199	92,796,727
Current Liabilities					
Brokers' Deposits in lieu of Bank Guarantee		60,260,905	35,395,000	33,500,000	10,000,000
Income Tax Payable		324,552,891	11,140,663	245,609,194	1,730,440
Other Payables	17	36,740,242	23,224,151	35,713,449	22,489,712
Amounts due to Related Company	18	-	-	376,127,521	169,448,752
Tsunami Fund Payable		-	9,133,298	-	9,133,298
Bank Overdraft	11	2,958,781	887,797	2,958,781	887,797
Total Current Liabilities		424,512,819	79,780,909	693,908,945	213,689,999
Total Equity and Liabilities		2,685,107,008	1,478,830,948	2,653,617,862	1,455,111,658

The above Balance Sheet is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 52 to 67. These Financial Statements are prepared in accordance with the requirement of the Companies Act No 07 of 2007.



Manager Finance & Administration

Approved and Signed for and on behalf of the Board,



Director

13th May 2011
Colombo



Director

Income Statement

For the year ended 31st December 2010		Consolidated		CSE	
	Note	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Revenue	19	1,440,976,998	398,783,419	1,121,094,875	297,120,127
Other Income	20	208,232,879	144,772,387	212,328,758	145,973,422
		1,649,209,877	543,555,806	1,333,423,633	443,093,549
Staff Cost	21	(131,520,094)	(112,689,698)	(112,964,033)	(96,491,908)
Depreciation and Amortisation		(33,071,232)	(40,816,536)	(33,071,232)	(40,816,536)
Other Operating Expenses	22	(282,946,077)	(199,917,100)	(217,156,352)	(149,074,002)
		1,201,672,474	190,132,472	970,232,016	156,711,103
Profit before taxation		1,201,672,474	190,132,472	970,232,016	156,711,103
Income Tax	23	(345,960,796)	(31,511,711)	(257,777,230)	(15,237,695)
		855,711,678	158,620,761	712,454,786	141,473,408
Net profit for the year		855,711,678	158,620,761	712,454,786	141,473,408

The above Income Statement is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 52 to 67.

Statement of Changes in Equity

For the year ended 31st December 2010						
	Accumulated Fund	Revenue Reserve of CDS	Capital Reserve	Capital Redemption Reserve	Conference Fund Account	Total
CONSOLIDATED	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01st January 2009	1,006,592,811	40,506,027	49,975,000	50,000,000	558,713	1,147,632,551
Net Profit for the year	158,620,761	-	-	-	-	158,620,761
Capitalisation of Capital Redemption Reserve (Note 12)	-	-	50,000,000	(50,000,000)	-	-
Dividends	1,677,847	(1,677,847)	-	-	-	-
Revenue Profit of CDS for the year	(18,825,200)	18,825,200	-	-	-	-
Balance as at 31st December 2009	1,148,066,219	57,653,380	99,975,000	-	558,713	1,306,253,312
Net Profit for the year	855,711,678	-	-	-	-	855,711,678
Transferred to/(from) during the year	558,713	-	-	-	(558,713)	-
Dividends	5,193,851	(5,193,851)	-	-	-	-
Revenue Profit of CDS for the year	(148,450,743)	148,450,743	-	-	-	-
Balance as at 31st December 2010	1,861,079,718	200,910,272	99,975,000	-	-	2,161,964,990

	Accumulated Fund	Conference Fund Account	Total
CSE	Rs.	Rs.	Rs.
Balance as at 01st January 2009	1,006,592,811	558,713	1,007,151,524
Net Profit for the year	141,473,408	-	141,473,408
Balance as at 31st December 2009	1,148,066,219	558,713	1,148,624,932
Net Profit for the year	712,454,786	-	712,454,786
Transferred to/(from) during the year	558,713	(558,713)	-
Balance as at 31st December 2010	1,861,079,718	-	1,861,079,718

The above Statements of Changes in Equity is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 52 to 67.

Consolidated Cash Flow Statement

For the year ended 31st December 2010		Consolidated		CSE	
	Note	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Cash Flows from Operating Activities					
Net Profit before Taxation		1,201,672,474	190,132,472	970,232,016	156,711,103
Adjustments For :					
Depreciation / Amortisation	4/5	33,071,232	40,816,536	33,071,232	40,816,536
Interest Income	20	(17,468,808)	(2,477,566)	(17,456,634)	(2,477,566)
Amortisation of Deferred Grant	15	(320,407)	(504,578)	(320,407)	(504,578)
(Profit) / Loss on Sale of Property & Equipment		(13,827)	(1,478,804)	(13,827)	(1,478,804)
Gain on Redemption of Unit Trust Investments		(5,760,152)	(48,305)	(5,760,152)	(48,305)
Dividend Income	20	(160,364,697)	(124,123,665)	(164,994,163)	(125,498,727)
Gratuity Provision	14	1,903,717	15,375,952	1,775,113	12,712,320
Gratuity Provision - Transfer to Subsidiary	14	-	-	128,604	2,663,632
Provision for Bad Debts		118,135	13,566	115,630	2,010
Operating Profit before Working Capital Changes		1,052,837,667	117,705,608	816,777,412	82,897,621
(Increase) / Decrease in Inventories		(2,218,489)	1,495,911	(2,138,873)	1,471,086
(Increase) / Decrease in Other Receivables	10	(24,616,713)	2,096,140	(17,968,615)	3,849,506
Increase / (Decrease) in Other Payables & Tsunami Fund	17	4,382,793	(1,118,762)	4,090,439	(1,313,943)
Increase / (Decrease) in Amounts Due to Related Company	18	-	-	206,678,769	(19,232,480)
Increase in Broker Deposits		30,115,905	29,090,000	28,750,000	10,000,000
Cash Generated from Operations		1,060,501,163	149,268,897	1,036,189,132	77,671,790
Income Tax Paid		(31,775,040)	(29,668,309)	(13,126,069)	(26,985,370)
Gratuity Paid	14	(314,037)	-	(314,037)	-
Net Cash Flow from Operating Activities		1,028,412,086	119,600,588	1,022,749,026	50,686,420
Cash Flow from Investing Activities					
Interest Income		15,790,382	2,229,809	15,779,329	2,229,809
Purchase of Property & Equipment and Intangible Assets		(18,452,843)	(14,051,201)	(18,452,843)	(14,051,201)
Proceeds from Sale of Property & Equipments		13,837	1,951,348	13,837	1,951,348
Increase in Deposits & Treasury Bills & Bonds		(224,568,752)	(10,889,930)	(224,568,752)	(10,889,930)
Dividend Income		160,364,697	124,123,665	164,994,163	125,498,727
Increase in Investments in Unit Trusts		(885,995,084)	(184,476,041)	(885,995,084)	(184,476,041)
Capital Work in Progress		(66,539,968)	(6,650,477)	(66,539,968)	(6,650,477)
Disposal of Investment in Subsidiary		-	-	-	50,000,000
Net Cash Flow from Investing Activities		(1,019,387,729)	(87,762,827)	(1,014,769,318)	(36,387,765)
Cash Flow from Financing Activities					
		-	-	-	-
		-	-	-	-
Net Increase/ (Decrease) in Cash and Cash Equivalents		9,024,356	31,837,761	7,979,709	14,298,655
Cash and Cash Equivalents at beginning of the Year		46,965,161	15,127,400	29,346,351	15,047,696
Net Cash and Cash Equivalents at end of the Year	11	55,989,517	46,965,161	37,326,060	29,346,351
Cash in hand		175,000	160,000	170,000	155,000
Cash at bank		6,816,733	1,677,416	5,804,344	1,409,301
RTGS Account		23,740	15,440	-	-
Short term investment - overnight repo		51,932,825	46,000,102	34,310,497	28,669,847
Cash & Cash Equivalents		58,948,298	47,852,958	40,284,841	30,234,148
Bank Overdraft		(2,958,781)	(887,797)	(2,958,781)	(887,797)
Net Cash & Cash Equivalents		55,989,517	46,965,161	37,326,060	29,346,351

The above Cash Flow Statement is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 52 to 67.

Notes to the Financial Statements

1 REPORTING ENTITY

1.1 General

Colombo Stock Exchange is a Company Limited by Guarantee incorporated & domiciled in Sri Lanka. The registered office of the Company is located at 4 - 01, West Block, World Trade Center, Echelon Square, Colombo 1, and the principal place of business is also situated at the same place.

Central Depository Systems (Private) Limited is the wholly owned subsidiary of Colombo Stock Exchange.

1.2 Principal Activities and Nature of Operations

The principal activity of the Company is the operation of a Stock Exchange. The subsidiary operates a clearing and settlement of securities system for equities traded in the Colombo Stock Exchange and acts as a depository for such securities.

1.3 Number of Employees

The number of employees at the end of the year was 106 (97 in 2009).

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the company for the year ended 31st December 2010 comprise the Central Depository Systems (Private) Limited, a wholly owned subsidiary of the Colombo Stock Exchange which was incorporated on 2nd September 1991. The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLASs), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 7 of 2007.

The financial statements were authorized for issue by the Board of Directors on 13th May 2011.

2.2 Basis of measurement

The financial statements are presented in Sri Lankan rupees, rounded to the nearest rupee. The financial statements have been prepared on the historical cost.

2.3 Use of estimates and judgments

The preparation of the financial statements in conformity with Sri Lanka Accounting Standards

(SLASs) require management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3 SIGNIFICANT ACCOUNTING POLICES

3.1 Basis of consolidation

Subsidiary

Subsidiary is an enterprise that is controlled by the company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances, and any unrealized gains and losses or income and expenses arising from intra – group transactions, are eliminated in preparing the consolidated financial statements.

3.2 Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sri Lankan Rupees at the foreign exchange rates ruling at that date.

Foreign exchange differences arising on translation are recognized in the income statement.

3.3 Property and Equipment

Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self – constructed assets includes the costs of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within the “other income” in profit or loss.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day - to - day servicing of property, plant and equipment are recognized in the income statement as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Depreciation is provided on a pro-rata basis on the assets purchased/constructed/ disposed during the year.

The estimated useful lives are as follows:

Furniture & Fittings	6 – 7 years
Computers & Office Equipment	5 years
Motor Vehicles	5 years
Telephones	4 years

3.4 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred for system development, interior design of new office & refurbishment of board room.

3.5 Intangible Assets

An Intangible Asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standards No.37, Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortization.

Amortization

Intangible Assets are amortized on a straight-line basis to the Income Statement, from the date when the asset is available for use, over the best estimate of its useful economic life.

The estimated useful lives are as follows:

Computer Software	5 years
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Subsequent expenditure

Subsequent Expenditure on Intangible Assets is capitalized only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

3.6 Development costs

Expenditure on development activities, a plan or design for the production of new or substantially improved processes is capitalized if the process is commercially feasible and the group has sufficient resources to complete the development. Capitalized development expenditure is stated at cost less accumulated amortization over the five year period.

3.7 Investments

Investment in subsidiary is held at cost.

Treasury Bills, Bonds are stated at their cost plus accrued interest component.

Units purchased from unit trusts are held for yield or capital growth in the medium or long-term. Such units are stated in the balance sheet at the cost or market value whichever is lower.

Cash balances maintained for working capital requirement and Member Firms' Dex Liquidity deposits are invested on Overnight Repos on a daily basis. Such Overnight Repos are stated in the balance sheet at their cost plus accrued interest component.

Notes to the Financial Statements (contd.)

3.8 Inventories

Inventories include stationeries, stamps and data wall spares. Realizable values of such items can be considered as cost.

3.9 Trade and Other Receivables

Trade receivables are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

3.10 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and investments in money market instruments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts. The consolidated cash flow statement is prepared using the indirect method prescribed in the Sri Lanka Accounting Standard No. 9, cash flow statement.

3.11 Impairment of Assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amounts are estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash – generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

3.12 Employee benefits

Defined contribution plans – Employees' Provident Fund and Trust Fund

Obligations for contributions to a defined contribution plan are recognized as an expense in the income statement as incurred. The Colombo Stock Exchange contributes 12% and 3% of gross emoluments of employees as Provident Fund and Trust Fund contribution respectively.

Defined benefits plans

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the SLAS 16, (Revised 2006) – "Employee Benefits". However under the Payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The liability is not externally funded, nor actuarially valued. The Gratuity Liability is valued using Gratuity Formula method as allowed by the Sri Lanka Accounting Standard 16, (Revised 2006) – "Employee Benefits".

3.13 Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.14 Trade and other payables

Trade and other payables are stated at their cost.

3.15 Grants

Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in the income statement as other operating income on a systematic basis over the useful life of the asset.

3.16 Income Tax Expenses

Current Tax

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments thereto.

Deferred Taxation

Deferred tax is recognized using the balance sheet liability method. The tax effect of all temporary differences which occur where items are allowed for income tax purposes in a period different from that when they are recognized in the financial statements is included in the provision for deferred taxation at current rates of taxation.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced by the extent that is no longer probable that

sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Withholding Tax on Dividends Distributed by Subsidiary

Dividend distributed out of profit of the Subsidiary attracts 10% deduction at source and is not available for set off against the tax liability of the Colombo Stock Exchange. Thus the withholding tax deducted at source is added to the expense of the Subsidiary company in the Group financial statements as a consolidation adjustment.

3.17 Revenue

Revenue is principally recognized on an accrual basis. Dividend income from unit trusts is recognized in the period they are declared.

3.18 Expenses

All expenditure incurred in the running of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the profit for the year.

3.19 Comparative information

When necessary comparative figures have been reclassified to conform to the current year's presentation.

3.20 New Accounting Standards issued but not effective as at Balance sheet date

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2012. Accordingly, these Standards have not been applied in preparing these financial statements as they were not effective for the year ended 31st December 2010.

These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRSs.

The Company is currently in the process of evaluating the potential effects of these Standards on its financial statements and the impact on the adoption of these Standards have not been quantified as at Balance Sheet date.

Notes to the Financial Statements (contd.)

As at 31st December 2010	Furniture & Fittings	Computers & Office Equipment	Motor Vehicles	Telephones	Total 31.12.2010	Total 31.12.2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
4 PROPERTY & EQUIPMENT - CONSOLIDATED :						
Cost as at 01.01.2010	65,627,774	189,201,615	19,083,810	7,979,941	281,893,140	280,011,055
Additions / Transfers	1,770,757	19,273,947	266,536	489,248	21,800,488	12,998,807
Disposals / Transfers	(87,559)	(230,981)	-	-	(318,540)	(11,116,722)
Cost as at 31.12.2010	67,310,972	208,244,581	19,350,346	8,469,189	303,375,088	281,893,140
Accumulated Depreciation as at 01.01.2010	42,811,121	162,055,468	11,196,632	5,833,479	221,896,700	200,053,143
Charge for the year	6,262,498	12,372,228	3,798,917	1,645,615	24,079,258	32,487,735
Disposals/Transfers	(87,554)	(230,976)	-	-	(318,530)	(10,644,178)
Accumulated Depreciation as at 31.12.2010	48,986,065	174,196,720	14,995,549	7,479,094	245,657,428	221,896,700
Written Down Value as at 31.12.2010	18,324,907	34,047,861	4,354,797	990,095	57,717,660	
Written Down Value as at 31.12.2009	22,816,653	27,146,147	7,887,178	2,146,462	-	59,996,440
PROPERTY & EQUIPMENT - CSE :						
Cost as at 01.01.2010	65,236,457	186,204,459	19,083,810	7,919,091	278,443,817	276,561,732
Additions	1,770,757	19,273,947	266,536	489,248	21,800,488	12,998,807
Disposals / Transfers	(87,559)	(230,981)	-	-	(318,540)	(11,116,722)
Cost as at 31.12.2010	66,919,655	205,247,425	19,350,346	8,408,339	299,925,765	278,443,817
Accumulated Depreciation as at 01.01.2010	42,419,827	159,058,331	11,196,632	5,772,631	218,447,421	196,603,864
Charge for the year	6,262,498	12,372,228	3,798,917	1,645,615	24,079,258	32,487,735
Disposals/Transfers	(87,554)	(230,976)	-	-	(318,530)	(10,644,178)
Accumulated Depreciation as at 31.12.2010	48,594,771	171,199,583	14,995,549	7,418,246	242,208,149	218,447,421
Written Down Value as at 31.12.2010	18,324,884	34,047,842	4,354,797	990,093	57,717,616	-
Written Down Value as at 31.12.2009	22,816,630	27,146,128	7,887,178	2,146,460	-	59,996,396

	Consolidated		CSE	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
5 INTANGIBLE ASSETS				
Cost				
Balance as at 01.01.2010	120,243,206	108,039,545	120,243,206	108,039,545
Acquired during the year	4,475,187	12,203,661	4,475,187	12,203,661
Balance as at 31.12.2010	124,718,393	120,243,206	124,718,393	120,243,206
Amortisation				
Balance as at 01.01.2010	94,076,953	85,748,152	94,076,953	85,748,152
Provision for the year	8,991,974	8,328,801	8,991,974	8,328,801
Balance as at 31.12.2010	103,068,927	94,076,953	103,068,927	94,076,953
Net Book Value	21,649,466	26,166,253	21,649,466	26,166,253
Intangible assets are the application software used in the trading, clearing, settlement, surveillance, accounting, mail systems and the web site of the Colombo Stock Exchange.				
6 CAPITAL WORK IN PROGRESS				
Cost as at 01.01.2010	6,650,477	11,151,267	6,650,477	11,151,267
Incurred during the year	66,539,968	6,650,477	66,539,968	6,650,477
Transfers	(7,822,832)	(11,151,267)	(7,822,832)	(11,151,267)
Cost as at 31.12.2010	65,367,613	6,650,477	65,367,613	6,650,477
7 INVESTMENTS IN SUBSIDIARY				
Central Depository Systems (Pvt) Ltd.				
10,000,000 Ordinary Shares	-	-	25,000	25,000
(5,000,000 Ordinary Shares in 2008)	-	-	25,000	25,000
8 INVESTMENTS IN UNIT TRUSTS				
Long Term Investments				
NAMAL-Gilt Edge Fund	600,000,000	600,000,000	600,000,000	600,000,000
CEYBANK-Gilt Edge Fund	200,000,000	200,000,000	200,000,000	200,000,000
CEYBANK-Surakum Gilt Edged Fund	640,000,001	-	640,000,001	-
	1,440,000,001	800,000,000	1,440,000,001	800,000,000
Current Investments				
NAMAL-Money Market Fund	384,157,994	387,645,125	384,157,994	387,645,125
CEYBANK-Savings Plus - Money Market Fund	255,242,365	-	255,242,365	-
	639,400,359	387,645,125	639,400,359	387,645,125

Notes to the Financial Statements (contd.)

As at 31st December 2010						
	Units	2010	2010	Units	2009	2009
	No	Cost	Market Value/ Net Asset Value	No	Cost	Market Value/ Net Asset Value
		Rs.	Rs.		Rs.	Rs.
8.1 UNIT TRUSTS						
NAMAL-Gilt Edge Fund	60,019,368	600,000,000	772,449,267	60,019,368	600,000,000	770,648,686
CEYBANK-Gilt Edge Fund	20,000,000	200,000,000	246,400,000	20,000,000	200,000,000	249,400,000
CEYBANK-Surakum Gilt Edged Fund	63,933,215	640,000,001	642,528,814	-	-	-
CEYBANK-Savings Plus- Money Market Fund	24,923,852	255,242,365	262,697,398	-	-	-
NAMAL-Money Market Fund	37,862,151	384,157,994	387,708,428	38,165,448	387,645,125	391,577,491
Total Investments in Unit Trusts-CSE		2,079,400,360	2,311,783,907		1,187,645,125	1,411,626,177
Total Investments in Unit Trusts-Consolidated		2,079,400,360	2,311,783,907		1,187,645,125	1,411,626,177

NAMAL & CEYBANK Gilt Edge Funds are Close Ended Unit Trusts & CEYBANK Surakum Gilt Edged Fund is an Open Ended Unit Trust which invest exclusively in a portfolio of Government Securities.

	Consolidated		CSE	
	2010	2009	2010	2009
	Rs.	Rs.	Rs.	Rs.
9 INVESTMENT IN LFSB				
Ordinary Shares	1,000,000	1,000,000	-	-
	1,000,000	1,000,000	-	-

Lanka Financial Services Bureau Ltd (LFSB) issued 100,000 Ordinary shares to the Central Depository Systems (Private) Ltd. LFSB is the SWIFT Service Bureau for Sri Lanka which will facilitate inter-bank transactions.

10 TRADE AND OTHER RECEIVABLES

Trade Debtors	17,217,461	6,615,424	7,626,847	2,430,492
Provision for Doubtful Debts	(1,177,137)	(1,059,002)	(840,141)	(724,511)
CSE & CDS Fees Receivable	9,768,720	5,246,272	7,430,095	4,004,355
Prepayments	26,748,359	23,904,687	26,604,022	23,904,687
Advance Payments	360	135,855	360	135,855
Refundable Deposits	19,103,616	16,507,066	19,103,616	16,507,066
Sundry Debtors	3,386,242	2,262,921	3,385,992	2,262,921
Other Receivable	2,000,375	2,044,497	1,999,254	2,044,497
Staff Loans	13,532,910	10,424,608	13,532,910	10,424,608
	90,580,906	66,082,328	78,842,955	60,989,970

	Consolidated		CSE	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
11 CASH AND CASH EQUIVALENTS				
Treasury Bill Overnight Repos	51,932,825	46,000,102	34,310,497	28,669,847
Cash at Bank	6,816,733	1,677,416	5,804,344	1,409,301
RTGS Account	23,740	15,440	-	-
Cash in Hand	175,000	160,000	170,000	155,000
Cash & Cash Equivalents	58,948,298	47,852,958	40,284,841	30,234,148
Bank Overdraft	(2,958,781)	(887,797)	(2,958,781)	(887,797)
Net Cash & Cash Equivalents	55,989,517	46,965,161	37,326,060	29,346,351

12 RESERVES & FUND

Capital Reserve

This represents 4,997,500 Ordinary Shares issued by CDS on capitalisation of its Revenue Reserves in Year 2004 and the transfer of its Capital Redemption Reserve in Year 2009.

Capital Redemption Reserve

This represents the capitalization of Capital Redemption Reserve upon the redemption of redeemable preference shares issued on 04/03/2004.

Conference Fund Account

This represents the excess of Revenue over Expenditure on account of the Institutional Fund Managers Conference held in October 1999 after netting off the excess of expenditure over Revenue on account of the Annual Assembly & Conference of the South Asian Federation of Stock Exchanges held in January 2001.

	Consolidated		CSE	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
13 BROKER DEPOSITS IN LIEU OF BANK GUARANTEE				
Broker Deposits (Note 13.1)	66,000,000	60,750,000	66,000,000	60,750,000
Deposits for Computer Facility	111,670	111,670	111,670	111,670
Entrance Deposits	640,000	640,000	640,000	640,000
Deposits for Telephones	188,300	188,300	188,300	188,300
	66,939,970	61,689,970	66,939,970	61,689,970

13.1 This is the cash deposit maintained by broker firms as part of their Liquidity Requirement in terms of Section 3 of the Member Regulations of the Colombo Stock Exchange.

14 RETIREMENT GRATUITY OBLIGATION

Balance as at 01.01.2010	29,888,522	14,512,570	29,888,522	14,512,570
Provision made during the year	1,903,717	15,375,952	1,775,113	12,712,320
Provision made for Subsidiary	-	-	128,604	2,663,632
Payments made during the year	(314,037)	-	(314,037)	-
Balance as at 31.12.2010	31,478,202	29,888,522	31,478,202	29,888,522

Notes to the Financial Statements (contd.)

	Consolidated		CSE	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
15 DEFERRED GRANTS				
Grant Received from USAID for Capital Market Development				
Received In 1992	9,100,113	9,100,113	9,100,113	9,100,113
Received In 1995	38,176,645	38,176,645	38,176,645	38,176,645
Received In 1996	81,880	81,880	81,880	81,880
Received In 1997	340,000	340,000	340,000	340,000
Grant Received from Brokers				
Received in 1992	340,384	340,384	340,384	340,384
Computers from MIT (Note 14.1)				
Received in 1998	1,980,000	1,980,000	1,980,000	1,980,000
Grant Received from SEC for Trade Automation				
Received in 1996	20,000,000	20,000,000	20,000,000	20,000,000
Received in 1997	12,862,590	12,862,590	12,862,590	12,862,590
Received in 1999	12,602,392	12,602,392	12,602,392	12,602,392
Grant Received from SEC for Trade Automation Audit				
Received in 2000	967,347	967,347	967,347	967,347
Grant Received from SEC for Video Documentary				
Received in 2004	400,000	400,000	400,000	400,000
Grant Received from SEC for Matara Branch				
Received in 2002	2,061,591	2,061,591	2,061,591	2,061,591
Grant Received from SEC for Kandy Branch				
Received in 2005	1,000,000	1,000,000	1,000,000	1,000,000
Grant Received from SEC for Australia & New Zealand Road Show				
Received in 2005	3,500,000	3,500,000	3,500,000	3,500,000
Grant Received from SEC for Kurunegala Branch				
Received in 2006	2,880,000	2,880,000	2,880,000	2,880,000
Grant Received from SEC for ITN Data Ticker				
Received in 2007	2,173,333	2,173,333	2,173,333	2,173,333
Grant Received from SEC for ITN Data Ticker				
Received in 2008	200,000	200,000	200,000	200,000
	108,666,275	108,666,275	108,666,275	108,666,275
Amortisation of Deferred Grant				
Balance brought forward	(108,134,841)	(107,630,263)	(108,134,841)	(107,630,263)
Write back during the year	(320,407)	(504,578)	(320,407)	(504,578)
	(108,455,248)	(108,134,841)	(108,455,248)	(108,134,841)
Balance carried forward	211,027	531,434	211,027	531,434

15.1 Five Servers were provided by the Vendor (MIT) to operationalise the CSE's Backup site as part of the Trade Automation Contract.

		Consolidated		CSE	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
16 DEFERRED TAX ASSETS/ (LIABILITIES)					
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:					
Deferred tax liabilities		(10,954,160)	(11,035,875)	(10,954,160)	(11,035,875)
Deferred tax assets		11,172,257	10,349,074	11,172,257	10,349,074
		218,097	(686,801)	218,097	(686,801)
The gross movement on the deferred income tax account is as follows.					
Balance as at the beginning of the year		(686,801)	(6,603,934)	(686,801)	(6,603,934)
Recognized in the Income Statement (Note 22)		904,898	5,917,133	904,898	5,917,133
Balance as at the end of the year		218,097	(686,801)	218,097	(686,801)
Net Deferred Tax Liability arise Due to the Following Temporary differences					
Deductible Temporary Difference on Plant and Equipment		(5,762,652)	(4,608,390)	(5,762,652)	(4,608,390)
Deductible Temporary difference on Retirement Gratuity Obligation		(31,478,201)	(29,888,522)	(31,478,201)	(29,888,522)
Taxable Temporary Difference on Plant and Equipment		36,513,867	36,786,250	36,513,867	36,786,250
Total taxable temporary Difference		(726,986)	2,289,339	(726,986)	2,289,339
Deferred Tax Asset/(Liability)		218,097	(686,801)	218,097	(686,801)
Deferred Tax Liabilities/(Asset) are attributable to following items					
Property, Plant & Equipments		9,225,364	9,653,358	9,225,364	9,653,358
Employee Retirement Benefits		(9,443,461)	(8,966,557)	(9,443,461)	(8,966,557)
		(218,097)	686,801	(218,097)	686,801
17 OTHER PAYABLES					
Interest Payable to Brokers		661,668	273,541	658,661	268,286
Payments Received in Advance		848,339	640,547	848,339	640,547
Sundry Creditors & Accrued Expenses		35,230,235	22,310,063	34,206,449	21,580,879
		36,740,242	23,224,151	35,713,449	22,489,712
18 AMOUNTS DUE TO RELATED COMPANY					
	RELATIONSHIP				
Central Depository Systems (Pvt) Ltd.	Subsidiary	-	-	376,127,521	169,448,752
		-	-	376,127,521	169,448,752

Notes to the Financial Statements (contd.)

	Consolidated		CSE	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
19 REVENUE				
CSE & CDS Fees	1,149,247,678	341,674,434	888,797,360	263,239,932
Listing Fees	32,043,281	15,332,397	32,043,281	15,332,397
Quotation Fees	6,825,000	1,817,603	6,825,000	1,817,603
Brokers Fees	15,430,538	14,487,500	15,430,538	14,487,500
Trading Member Fees	175,000,000	-	175,000,000	-
Charges for Remote Data Link	776,226	756,000	776,226	756,000
Charges for Computer Information	2,222,470	1,486,695	2,222,470	1,486,695
Listed Company Fees	50,328,255	18,995,115	-	-
Custodian Bank Fees	9,103,550	4,233,675	-	-
	1,440,976,998	398,783,419	1,121,094,875	297,120,127
20 OTHER INCOME				
Interest Income	17,468,808	2,477,566	17,456,634	2,477,566
Dividend Income-Unit Trusts	160,319,697	123,988,665	160,319,697	123,988,665
Dividend Income-CDS	-	-	4,674,466	1,510,062
Dividend Income-LFSB	45,000	135,000	-	-
Gain on Redemption of Money Market Unit Trusts	5,760,152	48,305	5,760,152	48,305
Amortization of Deferred Grant	320,407	504,578	320,407	504,578
Profit/(Loss) on Disposal of Property & Equipment	13,827	1,478,804	13,827	1,478,804
Miscellaneous Income	24,304,988	16,139,469	23,783,576	15,965,442
	208,232,879	144,772,387	212,328,758	145,973,422
21 STAFF COST				
Salaries	86,008,045	75,062,500	73,825,272	64,626,077
Staff Bonus	32,528,196	15,202,022	27,941,374	13,043,118
Terminal Benefits (Gratuity)	1,949,801	15,424,839	1,775,112	12,712,320
Staff Welfare	6,236,834	2,796,553	5,253,952	2,360,721
Medical Expenses	1,934,383	1,767,025	1,523,342	1,449,591
Transport & Traveling	2,862,835	2,436,759	2,644,981	2,300,081
	131,520,094	112,689,698	112,964,033	96,491,908
22 OTHER OPERATING EXPENSES				
Other operating expenses include the following;				
Directors' Expenses	353,000	204,000	330,000	204,000
Auditors' Remuneration	497,500	395,000	315,000	230,000
Fees Paid to Auditors for Non-Audit Services	376,259	366,258	268,386	223,441
Legal Fees	1,474,214	1,815,834	1,393,293	1,535,834
Professional Charges & Subscription	53,113,396	20,264,998	52,670,261	20,211,442
Write Off / Provision for Bad Debts	118,134	13,566	115,629	2,010

	Consolidated		CSE	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
23 TAXATION				
Current Tax Expenses :				
Current year	339,781,616	35,375,967	254,427,872	21,214,064
Social Responsibility Levy	5,088,933	528,123	3,816,418	318,211
Under/(Over) Provision in prior years	1,995,145	1,524,754	437,838	(377,447)
	346,865,694	37,428,844	258,682,128	21,154,828
Deferred Tax Expenses				
Origination & Reversal of Temporary differences	(904,898)	(5,917,133)	(904,898)	(5,917,133)
Total Income Tax Expense	345,960,796	31,511,711	257,777,230	15,237,695
Reconciliation of Effective Tax Rates				
Accounting Profit	1,201,672,474	190,132,472	970,232,017	156,711,103
Tax at the domestic rate (23.1)	373,709,829	59,239,332	291,069,605	47,013,331
Tax effect of expenses that are not deductible for tax purposes	23,198,709	23,461,815	20,988,823	21,646,447
Effect of Tax on Capital Allowances	(7,880,342)	(9,064,048)	(7,880,342)	(9,064,048)
Disallowed Provisions	(49,765,964)	(38,428,917)	(49,750,214)	(38,381,666)
Dividend Tax	519,385	167,785	-	-
Tax on profits for the period	339,781,616	35,375,967	254,427,872	21,214,064
Effective Tax Rate (%)	19	19	26	14

23.1 Tax has been provided at the rate of 30% in respect of CSE (as per the Inland Revenue ruling) & at the rate of 35% in respect of CDS.

As per the Inland Revenue Act No.10 of 2006 any person who derived income from the secondary market transactions in Government securities issued after or outstanding at 1st April 2002 would be entitled to a notional credit in relation to tax payable by such person. Accordingly, the net interest earned by the CSE for the year, has been grossed up in the Financial Statements and the resulting notional credit is Rs.1,677,305/- (Rs. 247,757/- in 2009).

24 CONTINGENCIES & COMMITMENTS

24.1 Litigation against the CSE

- 1.) The case bearing No. SC (HC) (SPL): 199/2010 LA was filed in the Supreme Court of Colombo against the CSE by Ms. Preeni Witharanage, who is a former employee of the Colombo Stock Exchange (CSE). The Application for Leave to Appeal will be heard before the Supreme Court on 18th July 2011.

This case is an appeal filed against the decision made by the High Court of Colombo on 30th September 2010 in case bearing No. HCAIT 40/2008. Ms. Witharanage claims re-instatement of her services.

- 2.) The case bearing No. 58365/MR was filed in the District Court of Colombo against the CSE by an investor, namely, Mr. Iqbal Bin Issac, regarding his shareholding in Touchwood Investment Ltd. and claiming a sum of Rs.10 Million as damages. The Trial commenced on the 17th February 2009. Further Trial in the said matter has been fixed for 29th July 2011.

Based on advice received the CSE has denied liability & the matter is pending in court.

Notes to the Financial Statements (contd.)

24.2 Tax assessments against the CSE

The Department of Inland Revenue has issued assessment notices for income tax amounting to Rs.16.1 million for the Year of Assessment 2005/2006, Rs.17.6 million for the Year of Assessment 2006/2007 and Rs.0.3 million for the Year of Assessment 2007/2008 respectively. The CSE has appealed to quash the income tax assessments issued by the Department of Inland Revenue. The CSE is of the view that the above assessments will not have any material impact on the Financial Statements.

24.3 Tax assessments against the CDS

The Department of Inland Revenue has issued assessment notice for income tax amounting to Rs.3.94 million for the Year of Assessment 2008/2009 and CDS has appealed to quash the income tax assessment issued by the Department of Inland Revenue. The CDS is of the view that the above assessment will not have any material impact on the Financial Statements.

25 CAPITAL COMMITMENTS

The Group and the Company have purchased commitments in the ordinary course of business as at 31 December 2010 as follows:

	Consolidated		CSE	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Property, Plant and Equipment - approved and contracted	51,135,830	-	51,135,830	-
	51,135,830	-	51,135,830	-

26 RELATED PARTY TRANSACTIONS

26.1 Transactions with Key Management Personnel

Key management personnel include all the members of the Board of Directors of the Company & the CEO, AGMs, Senior Managers and Managers having authority and responsibility for planning, directing, and controlling the activities of the Company as well as the subsidiary, directly or indirectly.

CSE paid Rs.330,000/- during the year as Directors' Expenses. (Rs.204,000/- in 2009.)

The Company has incurred following costs for the CEO, AGMs, Senior Managers and Managers during the year.

	2010 Rs.	2009 Rs.
Short term employee benefits	42,878,871	30,990,896
Long term employee benefits	1,108,309	1,463,920

26.2 Transactions with Group Companies and Director related entities

Central Depository Systems (Pvt) Ltd is a fully owned subsidiary of the Colombo Stock Exchange. CSE apportioned Rs.64,163,541/- to Central Depository Systems (Pvt) Ltd as expenses during the year.

Company	Relationship		Nature of Transaction	Amount (Rs.)	
(a) Mr. A. Nihal Fonseka					
National Asset Management Ltd	Director	CSE	Investment in Unit Trust	497,995,584	
			Investment in Unit Trusts as at year end	984,157,994	
			Dividends received from Unit Trusts	132,319,697	
Acuity Stockbrokers (Pvt) Ltd	Director	CSE	Member fees, data communication charges & other charges received	1,746,248	
			Member fees, data communication charges & other charges receivable as at year end	264,108	
			Interest paid for Member Firms' liquidity deposits	1,241,996	
			Member Firms' liquidity deposits & entrance deposit as at year end	11,540,000	
			Interest payable for Member Firms' liquidity deposits as at year end	126,548	
		CDS	Sale of CDS Form	32,119	
			Amount receivable for sale of CDS forms as at year end	6,761	
			Interest paid for Member Firms' margin deposits	264,444	
			CDS Dex Liquidity deposit as at year end	300,000	
DFCC Bank	Director / CEO	CSE	Annual listing fees, fees for provision of computer information received	785,634	
			Fees receivable for provision of computer information as at year end	6,108	
		CDS	Listed Company fees received	288,866	
			Listed Company fees receivable as at year end	20,258	
Lanka Ventures PLC	Chairman	CSE	Annual listing fees, fees for provision of computer information received	62,397	
			Fees receivable for provision of computer information as at year end	866	
		CDS	Listed Company fees received	162,448	
			Listed Company fees receivable as at year end	11,459	
(b) Mr. Krishan Balendra					
John Keells Stockbrokers (Pvt) Ltd	Director	CSE	Member fees, data communication charges & other charges received	966,714	
			Member fees, data communication charges & other charges receivable as at year end	148,596	
			Interest paid for Member Firms' liquidity deposits	754,141	
			Member Firms' liquidity deposits & entrance deposit as at year end	4,540,000	
			Interest payable for Member Firms' liquidity deposits as at year end	23,259	
		CDS	Sale of CDS Form	17,428	
			Amount receivable for sale of CDS forms as at year end	4,500	
			Interest paid for Member Firms' margin deposits	352,790	

Notes to the Financial Statements (contd.)

Company	Relationship		Nature of Transaction	Amount (Rs.)	
(b) Mr. Krishan Balendra (contd.)					
Union Assurance PLC	Director	CSE	Rent & electricity charges paid for Kurunegala branch premises	3,224,654	
			Electricity charges payable for Kurunegala branch premises as at year end	192,990	
			Annual listing fees, fees for provision of computer information received	122,384	
			Fees receivable for provision of computer information as at year end	970	
		CDS	Listed Company fees received	15,371	
			Listed Company fees receivable as at year end	2,567	
Nation Trust Bank PLC	Director	CSE	Annual listing fees, fees for provision of computer information received	292,927	
			Fees receivable for provision of computer information as at year end	10,986	
		CDS	Listed Company fees received	932,768	
			Listed Company fees receivable as at year end	82,191	
			Participants fees received	61,856	
(c) Mr. Vajira Kulatilaka					
NDB Stockbrokers Pvt) Ltd	Director	CSE	Member fees, data communication charges & other charges received	968,913	
			Member fees, data communication charges & other charges receivable as at year end	157,427	
			Interest paid for Member Firms' liquidity deposits	430,619	
			Member Firms' liquidity deposits & entrance deposit as at year end	5,290,000	
			Interest payable for Member Firms' liquidity deposits as at year end	51,256	
		CDS	Sale of CDS Form	11,825	
			Amount receivable for sale of CDS forms as at year end	11,711	
			Interest paid for Member Firms' margin deposits	112,916	
(d) Mr. M. Ashroff Omar					
John Keells Hotels PLC	Director	CSE	Annual listing fees, fees for provision of computer information received	861,123	
			Fees receivable for provision of computer information as at year end	577	
		CDS	Listed Company fees received	943,856	
			Listed Company fees receivable as at year end	95,753	
(e) Mr. M. Rasingh Prelis					
(Appointed with effect from 29th June 2010)					
Capital Trust Securities (Pvt) Ltd	Director	CSE	Member fees, data communication charges & other charges received	1,162,082	
			Member fees, data communication charges & other charges receivable as at year end	444,776	
			Interest paid for Member Firms' liquidity deposits	903,380	
			Member Firms' liquidity deposits & entrance deposit as at year end	7,540,000	
			Interest payable for Member Firms' liquidity deposits as at year end	66,436	
		CDS	Sale of CDS Form	30,959	
			Amount receivable for sale of CDS forms as at year end	31,180	
			Interest paid for Member Firms' margin deposits	160,915	

Company	Relationship		Nature of Transaction	Amount (Rs.)
(f) Dr. Saman Kelegama				
(Appointed with effect from 01st April 2010)				
Sampath Bank PLC	Director	CSE	Fees for provision of computer information received	14,416
			Fees receivable for provision of computer information as at year end	37,474
			Investment in Overnight Repo	12,952,910,000
			Investment in Overnight Repo as at year end	27,428,000
			Interest received for investment in Overnight Repo	3,584,933
			Interest receivable for investment in Overnight Repo as at year end	4,884
		CDS	Listed Company fees received	285,294
			Listed Company fees receivable as at year end	71,041
			Participants fees received	15,464
			Participants fees receivable as at year end	46,392
			Interest received for Member Firms' margin investment in Overnight Repo	1,776,307
			Interest receivable for Member Firms' margin investment in Overnight Repo	3,007
			Member Firms' margin investment in Overnight Repo	17,560,905
		CSE	Member fees, data communication charges & other charges received	1,186,401
			Member fees, data communication charges & other charges receivable as at year end	180,056
			Interest paid for Member Firms' liquidity deposits	233,663
			Member Firms' liquidity deposits & entrance deposit as at year end	1,790,000
			Interest payable for Member Firms' liquidity deposits as at year end	3,929
		CDS	Sale of CDS Form	8,351
			Amount receivable for sale of CDS forms as at year end	5,763
			Interest paid for Member Firms' margin deposits	83,094
			CDS Dex Liquidity deposit as at year end	120,000
Singer (Sri Lanka) PLC	Director	CSE	Fees for provision of computer information received	4,278
			Fees receivable for provision of computer information as at year end	450
		CDS	Listed Company fees received	31,469
			Listed Company fees receivable as at year end	5,490
Regins (Lanka) PLC	Director	CSE	Fees for provision of computer information received	3,366
			Fees receivable for provision of computer information as at year end	1,068
		CDS	Listed Company fees received	20,320
			Listed Company fees receivable as at year end	6,557

27 SUBSEQUENT EVENTS

No circumstances have arisen since Balance Sheet date which would require adjustments to or disclosure in the financial statements.

28 DIRECTORS RESPONSIBILITY STATEMENT

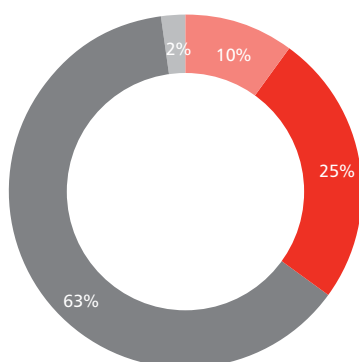
The Board of Directors are responsible for the preparation and presentation of financial statements in accordance with Sri Lanka Accounting Standards.

29 COMPARATIVE INFORMATION

The Accounting policies have been consistently applied by the company and are consistent with those used in the previous year.

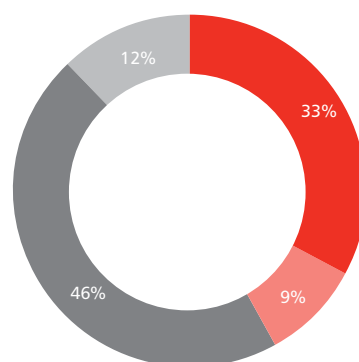
Key Financial Indicators

Value Added	2010	%	2009	%
Gross Income	1,649,209,877		543,555,806	
Less: Cost of Providing Services	(282,946,077)		(199,917,100)	
	1,366,263,800		343,638,706	
Distribution of Value Added				
To Employees	131,520,094	9.7	112,689,698	32.8
To Government				
Taxation	345,960,796	25.3	31,511,711	9.2
Retained in the Organisation				
Retained Profits	855,711,678	62.6	158,620,761	46.2
Depreciation	33,071,232	2.4	40,816,536	11.8
	1,366,263,800	100	343,638,706	100



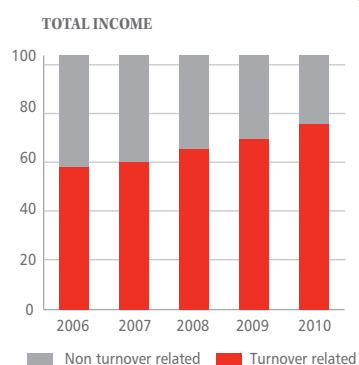
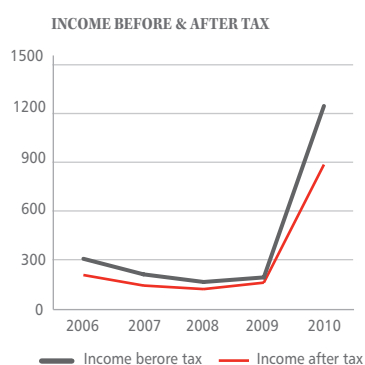
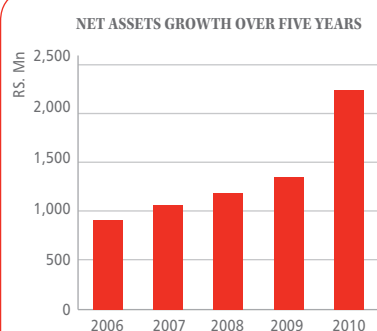
VALUE ADDED FOR 2010

- Employees
- Government
- Retained Profits
- Depreciation



VALUE ADDED FOR 2009

- Employees
- Government
- Retained Profits
- Depreciation



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Mr. Viraj Malawana

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Mr. Dihan Dedigama

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Mr. Kithsiri Gunawardena

Chief Operating Officer & Head of Legal, LOLC Group

First Capital Markets Limited,

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Mr. Chandima Desinghe

Head of Capital Markets & Fund Management

Corporate Information

NAME

Colombo Stock Exchange

LEGAL STATUS

A company incorporated in Sri Lanka
Limited by guarantee

COMPANY REGISTRATION NO.

GL 12

SUBSIDIARY

Central Depository Systems (Pvt) Limited

REGISTERED OFFICE

4-01 West Block, World Trade Centre,
Echelon Square,
Colombo 1, Sri Lanka.

SECRETARIES

Secretarial Services Limited

AUDITORS

KPMG Ford, Rhodes, Thornton & Co.

BANKERS/SETTLEMENT BANKS

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Commercial Bank of Ceylon PLC
Sampath Bank PLC
The Hongkong and Shanghai Banking Corporation Limited

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