

Rs. 105.1 b
Annual Turnover

Rs. 834.8 b
Market Capitalization

3.9 b
Number of Shares

Rs. 5.3 b
Net Foreign Investment

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Vision and Mission

Vision

The Colombo Stock Exchange shall contribute to the wealth of the nation by creating value through securities.

Mission

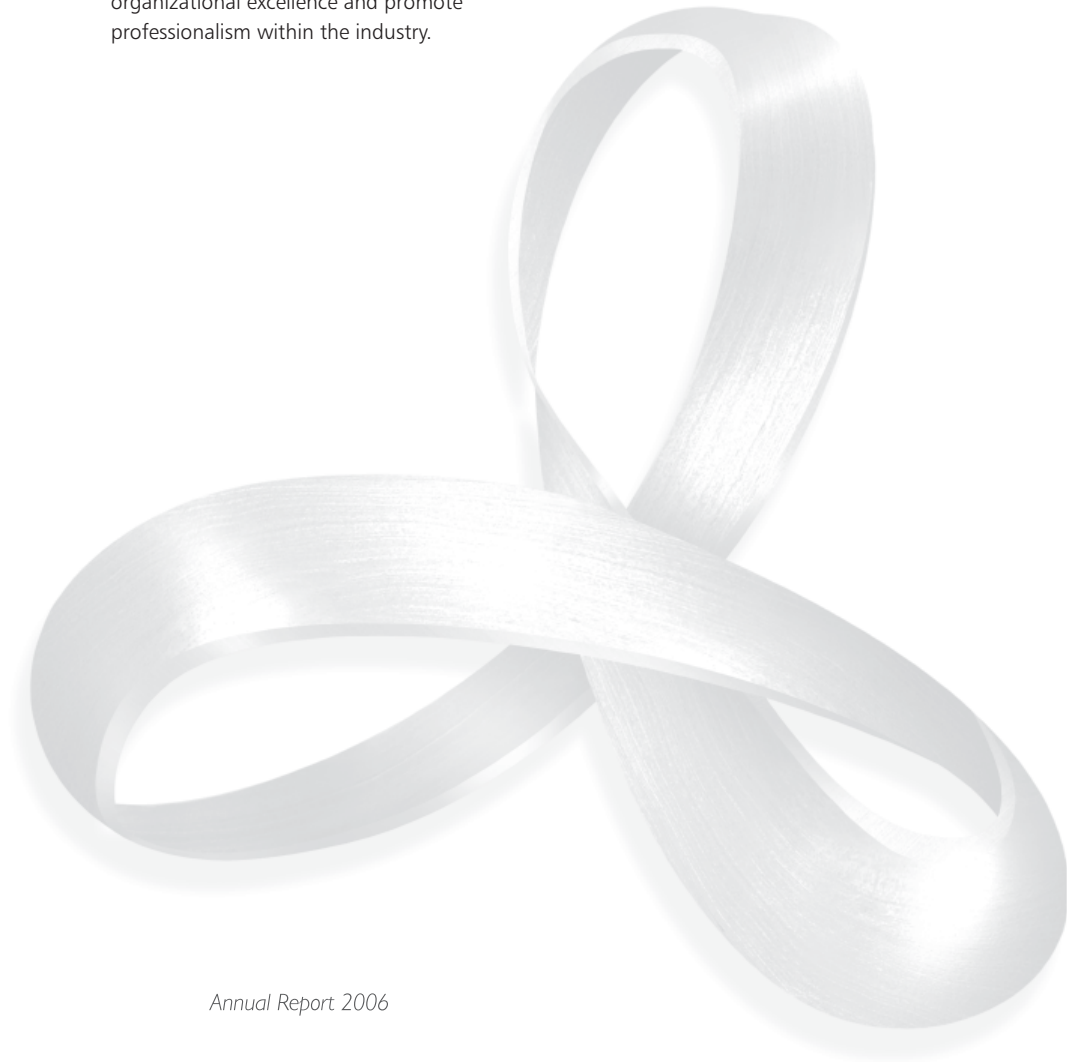
Actively pursue strategies that contribute to the growth of the Capital Market.

Provide facilities to trade Equities, Debt, Derivatives and Commodities.

Promote a corporate culture that encourages employee commitment, creativity and teamwork.

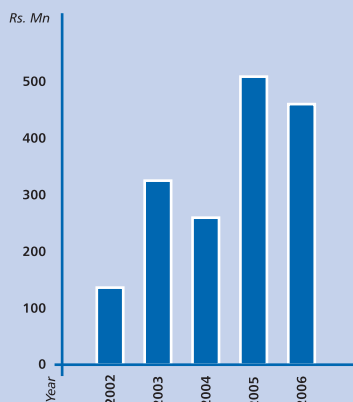
Maintain a balanced and responsive regulatory framework that will enhance market integrity and investor confidence.

Focus on customer orientation, strive for organizational excellence and promote professionalism within the industry.

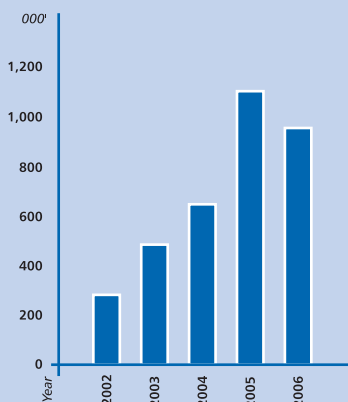


Graphical Review

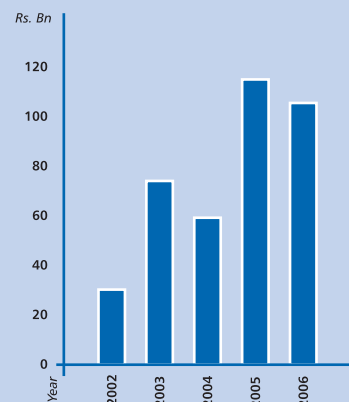
Daily Average Turnover



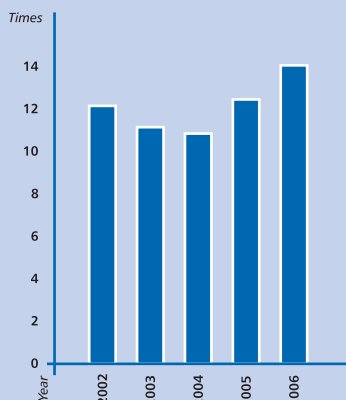
Number of Transactions



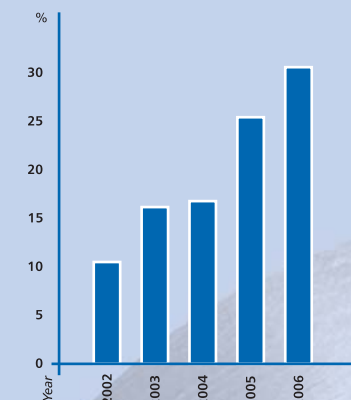
Value of Shares Traded



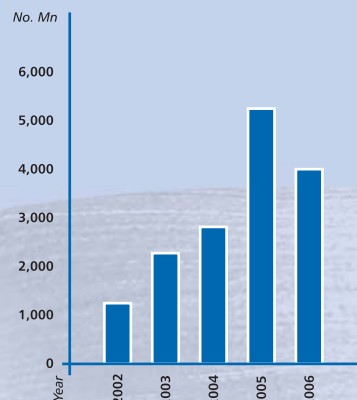
Market Price Earnings Ratio



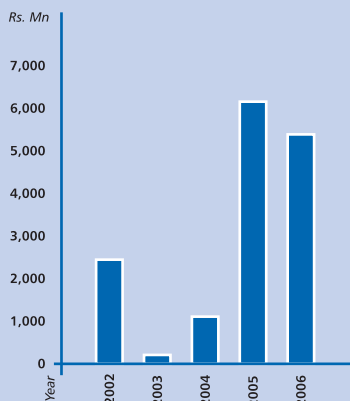
Market Capitalisation as a % of GDP



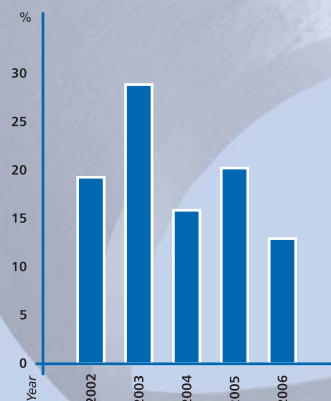
Volume of Shares Traded



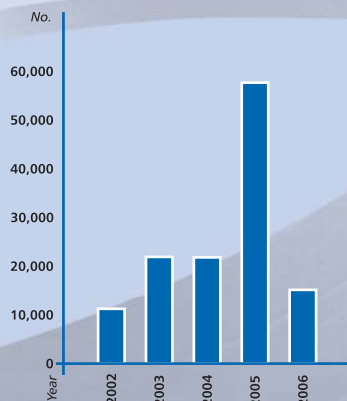
Net Foreign Purchases



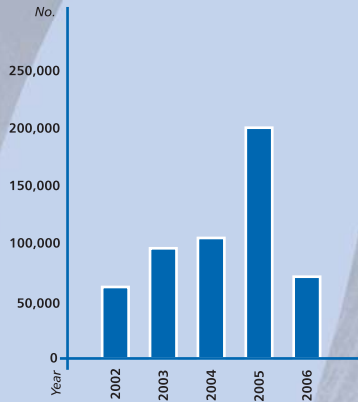
Trading Turnover as a % of Market Capitalization



CDS - New Accounts Opened



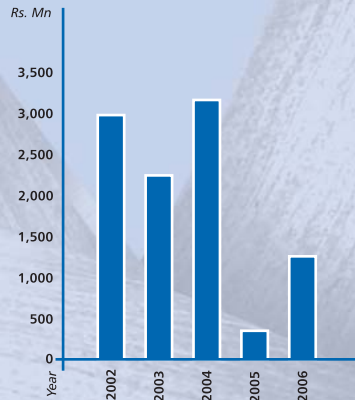
CDS - Deposits



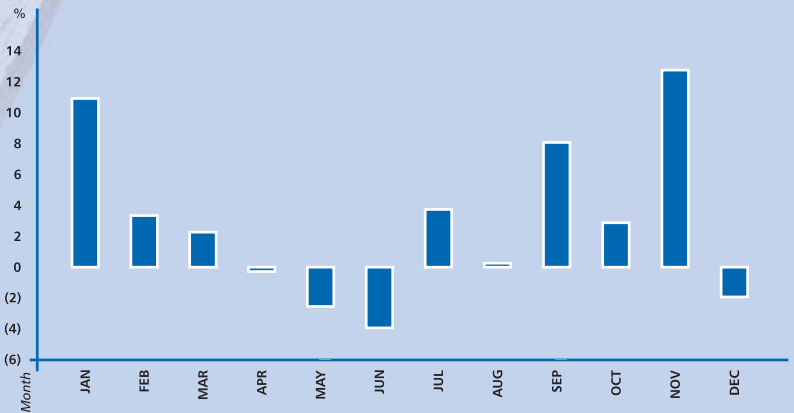
Value of Capital Raised (Equity)



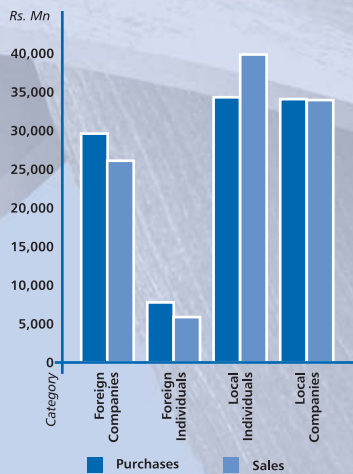
Value of Capital Raised (Debt)



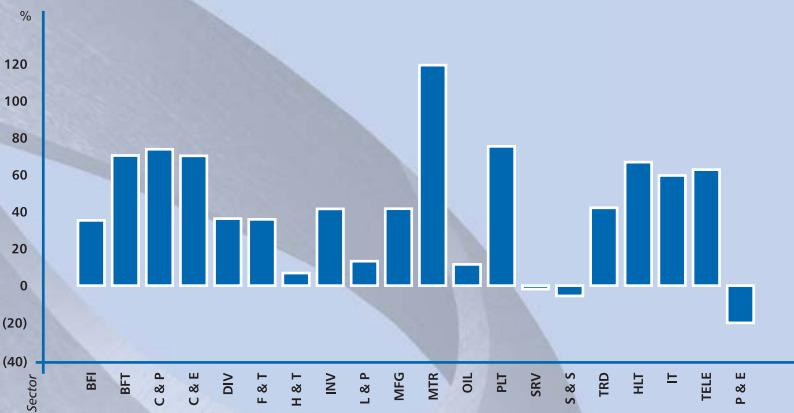
All Share Index Monthly % Change 2006



Purchases & Sales Analysis 2006



Sector Indices % Change 2006



Colombo Stock Exchange



Share trading in Sri Lanka commenced in the 19th century, with the need for funds to set up Tea Plantations in Sri Lanka. The Colombo Share Brokers Association commenced the trading of shares in limited liability companies in 1896, which were involved in the opening up of plantations in the country.

The Colombo Share Market continued operations for almost a century, experiencing several vicissitudes due to political and economic factors during the period. A landmark event in the history of share trading in Sri Lanka was the formalization of the market with the establishment of the "Colombo Securities Exchange (GTE) Limited" in 1985, which took over the operations of stock market from the Colombo Share Brokers' Association. It was renamed 'Colombo Stock Exchange' (CSE) in 1990.

The CSE is a company limited by guarantee, established under the Companies Act No. 17 of 1982 and is licensed by the Securities & Exchange Commission of Sri Lanka (SEC). The CSE is a mutual exchange and has 15 full members, 5 Trading Members licensed to trade both equity and debt securities and 1 Trading Member specializing in the trading of debt securities. All members are licensed by the SEC to operate as stockbrokers. All members are corporate entities and some are subsidiaries of large financial institutions.

The policy making body of the Colombo Stock Exchange is the Board of Directors composed of nine members. Five directors are elected by the 15 member firms while the Minister of Finance nominates four.

The CSE Board has five sub committees appointed to administer the operations

of the CSE. The Exchange Secretariat, headed by the Chief Executive Officer is responsible for the operations of the Exchange, and is accountable to the Board of Directors.

The Securities and Exchange Commission of Sri Lanka (SEC) was established under the Securities Council Act No.36 of 1987(now amended as the Securities Council Act), to regulate the securities market in Sri Lanka, grant licenses to stock exchanges, stockbrokers, stock dealers and unit trusts who engage in the business of trading in securities. The CSE operates as a Self Regulatory Organization (SRO) subject to the regulation and supervision of the SEC. Sri Lanka was one of the first countries in South Asia to establish a capital markets regulator.

The CSE was one of the first Exchanges in the region to successfully automate its activities in 1991, with the installation of a Central Depository and an electronic clearing and settlement system for share transactions, and an Automated Trading System (ATS) in 1997. This has been able to notably enhance the transparency and efficiency of the securities market in Sri Lanka.

In recognition of the technology, systems and regulation, the CSE was admitted to the World Federation of Exchanges (WFE) in 1998, becoming the first South Asian member. It was also a founding member of the South Asian Federation of Exchanges (SAFE) in 2000.

At present the CSE offers advanced facilities for the secondary trading of equity and debt instruments. The Debt Securities Trading System (DEX) implemented in 2003 enables the secondary trading of the Beneficial

Interest in Government Securities. DEX provides investors an opportunity to diversify their portfolio and thereby reduce risk. The Stock Borrowing and Lending (SBL), introduced in 2001, also enables investors to hedge their risks.

In January 2004, CSE introduced the Total Return Indices (TRI) to track the market performance on a Total Returns basis. The TRI is a more comprehensive index since it exceeds the scope of existing price indices (ASPI, MPI) and incorporates returns from dividends into its computation. CSE publishes TRI based on the ASPI, MPI, and the 20 Sector Price Indices.

237 companies are currently listed on the CSE, representing twenty (20) business sectors with a market capitalization of Rs. 884.6 billion (approx. US \$ 8.4 billion) as at 30th April 2007, which corresponds to approximately 30% of the Gross Domestic Product of the country.

The CSE provides companies the opportunity of raising equity and debt capital required for their expansion from the primary market. The CSE also provides a mechanism for price discovery in an active secondary market. The equity and debt securities of a public company can be listed on either the Main or Second Board of the CSE; a Main Board for larger companies and a Second Board for medium to small companies and for start up companies.

Foreign institutions and individuals, including non-resident Sri Lankans are permitted to buy and/or sell shares in a listed company up to 100% of the issued capital except in the case of a few companies, where certain restrictions have been imposed. Investment in shares in Sri Lanka and repatriation of

proceeds should take place through a Share Investment External Rupee Account (SIERA) opened with a licensed commercial bank. Income from investments such as interest, dividends and profit realized from such investments are not subject to Exchange Control Regulations.

Live market information is presently being disseminated through member firms, information vendors, CSE branches, print & electronic media and through a special local TV broadcast. International data vendors also provide daily online trading information to investors worldwide.

The CSE website, www.cse.lk, provides access to real time market information, order book information and include features such as portfolio trackers and quick quote. Several CSE publications are also available on the website which can be downloaded via PDF format. The CSE website also facilitates fast access to individual listed company profiles, as well as links to Online Trading platforms offered by 11 stock broker firms. The CSE is in the process of developing a new website, which will function as the primary communication channel for the CSE and will host dynamic information services for all users.

The CSE is committed to setting up branch offices around the country with the objective of broad basing the stock market and providing wider access. The CSE presently operates branches in the Southern (Matara), Central (Kandy), North Western (Kurunegala) and in the Western province (Negombo). The CSE also operates a Trading Floor and Public Gallery at the World Trade Center, Colombo.

The CSE has initiated activities to improve the market infrastructure and the regulatory framework to integrate and strengthen the securities market in Sri Lanka. It has also been diligently formulating strategies to focus and leverage its competitive advantage on its capabilities of managing the systems, infrastructure and regulation. Presently the CSE is focusing on market development and diversification.

Members of the CSE

Bartleet Mallory Stockbrokers (Pvt) Ltd.

Level "G", "Bartleet House"
65, Braybrooke Place, Colombo 2.
Tel: 5220200
Fax: 2434985
E-mail: info@bartleetstock.com
Website: www.bartleetstock.com

Mr. R. Muralidaran
Managing Director

DFCC Stockbrokers (Pvt) Ltd.

1st Floor
73, W.A.D. Ramanayake Mawatha
Colombo 2.
Tel: 2446021-2, 2446031-4
Fax: 2437149
E-mail: sales@dfccstockbrokers.com

Mr. Ray Abeywardena
Chief Executive Officer

John Keells Stockbrokers (Pvt) Ltd.

130, Glennie Street, Colombo 2.
Tel: 2326003, 2338066/7, 2342066/7,
2446694/5, 2439047/8, 4-710721-4
Fax: 2342068, 2326863
E-mail: jkstock@keells.com
Website: www.jksb.keells.lk

Mr. Tivanka Ratnayake
Chief Executive Officer

Asha Phillip Securities Ltd.

Level 4, "Millennium House"
46/58, Navam Mawatha, Colombo 2.
Tel: 2429100
Fax: 2429199
E-mail: apsl@ashaphillip.net

Mr. Dimuthu Abeysekera
Director/ Chief Executive Officer

DP Global Securities (Pvt) Ltd.

3rd Floor, Forbes & Walkers Bldg, 46/38
Navam Mawatha, Colombo 2.
Tel: 4700111, 2307366
Fax: 2307365, 4700112
E-mail: dpgs1@slt.net.lk

Mr. Travis Waas
Managing Director

Somerville Stockbrokers (Pvt) Ltd.

137, Vauxhall Street, Colombo 2.
Tel: 2329201-5, 2332827, 2338292-3
Fax: 2338291, 4700112
E-Mail: ssb@web-lk.com

Ms. Shalini Dias
Director

J B Securities (Pvt) Ltd.

150, St. Joseph Street, Colombo 14.
Tel: 2490900, 077-2490900
077-2490901
Fax: 2430070, 2446085, 2447875
E-mail: jbs@jb.lk
Website: www.isl.lk

Mr. Murtaza Jafferjee
Chairman & Managing Director

Lanka Securities (Pvt) Ltd.

5th Floor, 86, Galle Road, Colombo 3.
Tel: 5576757, 2431138
Fax: 5576767
E-mail: lankasec@slt.net.lk
Website: www.isl.lk

Mr. Magu Murugesu
Managing Director/ Chief Executive Officer

Asia Securities (Pvt) Ltd.

Level 21, West Tower, World Trade
Centre, Echelon Square, Colombo 1.
Tel: 2423905, 5320000
Fax: 2336018
E-mail: enquiry@asiacapital.lk
Website: www.asiacapital.lk

Mr. Paul Ratnayake
Chairman

Ceylinco Stockbrokers (Pvt) Ltd.

Ceylinco House, Level 9
69, Janadhipathi Mawatha, Colombo 1.
Tel: 4-714300, 4-714388, 4-714389,
077-7891871, 077-7896064
Fax: 2387228
E-mail: csblcmb@slt.lk
Website: www.ceylincostockbrokers.com

Mr. Sriyan Gurusinghe
Director/General Manager

Lanka Orix Securities (Pvt) Ltd.

42, Mohamed Macan Markar Mawatha,
Colombo 3.
Tel: 5-335225
Fax: 5-365725
E-mail: register@lankaorixsecurities.com

Mr. Tushan Wickremasinghe
Managing Director

S C Securities (Pvt) Ltd.

2nd Floor, 55 D.R. Wijewardena
Mawatha, Colombo 10.
Tel: 4711000
Fax: 2394405
E-mail: cscres@slt.net.lk

Mr. Harsha Fernando
Director

CT Smith Stockbrokers (Pvt) Ltd.

4-14, Majestic City
10, Station Road, Colombo 4.
Tel: 2552290 - 4
Fax: 2552289
E-mail: ctssales@slt.net.lk
Website: www.ctsmith.lk

Mrs. Cecilia Muttukumaru
Managing Director

HNB Stockbrokers (Pvt) Ltd.

Level 7, HNB Towers
479 T.B. Jayah Mawatha, Colombo 10.
Tel: 2663663 (Hotline)
Fax: 2663698, 2663699
E-mail: hnb@hnbstock.com
Website: www.hnbstock.com

Mr. Deva Ellepola
General Manager/ Chief Executive Officer

NDBS Stockbrokers (Pvt) Ltd.

5th Floor, NDB Building
40, Navam Mawatha, Colombo 2.
Tel: 2314170 to 2314178
Fax: 2314180
E-mail: mail@ndbs.lk

Mrs. Prasansini Mendis
Acting Chief Executive Officer

TRADING MEMBERS - DEBT & EQUITY**Capital Alliance Securities (Pvt) Ltd.**

Level 5, "Millennium House"
46/58, Navam Mawatha, Colombo 2.
Tel: 2317777
Fax: 2317788
E-mail: general@capitalalliance.lk
Website: www.capitalalliance.lk

Mr. Ajith Fernando

Managing Director/ Chief Executive Officer

SMB Securities (Pvt) Ltd.

Landmark Bldg, 385 Galle Road,
Colombo 3.
Tel: 5539593
Fax: 5510750
E-mail: smbsecurities@gmail.com
Website: www.smb.lk.com

Mr. Nandun Jayatillake

Chief Executive Officer

First Capital Equities (Pvt) Ltd.

32nd Floor, East Tower, World Trade
Centre, Echelon Square, Colombo 1.
Tel: 5884400
Fax: 5884401
E-mail: info@firstcapitalequities.com
Website: www.firstcapitalequities.com

Mr. Rohan Goonewardene

Managing Director/ Chief Executive Officer

Taprobane Securities (Pvt) Ltd.

10, Gothami Road, Colombo 10.
Tel: 5328100
Fax: 5328109
E-mail: janaka@tap.eureka.lk,
dayan@tap.eureka.lk

Mr. Ashan Dassanayake

Chief Executive Officer

Amana Securities Ltd.

550, R.A. de Mel Mawatha, Colombo 3.
Tel: 2506101-4
Fax: 2506105
E-mail: info@asl.lk
Website: www.asl.lk

Mr. Ishrat Rauff

Chief Executive Officer

TRADING MEMBERS - DEBT**National Wealth Corporation Ltd.,**

Level 6, "Millennium House"
46/58 Navam Mawatha, Colombo 2.
Tel: 4716538
Fax: 4716275
E-mail: info@natwealth.com

Mr. Chandra J. Dias

Chief Executive Officer

Board of Directors 2006

Mr. A.N. Fonseka (*Chairman*)

Mr. M. Eraj Wijesinghe

Mr. Rienzie T. Wijetilleka

Mr. Anthony A. Page

Mr. M.M. Udeshi

Mr. Ashroff Omar

Mr. Dhakshitha Thalgodapitiya

Mr. Gomin Dayasri

Prof. Malik Ranasinghe

Board Committees 2006

1. Rules and By Laws Committee

The Rules and By Laws Committee of the CSE approves rules and regulations of the CSE, which have wide implications on the conduct of the listed companies, member firms and investors. The Committee ensures that such rules will strike a sound balance between the market development and regulatory role of the CSE by ensuring a reasonably effective investor protection regime without imposing excessive regulatory burdens on the market.

Mr. Nihal Fonseka - *Chairman*
 Mr. R.T. Wijetilleke
 Mr. G. Dayasri
 Mr. Deva Ellepola
 Mr. Harsha Fernando

2. Finance, Research & Development Committee

The Finance, Research & Development Committee of the Exchange is set up to help formulate strategies on capital market development and research activities in relation to new product development and related areas, which will help to enhance the competitiveness and reputation of the Exchange in the global securities market.

Mr. M. Eraj Wijesinghe - *Chairman*
 Mr. R.T. Wijetilleke
 Mr. A.N. Fonseka
 Mr. M.M. Udeshi
 Prof. M. Ranasinghe
 Mr. R. Muralidaran
 Mr. Murtaza Jafferjee

3. Audit Committee

The Board set up an Audit Committee comprising four non-executive Directors, which will assist the Board in discharging its responsibility in ensuring that all the systems and procedures adopted at the CSE provide reliable and accurate information as to the state of affairs of the stock market and the internal control systems of the Exchange are sound and well administered.

Mr. R.T. Wijetilleke - *Chairman*
 Mr. A.A. Page
 Mr. M.M. Udeshi
 Mr. D. Thalgodapitiya

4. Arbitration & Disciplinary Committee

The Arbitration & Disciplinary Committee of the CSE is set up to carry out investigations and recommend appropriate disciplinary action against member firms which fail to comply with the Exchange rules and regulations for member firms, thus ensuring that the member firms adhere to good business practices and follow justice and fair principles of trade in the conduct of business, at all times.

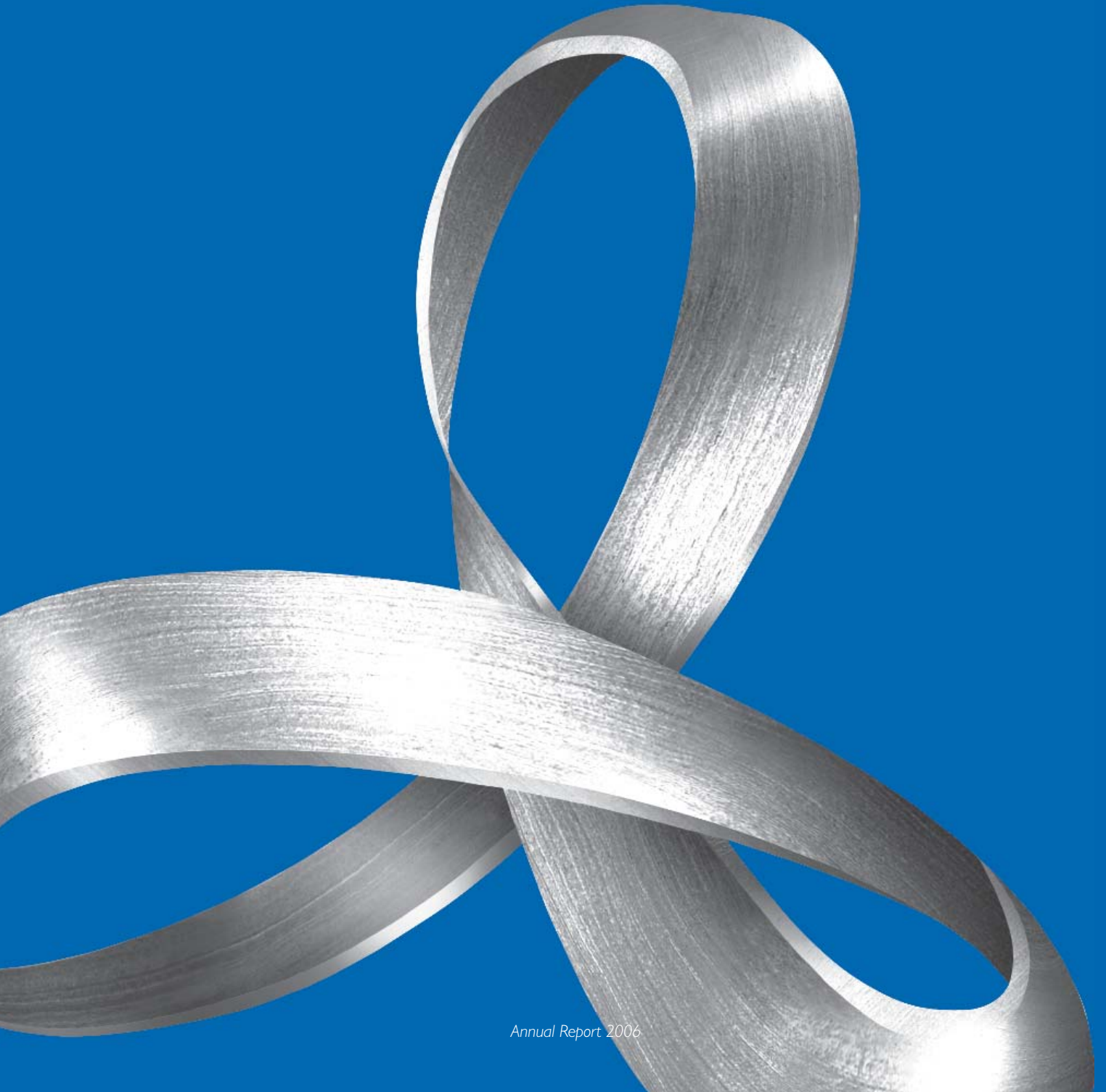
Mr. G. Dayasri - *Chairman*
 Mr. M. Eraj Wijesinghe
 Mr. M.M. Udeshi
 Mr. D. Thalgodapitiya
 Mr. A. Omar

5. Dispute Resolution Committee

The Dispute Resolution Committee of the CSE is set up to resolve disputes arising between investors and member firms as well as any disputes among member firms, in order to maintain the professionalism of the member firms that, in turn, will reinforce the investor confidence and the integrity of the market-place as a whole.

Mr. G. Dayasri - *Chairman*
 Mr. A.N. Fonseka
 Mr. M. Eraj Wijesinghe
 Mr. M.M. Udeshi
 Prof. M. Ranasinghe

Chairman's Message to Stakeholders



The primary target audience of the Annual Report of a company is its shareholders and it is customary for the Chairman to use the report mainly to focus on matters of importance to that group of stakeholders. The Colombo Stock Exchange (CSE) is a different type of company. The members are stockbrokers but unlike in other companies, the members have no legal claim to the value of the CSE at present. Thus, investors in and issuers of listed securities are perhaps bigger stakeholders of the CSE.

The Chief Executive's review gives details of the very successful year experienced by the CSE in 2006, as measured by key measurable performance indicators. While as Chairman I am happy about this successful and creditable performance, I wish to use this opportunity to focus on some important issues that have to be addressed if the CSE is to be a meaningful and significant future partner in the development of the capital market and the country in general.

While the increased turnover and the growth of the indices witnessed in 2006 are very encouraging, the fact remains that when compared with other regional exchanges, the penetration and turnover of the CSE is very low in the context of relevant national economic indicators and the investment made in the advanced technology platform on which the CSE operates. Over the last few years, the CSE has also not been able to convince many new issuers of equity or debt, the advantages of listing in an environment where debt financing through the banking system has remained a much easier and cheaper option. The number of investors that actively trade has not significantly increased and a small number of them

account for most of the market turnover. Other shortcomings are the lack of products, high transaction costs, long settlement cycle, insufficient attention to practicing good corporate governance by some issuers, poor investor education, under developed fund management industry, insufficient investor protection and exposure to broker risk. The future success of the CSE will depend on effectively and speedily addressing all of these issues and building the internal technical and human capacity of the CSE. It will also have to encourage and facilitate, foreign investor interest whilst implementing adequate safeguards to comply with international anti money laundering conventions and local legislation on "Know Your Customer (KYC)" and prevention of terrorist financing.

The existence of sound and stable macro economic conditions are a pre-requisite for the development of strong and deep capital markets and this aspect is largely outside the influence of the CSE. Also, in a country where a significant part of economic and business activity is still in the hands of the state, it is necessary for a politically acceptable way to be found whereby the capital markets can be progressively involved in these enterprises, without compromising on the current government policy of not relinquishing ownership control. However, while the government deals with the macro economic and policy issues, the CSE will need to address the other issues identified above.

Unfortunately, the present constitution of the CSE is in itself a hindrance to introducing some of the essential reforms. The broker-owned model has done well and the CSE has evolved into a financially and operationally strong

entity, but, we have now reached the point where the ownership or at least the decision-making mechanism of the CSE needs to be more closely aligned with the interests of its broader group of stakeholders. Such a repositioning will pave the way to speedily implementing the required reforms.

Increasing competition and reducing risks will inevitably lead to better and cheaper services to investors in Sri Lanka as has happened elsewhere, although there will be some pain experienced in the process. A fellow director of the CSE recalled the bold decision of the government, some years ago, to abolish import duty on textiles despite strong opposition from a protected local industry lobby. This move, although leading to the closure of several local manufacturers of sub-standard products, resulted in the medium term in positioning Sri Lanka as a centre of excellence for niche apparel products as well as promoting new investments in manufacturing textiles of internationally acceptable quality. The development of the capital market to its full potential too will require a similar bold approach and not incremental tinkering with the deficiencies within a model that appears to have reached its limitations.

The CSE and the Securities and Exchange Commission (SEC) already co-operate in many areas of market development but much more needs to be done. In the event the CSE is unable to carry out the required reforms due to its decision making structure, the SEC should not hesitate to use its wide regulatory powers to drive the process in the greater interests of the country. The SEC has recently formulated an ambitious 10 year strategic plan for capital market development. It is hoped that the governments in power and

Chairman's Message to Stakeholders

those entrusted with implementation of the plan from time to time in the 10 year period will proceed to do so without changing track, as it so often happens in Sri Lanka.

I would like to thank my colleagues on the Board for the contribution and the support given to me at all times and am confident that they will embark with enthusiasm on the task of developing the CSE to its full potential. In particular, I acknowledge with deep appreciation the dedication and invaluable advice and counsel of Messrs. Rienzie Wijetilleke and Eraj Wijesinghe, both Directors and past Chairmen of the CSE, who relinquish office after serving on the Board for over a decade. Mr. Hiran Mendis, the former Director General of the CSE, left for an overseas assignment and I thank him for the significant contribution he made to the development of the CSE over many years. Ms. Surekha Sellahewa succeeded him as the new CEO to provide leadership to the next phase of CSE's development and I thank her and the entire team at the CSE for their efforts during the year.

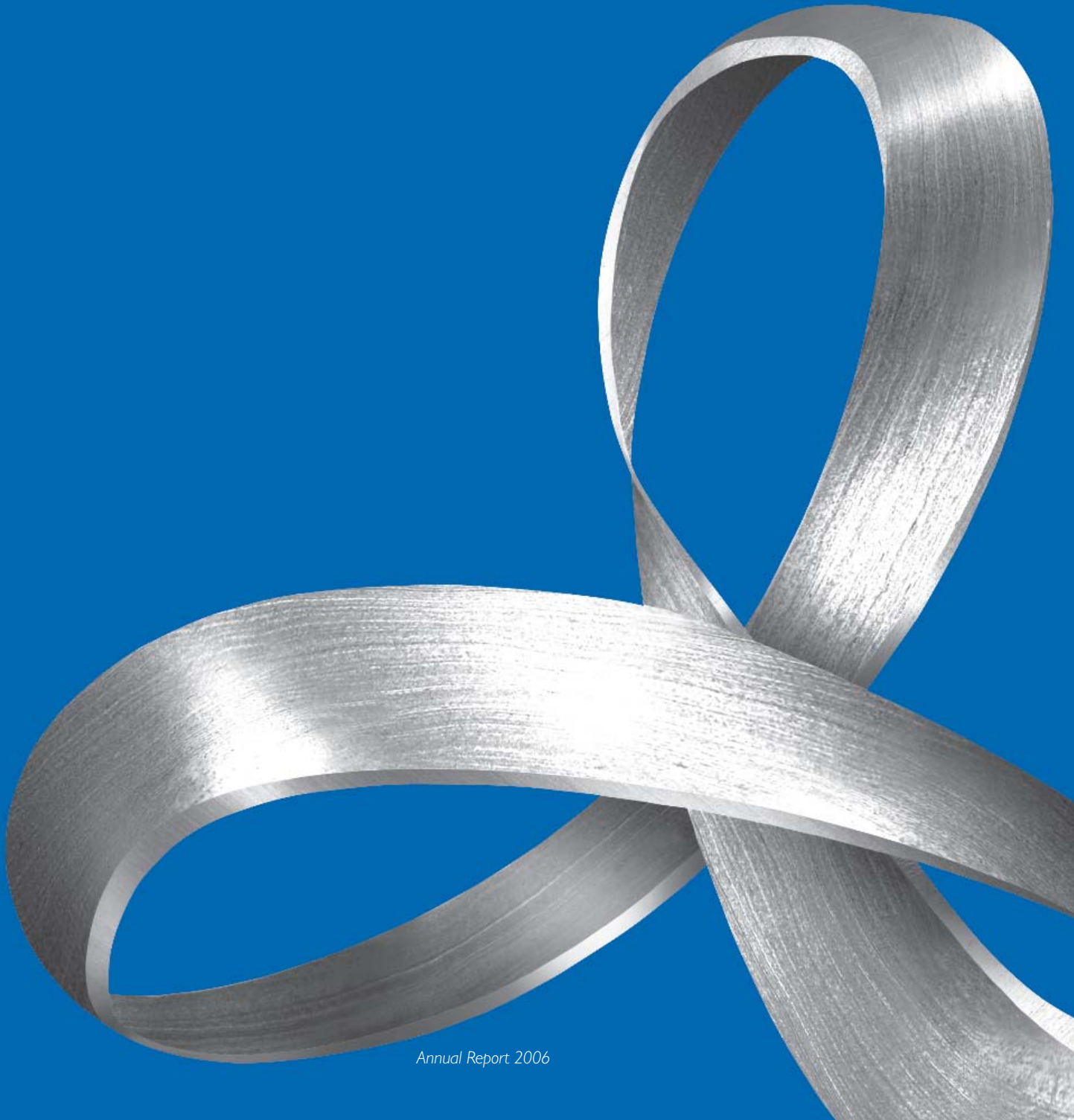
I also sincerely thank the Chairman and Director General of the SEC and senior officials of the Ministry of Finance, who have always been supportive of the CSE's efforts to develop the capital market. Above all, I thank the issuers of securities, the broker firms, other market intermediaries and the investors, without whose active participation, the existence of the CSE would be meaningless.



Nihal Fonseka
Chairman

3 July 2007

Chief Executive Officer's Review



Chief Executive Officer's Review

Market Performance

The Colombo Stock Exchange (CSE) enjoyed yet another great year in 2006. Both price indices, the All Share Price Index (ASPI) and the Milanka Price Index (MPI) reached their highest ever levels during the year. The ASPI reached its peak on 1st December by recording 2,789.8 points and the MPI reached its all time high on the same day, recording 3,795.2 points. The ASPI recorded a gain of 800.2 points or 41.6% during the year, while the MPI appreciated by 1,260.7 points or 51.4%.

The Telecommunication sector was the largest contributor to the growth of the ASPI in 2006, with a contribution of 16.7 percentage points and the Diversified sector was the second largest contributor, with a contribution of 6.1 percentage points. Dialog Telekom Ltd was the largest contributor to the growth in the ASPI in 2006, with a contribution of 12.3 percentage points, John Keells Holdings Ltd was the second largest with a contribution of 6.3 percentage points followed by Sri Lanka Telecom with a contribution of 3.3 percentage points. The top 15 companies have contributed to 32 percentage points of the index growth of 41.6%.

Annual Trading Statistics (Equity): 2001 to 2006 (Figure 01)						
	2001	2002	2003	2004	2005	2006
ASPI	621.0	815.1	1,062.1	1,506.9	1,922.2	2,722.4
% Change	38.7	31.2	30.3	41.9	27.5	41.6
MPI	1,031.0	1,374.6	1,897.8	2,073.7	2,451.1	3,711.8
% Change	47.6	33.3	38.0	9.3	18.1	51.4
Annual Turnover (Rs Mn)	13,905	30,183	73,657	59,052	114,599	105,154
Foreign Purchases (Rs Mn)	2,112	7,478	13,944	11,278	27,712	37,167
Foreign Sales (Rs Mn)	3,137	5,036	13,735	10,172	21,568	31,789
Daily Average Turnover (Rs Mn)	58	127	307	246	482	436
Shares Traded (No Mn)	747	1,220	2,255	2,752	5,128	3,912
Trades (No)	158,627	280,681	481,269	645,083	1,100,451	952,382
Market Cap (Rs Bn)	124.0	162.6	262.8	382.1	584.0	834.8
Market PER Year End (Times)	7.5	12.1	11.1	10.8	12.4	14.0
Turnover to Average Market Cap (%)	13.1	21.0	34.6	18.2	23.7	14.8
Dividend Yield (%)	6.8	4.3	3.1	3.2	2.7	2.2
Price to Book Value (Times)	0.8	0.9	1.1	1.3	1.7	2.0

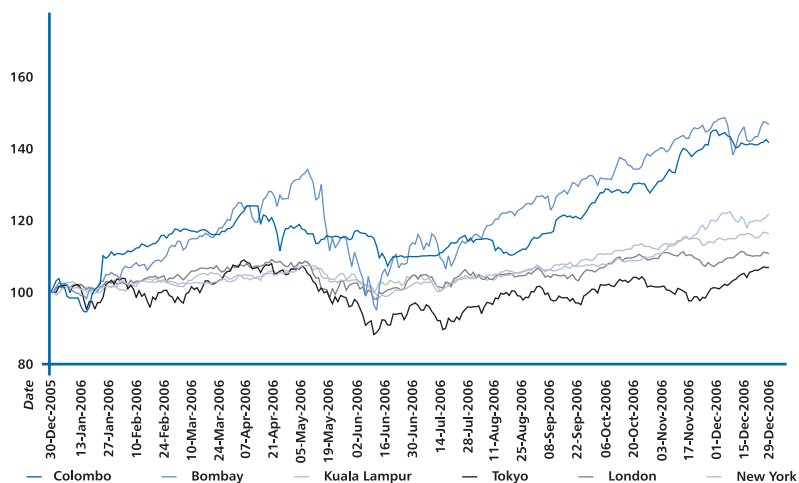
Source: Colombo Stock Exchange

(Figure 02)

Sector	2005		2006	
	Contribution to Growth in the ASPI (%)	Sector Index Growth (%)	Contribution to Growth in the ASPI (%)	Sector Index Growth (%)
Banks Finance & Insurance	4.51	37.68	4.79	34.92
Beverages Food & Tobacco	1.56	26.36	5.86	69.65
Constructions & Engineering	(0.01)	(4.92)	0.19	69.49
Chemicals & Pharmaceuticals	(0.02)	(3.75)	0.59	73.00
Footwear & Textiles	(0.00)	(0.82)	0.18	35.47
Hotels & Travels	(0.11)	(1.79)	0.38	6.73
Investment Trusts	0.08	15.32	0.27	41.07
Land & Property	1.16	54.57	0.28	13.07
Manufacturing	0.51	12.94	1.90	41.17
Motors	0.90	111.40	1.84	118.02
Oil Palms	0.71	28.52	0.26	11.36
Stores & Supplies	0.33	44.96	(0.03)	(5.51)
Services	0.09	39.52	(0.00)	(1.87)
Trading	0.06	7.67	0.38	41.66
Plantations	0.07	7.78	1.04	74.56
Diversified Holdings	3.17	21.14	6.17	35.87
Power & Energy	(0.52)	(21.52)	(0.34)	(17.96)
Health Care	0.35	28.77	1.10	66.06
Telecom	14.66	74.23	16.72	62.09
Information Technology	0.01	29.15	0.02	58.97
Total	27.50		41.6	

Source: Colombo Stock Exchange

Performance of the ASPI in 2006 *(Figure 03)*



Source: Colombo Stock Exchange

The sustained growth of the market price indices has resulted in Colombo being among the best performing stock markets in Asia for the 6th consecutive year.

The CSE closed the year, registering an average daily turnover of Rs. 436.3 Mn. The market capitalization also increased significantly in 2006. At the end of the year, the market capitalization was at Rs. 834.8 Bn, an increase of 42.9% from 2005.

Domestic investors continued to drive the market during the year, although their contribution to total purchases declined for the second consecutive year. Domestic investors accounted for 64.7% of total purchases in 2006 compared with 75.8% in 2005.

Foreign investors continued to be nett buyers in the market for the fifth consecutive year, with net purchases of Rs. 5.3 Bn, the second largest nett foreign inflow recorded at the CSE. Foreign investor contribution to total purchases increased from 24.2% in 2005 to 35.3% in 2006.

Fifteen listed companies raised Rs. 4.7 Bn by way of rights issues, Rs.1 Bn more than the amount raised in 2005.

The secondary market activity in both Corporate and Government debt was very low.

Chief Executive Officer's Review

Admission of Trading Members

The CSE admitted five new Trading Members in 2006, increasing the number of broker firms to 20. The Trading Members are expected to offer stock broking services in equity and debt, to both retail and institutional investors in Colombo and the outstations, introduce foreign and local investors to the market, provide fund management and corporate finance related services. The new Trading Members are:

- Capital Alliance Securities (Pvt.) Limited.
- First Capital Equities (Pvt.) Limited.
- SMB Securities (Pvt.) Limited.
- Taprobane Securities (Pvt.) Limited.
- Amana Securities Limited.

Four of the Trading Members commenced operations during the latter part of 2006 and Amana Securities Ltd commenced operations on 2nd January 2007.

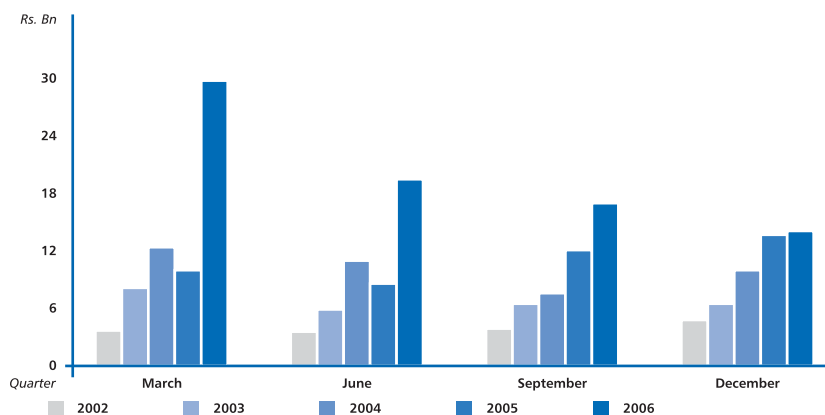
Listed Company Profitability

On the Corporate front, listed companies enjoyed a boost in their quarterly profits in 2006, as indicated in Figure 04.

Quarterly profits for 2006 appreciated by 80.9%, over that of 2005.

The quarterly corporate profits have shown a considerable growth since 2002, except during the first two quarters of 2005, due to the tsunami.

Quarterly Profits of Listed Companies: 2002 to 2006 (Figure 04)



Source: Colombo Stock Exchange

New listings

New listings were disappointing since only two companies were listed during the year. Vallibel Power Erathna Limited was listed by way of an IPO and Amana Takaful Limited by way of an Introduction.

Most Sri Lankan corporates heavily depend on the banking sector and their retained profits to fund development initiatives. There are significant growth opportunities on the new listings side, as there are a number of state-owned enterprises and large family-owned companies that have yet to tap the capital market for funding.

The CSE has embarked on a proactive approach to encourage listings by setting up of an Issuer Relations unit to aggressively promote new listings on the CSE amongst companies which are potential candidates for a listing.

Market Development

Presently the market is dominated and driven largely by local investors and the CSE is aware of the importance of maintaining a balance between the local and foreign investment.

The CSE conducted a road show for Fund Managers in Singapore, which showcased five leading listed companies. The CSE was subsequently invited to another global fund managers' forum also held in Singapore, which provided a further opportunity to promote our listed companies to fund managers globally.

Forging alliances with stock exchanges in the South Asian Region, facilitating the listing of new products such as index futures and overseas road shows are some of the planned initiatives.

On the local retail side of the business, the CSE will continue in its efforts to increase the number of investors trading in the CSE through our island-wide investor awareness programmes. However, the CSE is very mindful of promoting the market with responsibility and ensures that the concept of "Risk and Return" is addressed adequately at all investor education workshops.

Internal Audit

In November 2006, the CSE commenced an internal audit process to review the systems and controls in the Regulatory Affairs, Information Technology, Business Development, Finance & Administration, Human Resources and Clearing & Settlement Divisions of the CSE.

The internal audit function has been outsourced to MSL Audits (Pvt) Ltd, a subsidiary of Ernst & Young. These audits will assist the CSE to measure and evaluate the effectiveness of its systems & controls and furnish the Board and management with an analysis, and recommendations concerning the activities reviewed.

Appreciation

I like to place on record my deep appreciation to the Chairman and Board of Directors of the CSE for their valuable guidance and support. To the Management and Staff of the CSE, thank you very much for your unstinted efforts during the past year. You will be called upon to meet some very challenging tasks in the future, in order to develop the Sri Lankan capital market and I am confident that you will rise to the occasion.

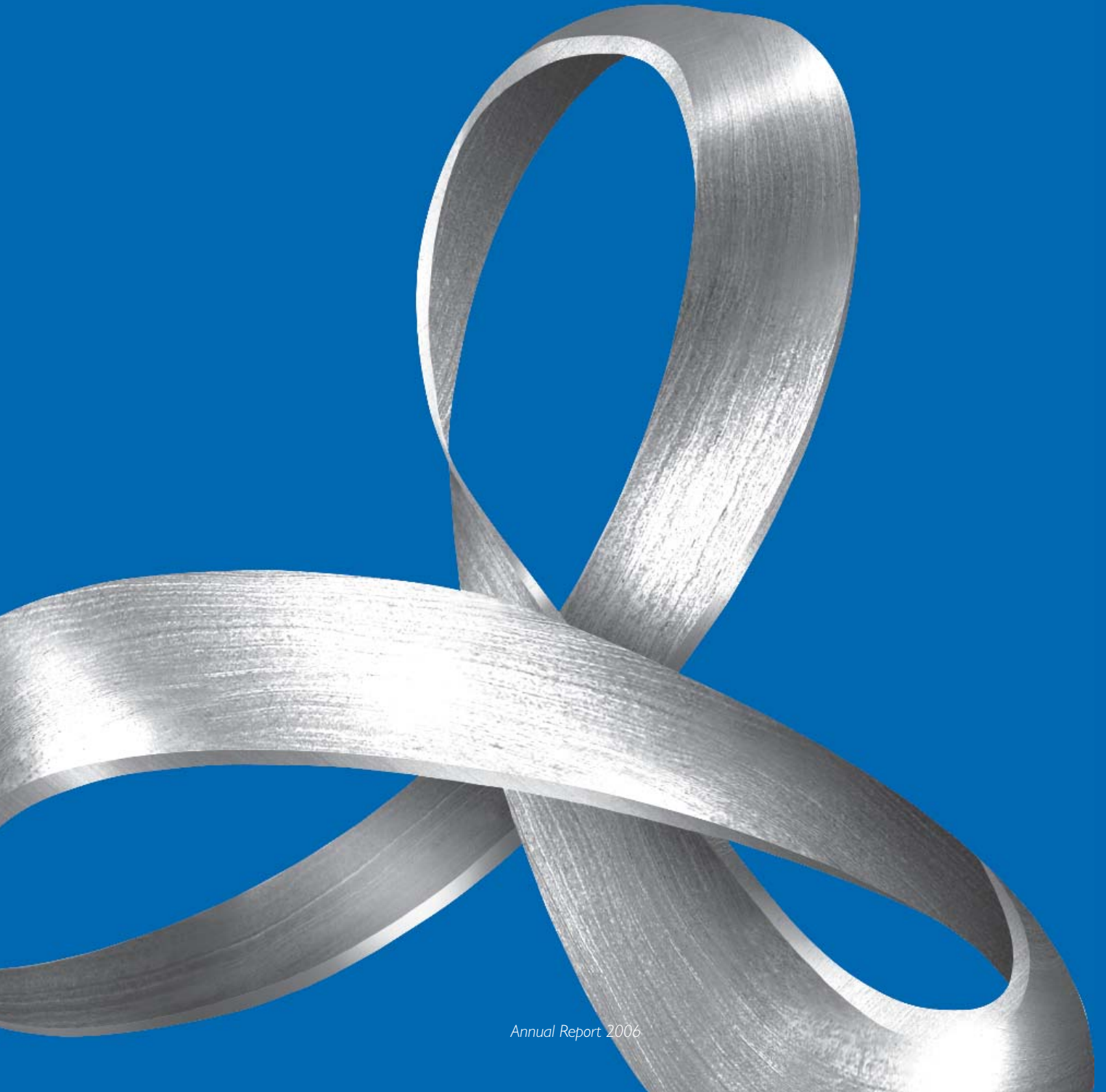
I also wish to thank the Chairman, Director General and staff of the SEC, the Member and Trading Member Firms and the listed companies for supporting the CSE in all its endeavours.



Surekha Sellahewa
Chief Executive Officer

3 July 2007

Operations Review



Regulatory Affairs

A complete review of the rules for broker firms was carried out during the year 2006. Rules and procedures adopted by other Exchanges in the South East Asian region have been taken into consideration when re-drafting the rules. We hope to implement the amended rules in 2007.

Amendments to the Listing Rules

During the year under review, the Listings Division continued to review and amend the CSE Listing Rules. The following are the salient features of the amendments to Listing Rules initiated by the CSE during the year 2006:

- Listing Rules were amended to include a minimum requirement of a public float of 10% for companies listing by way of an 'Introduction' and also for companies seeking a listing on the Second Board.
- The criteria for an issuer to obtain a listing through an 'Introduction', (whereby a company could list without having an IPO), was amended to include the requirement of a public float of 10% and a minimum of 100 shareholders. The rationale for the amendment is to increase the liquidity on the CSE.
- Posting refund payments to applicants in the case of an IPO was reduced from 15 market days to 12 market days to ensure issuers do not keep applicants funds for too long.

Market Surveillance

The Trading and Market Surveillance division has made six referrals relating to market malpractices to the SEC during the year 2006, after carrying out preliminary investigations.

Business Development Investor Relations

The CSE continued the Investor Education program throughout 2006, in the Western Province through the Colombo office and in the Southern, Central and North Western provinces through the CSE branch network. Seminars were conducted in other provinces as well.

The CSE conducted 294 seminars & workshops island-wide during the year, reaching approximately 14,000 existing and prospective investors. The Matara Branch conducted 27 investor seminars and 19 school seminars while the Kandy branch conducted 49 investor seminars and 15 school seminars. The Kurunegala branch conducted 67 investor seminars and 24 school seminars.

The CSE Investor Day concept was introduced in 2005 and saw the successful completion of two such events, in Panadura and Matale. Two such Investor Days were held in 2006 in Kurunegala and Kuliypitiya, attracting approximately 500 potential investors. Two other Investor Days held in Matara & Badulla attracted approximately 1,000 potential investors.

In order to measure the impact of seminars and other CSE events on turnover, the CSE uses an internal IT driven Marketing Effectiveness Measurement System (MEMS).

In MEMS, the National Identity Card numbers of participants, which are recorded at all CSE organized events and seminars are tracked. The turnover generated by new CDS accounts opened and accounts which have been dormant for more than one year are captured by this system.

It has been measured that the rate of conversion through CSE seminars and events held in 2005 and 2006 from non investor to active investor was 10% of investors. These new investors accounted for 7.5% of the total turnover generated by local individuals in 2006.

(Figure 01)

Impact of CSE Seminars and Other Events on Local Individuals (LI) Turnover 2006:		
Location	% From the Center/Branch LI Turnover	% From the Total LI Turnover
Colombo	7.8	6.9
Kandy	6.5	0.3
Matara	4.4	0.2
Kurunegala	5.1	0.1

Source: Colombo Stock Exchange

Operations Review

Student Education Program

The CSE facilitates special educational visits for students. These students are shown the CSE Trading Floor followed by a lecture and a documentary video. An informative booklet titled 'An Introduction to the Stock Market' is also distributed to the students, according to the language of their choice.

The number of student visits to the CSE reduced significantly during the second half of 2006, due to the prevailing security measures in Colombo. Approximately 3,000 students from 48 schools visited the CSE, as against 10,000 students in 2005. A majority were from the Western province, accounting for 40% of all visits to the CSE in 2006, while the Sabaragamuwa province accounted for 33% of the total number of student visitors.

CSE Trade Stalls

The CSE operated trade stalls at three events held in Colombo in 2006. The CSE conducted a trade stall at the Future Minds' Trade Fair. The CSE also conducted Trade Stalls at the Commonwealth Finance Ministers' Meeting in association with the SEC and at the South Asian Capital Markets Conference held in Colombo.

International Marketing

To increase the level of investment from Sri Lankan expatriates, the CSE initiated a series of international road shows in 2005. The CSE conducted road shows in 2005 in Dubai & Abu Dhabi, Melbourne, Sydney and Auckland with the objective of attracting Sri Lankan expatriates to the Colombo Stock Market

In November 2006, the CSE conducted a Fund Managers' conference in Singapore.

Four of the top listed companies were showcased at this forum titled "Explore the Potential". This investment forum was organized in association with the Sri Lanka High Commission in Singapore, and attracted interest from a significant number of Fund Managers as evidenced from a well attended forum. The participating listed companies had one to one meetings with some of the larger funds and several brokerage houses also had one to one meetings with foreign brokers and clients following the event.

As a sequel to the event, the CSE was invited to participate at an Emerging Markets Conference organized by Merrill Lynch in Singapore in February 2007.

The CSE also coordinated the first South Asian Capital Markets Conference held in Colombo in November 2006. It was organized by the South Asian Federation of Exchanges (SAFE), in association with the Bombay Stock Exchange (BSE). The objective of the conference was to promote interaction among regional capital markets and to explore cross border business opportunities and work towards closer regional integration.

The Conference was attended by a wide range of professionals from the South Asian capital markets, including stock exchanges, securities regulators, depositories, clearing companies, corporates and other connected financial institutions.

Information Dissemination

The Exchange received wide coverage in the local and international media in 2006. The CSE commenced a special live television broadcast of share prices and price indices on ITN every trading day from 9.30 a.m. to 2.30 p.m. from

May 2006. This service is designed to further empower the individual investor and is particularly useful in supporting the market broad basing initiative of the CSE to areas outside Colombo. The stock market ticker on TV has become popular among the retail investor community.

The CSE conducted numerous TV interviews during the year, varying from stock market awareness to market specific issues. Many press articles and advertisements were also published in local newspapers and business magazines. The CSE also received wide international media coverage in Singapore during the Fund Managers Conference in November 2006.

The stock market price list is published in all 3 English daily newspapers. The CSE will continue its efforts to have the daily price list published in all three languages.

Issuer Relations

In order to encourage new listings on the Exchange, an Issuer Relations unit was set up in November 2006.

A database of companies from selected business sectors which have the potential to list on the CSE have been identified. The CSE is visiting identified companies and initiating a dialog with the decision-makers of such companies.

A special seminar was organized by the CSE, in association with the Chamber of Construction Industry, for companies in the construction cluster in October 2006. This program offered Chairmen and CEO's of Construction companies an opportunity to learn about the benefits of investing and listing on the CSE and to meet representatives of the CSE, Member Firms and Investment Banks. The CSE

plans to organize further seminars of this nature for other identified sectors in the year 2007.

Branch Network

The CSE's branch network has been successful in attracting a significant number of individual investors into the market. In 2006, 2,668 new CDS accounts were opened through branches. This accounts for 18% of the total CDS accounts opened in the market. Presently, individual investors account for 37% of the total turnover. In 2006, the three branches accounted for 14.2% of all individual turnover of the CSE and 5.1% of the total market turnover. The Public Gallery at the Trading Floor of the CSE accounted for 2.2% of the total market turnover.

Currently, the branch network consists of 3 branches in Matara, Kandy and Kurunegala. A branch in Negombo is scheduled to commence operations on 1st August 2007.

In 2006, all three branches were upgraded to accommodate more stockbrokers and currently 8 broker offices have been provided with facilities in each branch office. The proposed Negombo branch will have facilities to accommodate 12 broker offices.

Product Development

Close Ended Funds

The CSE is in the process of finalizing rules to list Close Ended Funds as an exchange traded product. Close Ended Funds would provide an exit mechanism for the investors. The CSE has maintained a dialog with fund managers to encourage them to introduce Close ended funds as an exchange traded product.

Re-launching of Securities Borrowing & Lending (SBL)

The CSE is in the process of testing the new SBL system and hopes to implement the system this year. SBL will be an exchange traded product, which will be traded through the automated trading system.

CSE Indices

The CSE setup an index committee in November 2006 to review and redesign the price indices of the CSE, with a view of making the indices more representative of the market. The services of an external consultant have been obtained for the re designing.

Member Relations

Investment Advisor Certification

The Investment Advisor Certification is a mandatory requirement by the SEC for Investment Advisors of Member firms. The programme is also open to the general public. The programme is conducted by the Academy of Business Studies (ABS).

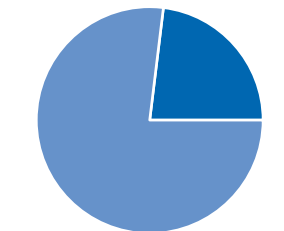
During the year 2006, three batches of 257 students were enrolled. The CSE conducted the programme in the Sinhala medium for the first time and enrolled a batch of 111 students in 2006.

The graph in Figure 02 indicates the registration trends in terms of broker and non broker students.

12 examinations were conducted during the year 2006. These exams consisted of Module 1 and Module 2, to facilitate first time candidates as well as repeaters.

During the year 2006, 30 students successfully completed the Certification, amounting to 17% of total registered

Investment Advisor Certification Registration in 2006 (Figure 02)



Source: Colombo Stock Exchange

students. The CSE has certified a total of 212 students since 2004.

Stockbroker Training at Branch Level

The CSE continued training the stock brokers in all 3 branches on new developments in the capital market. Several broker training programs were conducted in 2006.

Central Depository System (CDS)

Depository Activities

The number of securities held in the custody of the CDS increased by 15% from 7.3Bn to 8.4Bn in 2006. The CDS held 44% of the shares and 43% of the corporate debt securities issued by listed companies as at 31st December 2006.

The CDS opened 14,823 accounts in 2006, a decrease of 74% compared to 56,465 accounts opened in 2005. This may be attributed to the fact that there was only one IPO in the year 2006.

The CDS handled 71,154 deposits in 2006, which is a 64.6% decrease compared to 200,836 deposits in 2005. The number of trades cleared by the CDS during 2006 was 953,887.

Operations Review

Operational Activities of the CDS: 2001 to 2006 (Figure 03)						
	2001	2002	2003	2004	2005	2006
New Accounts (No)	5,067	11,016	21,440	21,348	56,465	14,823
Deposits (No)	24,718	62,010	95,878	104,870	200,836	71,154
Withdrawals (No)	404	447	471	315	205	212
Transfers (No)	11,201	14,110	15,349	12,877	17,872	18,535
Participants (No)	32	32	32	34	35	37
REGISTRATION STATUS						
Local Individuals (No)	252,742	260,260	274,847	290,340	334,085	343,697
Foreign Individuals (No)	1,482	1,593	1,783	2,044	2,377	2,487
Local Companies (No)	2,769	2,950	3,327	3,720	4,529	4,755
Foreign Companies (No)	2,671	2,817	2,956	3,047	3,174	3,305
Total No. of CDS Accounts (Including Multiple Reg.)	326,257	337,273	358,713	380,050	436,526	451,349
VALUE OF SECURITIES HELD						
By Domestic Clients (Rs Mn)	50,923	66,473	98,230	140,380	179,781	248,693
By Foreign Clients (Rs Mn)	12,242	19,470	37,829	54,652	79,999	121,383
Total Market Value Of Securities Held By CDS (Rs Mn)	63,166	85,943	136,059	195,032	259,780	370,076
VOLUME OF SECURITIES HELD						
By Domestic Clients (No. Mn)	1,879	2,165	2883	4,043	5,854	6,746
By Foreign Clients (No. Mn)	514	633	678	749	1,527	1,738
Total Volume Of Securities Held By CDS (No. Mn)	2,393	2,798	3,561	4,792	7,381	8,484

Source: Central Depository System

Trading the 'Beneficial Interest' of Government Securities in DEX

The CDS commenced its operations as a Direct Participant of the Scripless Securities Settlement (SSS) System, Real Time Gross Settlement System (RTGS) and Scripless Securities Depository (SSD) system of the Lanka Settle System operated by Central Bank of Sri Lanka from January 2006. The government securities of the account holders are held by the CDS in the 'Trust Account' in SSSS, in the name of the CDS. The 'beneficial interest' of such securities is recorded in the DEX system of the CSE. Subsequently such 'interest' is traded in DEX. The CDS

held 272 Mn government securities in the 'Trust Account' in SSSS as at 31st December 2006.

Review of Account Opening documentation

The CDS introduced a new documentation requirement for investors opening CDS accounts through participants, in order to verify customer identification requirements as set out in the Financial Transactions Reporting Act implemented in March 2006 to prevent money laundering and financing of terrorism.

Information Technology

Automated Trading System (ATS) Version 4

The new version of the ATS has been very stable and the system uptime has improved significantly from 99.6% in the previous year (2005) to 99.85% in 2006. This is primarily due to the fixing of the bugs in ATS 4 and the installation of a new release of the ATS software Version 4.12 in January 2006.

Network

The Wide Area Network (WAN) was further enhanced to enable the service providers to attend to any repairs while trading is in progress. The broker and the Exchange routers were replaced with new routers thus enabling CSE to utilize the latest technology available on the WAN. The Exchange is planning to upgrade the network equipment such that in the event of a failure of any network component, the connections will automatically be routed without any interruption to the service.

New Trading Members

The Trading Systems (ATS & DEX) and CDS were reconfigured to accommodate the new brokers. New leased circuits from the two service providers were installed facilitating the new members to trade from their own offices.

Oracle Database Upgrade

The Oracle database was upgraded to Oracle 9i and further upgrades to the database will be carried out in 2007 to bring it in line with the latest version (10g). Oracle 10g consists of many additional new features which will enhance the security and performance of the database and includes improved features for data warehousing. The Exchange is also considering the feasibility of implementing a data

warehouse to facilitate easy access and enhance the quality of the database.

CDS Forms and Reports

The CDS is currently working on a client server Oracle environment. The Exchange has planned to upgrade the CDS application to a browser based system enabling users to access the CDS via a browser. This would improve the application security of the CDS. Oracle has moved from client server to application server technology where software developed in Oracle is accessed through a browser.

Backup site

The CSE has tested the backup site operations of the trading system successfully with brokers submitting orders from their offices on a real time basis. The backup site has a scaled down server configuration that could handle the volumes of trades recorded by the CSE. A test system, which is identical to the production system, has been moved to the back up site so that in a long term contingency, the test system could be easily converted to be the production system.

Internet Trading

The IT Division has successfully tested and setup the interfaces for 13 brokers who have introduced internet trading and provided professional guidance for the development of internet trading. The testing was carried out in a test environment specifically created for this purpose.

Management Team

Chief Executive Officer

Mrs. Surekha Sellahewa

AGM - Business Development

Rajeeva Bandaranaike

AGM - Information Technology

Lalin Paranavitana

AGM - Regulatory Affairs

Renuke Wijayawardhane

Senior Manager Operations

Charita Dumbukola

**Senior Manager Finance &
Administration**

Mrs. Priyani Perera

Manager Business Development

Tushara Jayaratne

Manager Systems Operations

Chatura Kulatilaka

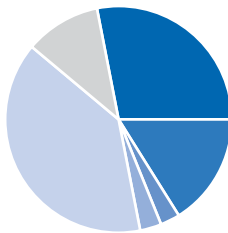
Manager Legal

Mrs. Renu Ranatunga

Human Resource Indicators

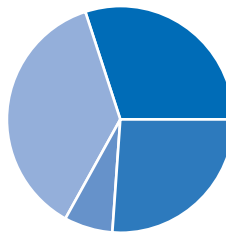
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Senior Mgmt	8	7	8	8	7	7	7	7	7	6
Management	3	6	8	6	5	5	9	10	12	10
Executives	23	20	24	29	26	30	32	53	52	56
Clerical	19	19	15	10	9	8	8	9	10	10
Other	9	9	9	8	8	8	9	8	8	9

Qualification Analysis



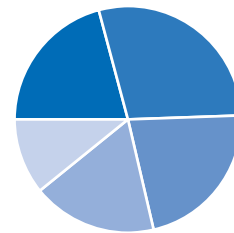
Management	28%
Others	16%
Law	3%
Economics	3%
IT/Engineering	39%
Finance & Accounting	11%

Service at CSE



Below 1 years	30%
1 to 5 years	37%
6 to 10 years	7%
More than 10 years	26%

Age Analysis



20 to 25 years	21%
26 to 30 years	28%
31 to 35 years	22%
36 to 40 years	18%
41 years & above	11%



Financial Information

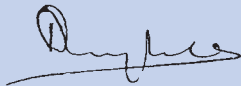
Report of the Audit Committee for the Year 2006	28
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Report of the Audit Committee for the Year 2006

The Audit Committee of the Colombo Stock Exchange (CSE) comprises 3 elected directors and 1 appointed director. All 4 members of the Audit Committee are Non-Executive Directors. The Senior Manager Finance & Administration and Assistant Manager Finance attends the meetings of the Audit Committee on invitation.

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, and such other related functions as the Board may delegate to the Committee. The Audit Committee also recommends the appointment of External Auditors.

The financial statements for the year ended 31st December 2006 were discussed and approved by the Committee at the Audit Committee meeting held on 23rd March 2007 for submission to the Board. The Committee reviewed & approved the draft letter of representation to be given to the External Auditors for the year 2006. The Committee recommended the inclusion of the Statement of Directors' Responsibilities in the 2006 Annual Report.



R.T. Wijetilake
Chairman - Audit Committee

19th April 2007

Statement of Directors' Responsibilities

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 2006 presented in this report have been prepared in accordance with the Sri Lanka Accounting Standards and the Companies Act No: 17 of 1982. In preparing the Financial Statements, the Directors have selected the appropriate accounting policies and have applied them consistently. Any material deviations have been disclosed and explained in the Financial Statements.

The Directors have adopted the going concern basis in preparing the Financial Statements. Having reviewed the CSE's budget for the year 2007, 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.

The Directors have provided the Auditors with every opportunity to carry out any reviews and tests that were considered appropriate and necessary for providing the audit opinion on the Financial Statements.

By order of the Board,

Secretarial Services Limited
Secretaries

Colombo
19th April 2007

Report Of The Auditors



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 242 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
Internet : www.lk.kpmg.com

TO THE MEMBERS OF COLOMBO STOCK EXCHANGE

We have audited the balance sheet of Colombo Stock Exchange as at 31st December 2006, the consolidated balance sheet of the Company and its subsidiaries as at that date, and the related statements of income, cash flows and changes in equity for the year then ended, together with the accounting policies and notes exhibited thereon.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. 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

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st December 2006, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, cash flow and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st December 2006, and of its profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and statements of income, cash flow and changes in equity and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act No 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31st December 2006, and of its profit and cash flows for the year then ended of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Directors' Interests in Contracts with the Company

According to the information made available to us, the directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st December 2006, except as stated in Note 23 to these financial statements.

Chartered Accountants

Colombo
19th April 2007

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R.N. Asirwatham FCA
S. Sirikananathan FCA
Ms. M. P. Perera FCA
C.P. Jayatilake FCA
W.W.J.C. Perera FCA
A.N. Fernando FCA
M.R. Mihular FCA
P.Y.S. Perera FCA
T.J.S. Rajakarier FCA
Ms. S. Joseph ACA

Balance Sheet

As at 31st December 2006	Note	Consolidated		CSE	
		2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
ASSETS					
Non Current Assets					
Property and Equipment	3	80,370,358	87,117,800	80,370,314	87,117,756
Intangible Assets	4	18,012,776	21,391,536	18,012,776	21,391,536
Capital Work in Progress	5	2,662,613	2,141,976	2,662,613	2,141,976
Development Cost	6	1	300,242	1	300,242
Investments in Subsidiary	7	-	-	50,025,000	50,025,000
Total Non Current Assets		101,045,748	110,951,554	151,070,704	160,976,510
Current Assets					
Inventories		5,165,242	4,247,580	5,113,640	4,200,160
Investments in Treasury Bills and Repos		1,061,756,490	711,747,201	1,061,756,490	711,747,201
Other Receivables	8	46,416,818	34,769,265	41,402,813	29,466,854
Cash and Cash Equivalents	9	17,477,526	13,502,262	17,312,675	13,497,262
Total Current Assets		1,130,816,076	764,266,308	1,125,585,618	758,911,477
Total Assets		1,231,861,824	875,217,862	1,276,656,322	919,887,987
EQUITY AND LIABILITIES					
Accumulated Fund		759,328,349	579,651,818	759,328,349	579,651,818
Revenue Reserve of CDS		45,128,417	31,286,028	-	-
Capital Reserve	10	49,975,000	49,975,000	-	-
Capital Redemption Reserve	10	30,000,000	20,000,000	-	-
Conference Fund Account	10	558,713	558,713	558,713	558,713
Total Capital and Reserves		884,990,479	681,471,559	759,887,062	580,210,531
Non Current Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	11	32,439,970	27,189,970	32,439,970	27,189,970
Employee Retirement Benefits	12	12,699,944	10,032,373	12,699,944	10,032,373
Deferred Grants	13	2,244,555	499,069	2,244,555	499,069
Deferred Tax Liabilities	14	2,803,323	1,846,600	2,803,323	1,846,600
Total Non Current Liabilities		50,187,792	39,568,012	50,187,792	39,568,012
Current Liabilities					
Brokers' Deposits in lieu of Bank Guarantee		207,720,000	105,870,000	201,500,000	105,750,000
Income Tax Payable		54,121,555	22,233,711	49,701,051	13,287,423
Other Payables	15	23,460,344	17,409,894	203,998,763	172,423,626
Tsunami Fund Payable		6,118,863	5,618,215	6,118,863	5,618,215
Bank Overdraft	9	5,262,791	3,046,471	5,262,791	3,030,180
Total Current Liabilities		296,683,553	154,178,291	466,581,468	300,109,444
Total Equity and Liabilities		1,231,861,824	875,217,862	1,276,656,322	919,887,987

The notes to the accounts form an integral part of these Financial Statements.

For and on behalf of the Board of Directors



A.N. Fonseka
Chairman



Gomin Dayasri
Director

Colombo, 19th April 2007

Income Statement

<i>For the year ended 31st December 2006</i>		Consolidated		CSE	
		2006	2005	2006	2005
	Note	Rs.	Rs.	Rs.	Rs.
Revenue	16	449,598,974	358,633,954	368,133,999	267,033,381
Other Income	17	84,101,657	53,476,104	83,188,560	52,987,949
		<u>533,700,631</u>	<u>412,110,058</u>	<u>451,322,559</u>	<u>320,021,330</u>
Personnel Cost	18	(73,157,394)	(61,439,704)	(60,266,779)	(51,600,565)
Depreciation and Amortisation		(37,738,693)	(38,647,655)	(37,738,693)	(38,647,655)
Other Operating Expenses	19	(122,846,696)	(123,429,323)	(90,623,788)	(93,601,960)
Profit before taxation		<u>299,957,848</u>	<u>188,593,376</u>	<u>262,693,299</u>	<u>136,171,150</u>
Taxation	20	(96,438,928)	(60,580,300)	(83,016,768)	(43,107,758)
Net profit for the year		<u><u>203,518,920</u></u>	<u><u>128,013,076</u></u>	<u><u>179,676,531</u></u>	<u><u>93,063,392</u></u>

The notes to the Accounts form an integral part of these Financial Statements.

Statement of Changes in Equity

For the year ended 31st December 2006

	Accumulated Fund Rs.	Revenue Reserve of CDS Rs.	Capital Reserve Rs.	Capital Redemption Reserve Rs.	Conference Fund Account Rs.	Total Rs.
CONSOLIDATED						
Balance as at 1st January 2005	486,588,426	6,336,344	49,975,000	10,000,000	558,713	553,458,483
Net Profit for the year	128,013,076	-	-	-	-	128,013,076
Transferred to/(from) during the year	-	(10,000,000)	-	10,000,000	-	-
Revenue Profit of CDS for the year	(34,949,684)	34,949,684	-	-	-	-
Balance as at 31st December 2005	579,651,818	31,286,028	49,975,000	20,000,000	558,713	681,471,559
Net Profit for the year	203,518,920	-	-	-	-	203,518,920
Transferred to/(from) during the year	-	(10,000,000)	-	10,000,000	-	-
Revenue Profit of CDS for the year	(23,842,389)	23,842,389	-	-	-	-
Balance as at 31st December 2006	759,328,349	45,128,417	49,975,000	30,000,000	558,713	884,990,479

	Accumulated Fund Rs.	Conference Fund Account Rs.	Total Rs.
CSE			
Balance as at 1st January 2005	486,588,426	558,713	487,147,139
Net Profit for the year	93,063,392	-	93,063,392
Balance as at 31st December 2005	579,651,818	558,713	580,210,531
Net Profit for the year	179,676,531	-	179,676,531
Balance as at 31st December 2006	759,328,349	558,713	759,887,062

The notes to the Accounts form an integral part of these Financial Statements.

Consolidated Cash Flow Statement

		Consolidated		CSE	
		2006	2005	2006	2005
For the year ended 31st December 2006		Rs.	Rs.	Rs.	Rs.
Note					
Cash Flows from Operating Activities					
		299,957,848	188,593,376	262,693,299	136,171,150
Net Profit before Taxation					
Adjustments For :					
Depreciation / Amortisation	3/4	37,438,452	38,347,415	37,438,452	38,347,415
Interest Income	17	(78,244,488)	(48,256,633)	(78,244,488)	(48,256,633)
Amortisation of Deferred Grant	13	(1,134,514)	(4,082,010)	(1,134,514)	(4,082,010)
Amortisation of Development Cost	6	300,241	300,240	300,241	300,240
(Profit) / Loss on Sale of Property & Equipment		(60,839)	(87,406)	(60,839)	(87,406)
Property & Equipment / Intangible Assets Written Off		-	1,814,338	-	1,814,338
Gratuity Provision	12	4,909,061	2,115,547	4,909,061	2,115,547
Provision for Bad Debts		111,402	1,086,815	109,512	430,445
Operating Profit before Working Capital Changes		263,277,163	179,831,682	226,010,724	126,753,086
(Increase) / Decrease in Inventories		(917,662)	(2,802,042)	(913,480)	(2,838,525)
(Increase) / Decrease in Other Receivables	8	(11,758,956)	(3,028,687)	(12,045,471)	(559,979)
Increase / (Decrease) in Other Payables	15	6,506,598	2,590,509	32,031,284	45,158,486
Increase / (Decrease) in Broker Deposits		107,100,000	75,370,000	101,000,000	75,250,000
Cash Generated from Operations		364,207,143	251,961,462	346,083,057	243,763,068
Income Tax Paid		(55,769,909)	(31,242,634)	(37,821,965)	(23,207,691)
Gratuity Paid		(2,241,490)	(169,000)	(2,241,490)	-
Net Cash Flow from Operating Activities		306,195,744	220,549,828	306,019,602	220,555,377
Cash Flow from Investing Activities					
Interest Income		57,428,624	36,151,819	57,428,624	36,151,819
Purchase of Property & Equipment and Intangible Assets		(27,837,324)	(53,937,264)	(27,837,324)	(53,937,264)
Proceeds from Sale of Property & Equipments		109,774	87,421	109,774	87,421
(Increase) / Decrease in Deposits & Treasury Bills & Bonds		(337,017,874)	(208,854,422)	(337,017,874)	(208,854,422)
Net Cash Flow from Investing Activities		(307,316,800)	(226,552,446)	(307,316,800)	(226,552,446)
Cash Flow from Financing Activities					
Grants Received	13	2,880,000	4,500,000	2,880,000	4,500,000
		2,880,000	4,500,000	2,880,000	4,500,000
Net Increase in Cash and Cash Equivalents		1,758,944	(1,502,618)	1,582,802	(1,497,069)
Cash and Cash Equivalents at beginning of the Year		10,455,791	11,958,409	10,467,082	11,964,151
Net Cash and Cash Equivalents at end of the Year	9	12,214,735	10,455,791	12,049,884	10,467,082

The notes to the Accounts form an integral part of these Financial Statements.

Notes to the Financial Statements

1 CORPORATE INFORMATION

(A) Domicile and Legal Form

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.

(B) 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 traded in the Colombo Stock Exchange and act as a depository for such securities.

(C) Number of Employees

The number of employees at the end of the year was 87 (88 in 2005).

2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the company for the year ended 31st December 2006 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 were authorised for issue by the Directors on 19th April 2007.

(A) Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

(B) Basis of preparation

The financial statements are presented in Rupees. They are prepared on the historical cost basis. The accounting

policies have been consistently applied by the Colombo Stock Exchange.

(C) Basis of consolidation

(i) 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 statement.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains/losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(D) Foreign Currency

Transactions in foreign currencies are translated to 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 Rupees at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(E) Property and Equipment

Items of property and equipment are stated at cost less accumulated depreciation.

(i) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items 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	4 years
Telephones	4 years

(ii) Subsequent expenditure

Subsequent expenditure on property and equipment is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

(F) 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 Standard No. 37 on Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortization.

(i) Amortisation

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

The estimated useful lives are as follows:

Computer Software	5 years
-------------------	---------

(ii) Subsequent expenditure

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

(G) Development Costs

Expenditure on development activities, whereby a plan or design for the production of new or substantially improved processes is capitalised if the

process is commercially feasible and the group has sufficient resources to complete the development. Capitalised development expenditure is stated at cost less accumulated amortisation over the five year period.

(H) Investments

Investment in subsidiary is held at cost. Treasury Bills and Bonds are stated at their cost plus accrued interest component.

(I) Inventories

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

(J) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and Treasury Bill over-night repos. 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.

(K) Employee benefits

(i) Defined contribution plans

Obligations for contribution plan are recognized as an expense in the income statement. The Company & employees contribute to the Provident Fund in terms of the EPF Act No. 15 of 1958 as amended. The company also contributes to the Employees Trust Fund in terms of the ETF Act No. 46 of 1980 as amended.

(ii) Defined benefits plans

Provision has been made in the accounts for retiring gratuities payable under the Payment of Gratuity Act No. 12 of 1983, for employees completing more than one year of service with the company.

(L) 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.

(M) Trade and other payables

Trade and other payables are stated at their cost.

(N) Grants

Grants that compensate the Group for expenses incurred are recognised 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 recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

(O) Revenue

Revenue is principally recognised on an accrual basis in terms with Sri Lanka Accounting Standard No. 29.

(P) Expenses

Expenses incurred are charged to income and expenditure account in the year in which it is incurred.

(Q) Income 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. 38 of 2000 and amendments thereto.

(R) Deferred Taxation

Deferred Tax is provided using the Balance Sheet Liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The

amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantiality enacted at the balance sheet date.

(S) Comparative information

Comparative figures are restated to conform with the current year presentation and disclosed as notes to the accounts.

Notes to the Financial Statements Contd.

	Furniture & Fittings	Computers & Office Equipment	Motor Vehicles	Telephones	Total 31.12.06	Total 31.12.05
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
3. PROPERTY & EQUIPMENT - CONSOLIDATED						
Cost as at 1.1.06	39,879,810	172,566,777	13,077,523	4,470,366	229,994,476	208,941,877
Additions	7,308,776	15,239,555	-	788,653	23,336,984	68,346,131
Assets Written Off	-	-	-	-	-	(30,547,657)
Disposals / Transfers	(15,315)	(29,126,109)	-	(333,480)	(29,474,904)	(16,745,875)
Cost as at 31.12.06	47,173,271	158,680,223	13,077,523	4,925,539	223,856,556	229,994,476
Accumulated Depreciation						
as at 1.1.06	26,137,945	104,013,224	8,698,850	4,026,657	142,876,676	157,138,962
Charge for the year	3,380,180	22,975,520	3,268,253	324,036	29,947,989	31,216,906
Assets Written Off	-	-	-	-	-	(28,733,352)
Disposals / Transfers	(15,314)	(29,084,436)	-	(238,717)	(29,338,467)	(16,745,840)
Accumulated Depreciation						
as at 31.12.06	29,502,811	97,904,308	11,967,103	4,111,976	143,486,198	142,876,676
Written Down Value as at 31.12.06	17,670,460	60,775,915	1,110,420	813,563	80,370,358	
Written Down Value as at 31.12.05	13,741,865	68,553,553	4,378,673	443,709		87,117,800
PROPERTY & EQUIPMENT - CSE						
Cost as at 1.1.06	39,488,493	169,569,621	13,077,523	4,409,516	226,545,153	205,492,554
Additions	7,308,776	15,239,555	-	788,653	23,336,984	68,346,131
Assets Written Off	-	-	-	-	-	(30,547,657)
Disposals / Transfers	(15,315)	(29,126,109)	-	(333,480)	(29,474,904)	(16,745,875)
Cost as at 31.12.06	46,781,954	155,683,067	13,077,523	4,864,689	220,407,233	226,545,153
Accumulated Depreciation						
as at 1.1.06	25,746,651	101,016,087	8,698,850	3,965,809	139,427,397	153,689,683
Charge for the year	3,380,180	22,975,520	3,268,253	324,036	29,947,989	31,216,906
Assets Written Off	-	-	-	-	-	(28,733,352)
Disposals/Transfers	(15,314)	(29,084,436)	-	(238,717)	(29,338,467)	(16,745,840)
Accumulated Depreciation						
as at 31.12.06	29,111,517	94,907,171	11,967,103	4,051,128	140,036,919	139,427,397
Written Down Value as at 31.12.06	17,670,437	60,775,896	1,110,420	813,561	80,370,314	
Written Down Value as at 31.12.05	13,741,842	68,553,534	4,378,673	443,707		87,117,756

	Consolidated		CSE	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
4 INTANGIBLE ASSETS				
Cost				
As at the 1.1.06	77,905,960	80,653,835	77,905,960	80,653,835
Acquired/Incurred	4,111,703	-	4,111,703	-
Written Off	-	(2,747,875)	-	(2,747,875)
As at the 31.12.06	<u>82,017,663</u>	<u>77,905,960</u>	<u>82,017,663</u>	<u>77,905,960</u>
Amortisation				
Amortisation as at 1.1.06	56,514,424	52,131,781	56,514,424	52,131,781
Provision for the year	7,490,463	7,130,509	7,490,463	7,130,509
Written Off	-	(2,747,866)	-	(2,747,866)
Amortised as at the 31.12.06	<u>64,004,887</u>	<u>56,514,424</u>	<u>64,004,887</u>	<u>56,514,424</u>
Net Book Value	<u>18,012,776</u>	<u>21,391,536</u>	<u>18,012,776</u>	<u>21,391,536</u>

Intangible assets are the application software used in the trading, clearing, settlement, accounting and mail systems of the Colombo Stock Exchange.

	Furniture & Fittings Rs.	Computers & Office Equipment Rs.	Intangible Assets Rs.	Total 31.12.06 Rs.	Total 31.12.05 Rs.
5 CAPITAL WORK IN PROGRESS					
Cost as at 1.1.06	2,141,976	-	-	2,141,976	14,748,069
Incurred during the year	1,626,275	1,364,401	1,298,212	4,288,888	2,141,976
Transfers	(3,768,251)	-	-	(3,768,251)	(14,748,069)
Cost as at 31.12.06	<u>-</u>	<u>1,364,401</u>	<u>1,298,212</u>	<u>2,662,613</u>	<u>2,141,976</u>

	Consolidated		CSE	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
6 DEVELOPMENT COST				
Development Cost	300,242	600,482	300,242	600,482
Charged during the Year	(300,241)	(300,240)	(300,241)	(300,240)
	<u>1</u>	<u>300,242</u>	<u>1</u>	<u>300,242</u>

This relates to the cost incurred in promoting the Debt Trading System (DEX) of the CSE with the participation of all its member firms.

Notes to the Financial Statements Contd.

	Consolidated		CSE	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
7 INVESTMENTS IN SUBSIDIARY				
Central Depository Systems (Pvt) Ltd.				
5,000,000 Ordinary Shares of Rs. 10/- each.	-	-	25,000	25,000
5,000,000 Redeemable Preference Shares of Rs. 10/- each	-	-	50,000,000	50,000,000
	<u>-</u>	<u>-</u>	<u>50,025,000</u>	<u>50,025,000</u>
8 OTHER RECEIVABLES				
Trade Debtors	9,755,561	8,562,911	5,282,798	3,292,471
Provision for Doubtful Debts	(726,851)	(1,216,815)	(669,956)	(560,445)
Commission on Brokerage Receivable	2,518,448	2,704,076	1,920,311	2,015,735
Prepayments	15,481,475	12,983,796	15,481,475	12,983,796
Advance Payments	395,713	242,192	395,713	242,192
Refundable Deposits	9,208,509	7,780,593	9,208,509	7,780,593
Sundry Debtors	1,843,998	534,734	1,843,998	534,734
Other Receivable	1,994,912	497,130	1,994,912	497,130
Staff Loans	5,945,053	2,680,648	5,945,053	2,680,648
	<u>46,416,818</u>	<u>34,769,265</u>	<u>41,402,813</u>	<u>29,466,854</u>
9 CASH AND CASH EQUIVALENTS				
Treasury Bill Overnight Repos	16,608,630	13,150,000	16,608,630	13,150,000
Cash at Bank	671,456	182,262	539,045	182,262
RTGS Account	27,440	-	-	-
Cash in Hand	170,000	170,000	165,000	165,000
Cash & Cash Equivalents	<u>17,477,526</u>	<u>13,502,262</u>	<u>17,312,675</u>	<u>13,497,262</u>
Bank Overdraft	(5,262,791)	(3,046,471)	(5,262,791)	(3,030,180)
Net Cash & Cash Equivalents	<u>12,214,735</u>	<u>10,455,791</u>	<u>12,049,884</u>	<u>10,467,082</u>

10 RESERVES & FUND**Capital Reserve**

This represents 4,997,500 Ordinary Shares of Rs.10/- each issued by CDS on capitalisation of its Revenue Reserves.

Capital Redemption Reserve

This represents the fund created in order to redeem the preference shares of CDS within a period of 5 years.

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	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
11 BROKER DEPOSITS IN LIEU OF BANK GUARANTEE				
Broker Deposits (Note 11.1)	31,500,000	26,250,000	31,500,000	26,250,000
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
	<u>32,439,970</u>	<u>27,189,970</u>	<u>32,439,970</u>	<u>27,189,970</u>

11.1 This is the minimum cash deposit that the brokers are required to maintain.

	2006	2005	2006	2005
12 EMPLOYEE RETIREMENT BENEFITS				
Balance b/f as at 1/1/06	10,032,373	8,085,826	10,032,373	8,085,826
Provision during the year	4,909,061	2,115,547	4,909,061	2,115,547
Payments made during the year	(2,241,490)	(169,000)	(2,241,490)	(169,000)
Balance c/f as at 31/12/06	<u>12,699,944</u>	<u>10,032,373</u>	<u>12,699,944</u>	<u>10,032,373</u>

12.1 The Gratuity liability is not externally funded. Sri Lanka Accounting Standard 16 requires the cost of providing retirement benefit to be determined on an Accrued Benefit/Projected benefit valuation method. The directors are of the view that charges on either basis will not be significantly different to what has been charged to the income and expenditure account, and have used the extension granted by the Accounting Standards Committee for the basis of computation of the liability.

	Consolidated		CSE	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
13 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 13.1)				
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

Notes to the Financial Statements Contd.

	Consolidated		CSE	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
13 Deferred Grants Contd.				
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	-
	<u>106,292,942</u>	<u>103,412,942</u>	<u>106,292,942</u>	<u>103,412,942</u>
Amortisation of Deferred Grant				
Balance b/f as at 1/1/06	(102,913,873)	(98,831,863)	(102,913,873)	(98,831,863)
Write back during the year	(1,134,514)	(4,082,010)	(1,134,514)	(4,082,010)
	<u>(104,048,387)</u>	<u>(102,913,873)</u>	<u>(104,048,387)</u>	<u>(102,913,873)</u>
Balance carried forward c/f as at 31/12/06	<u>2,244,555</u>	<u>499,069</u>	<u>2,244,555</u>	<u>499,069</u>

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

14 DEFERRED TAX LIABILITIES**Recognised deferred tax liabilities**

Deferred Tax Liabilities are attributable to following item :

Property & Equipment	6,613,306	4,856,312	6,613,306	4,856,312
Employee Retirement Benefit	(3,809,983)	(3,009,712)	(3,809,983)	(3,009,712)
	<u>2,803,323</u>	<u>1,846,600</u>	<u>2,803,323</u>	<u>1,846,600</u>

15 OTHER PAYABLES

Interest Payable to Brokers	2,656,795	1,534,313	2,656,795	1,534,313
Current Account with CDS (Pvt) Ltd.	-	-	180,808,730	155,117,232
Payments Received in Advance	421,388	247,755	421,388	247,755
Sundry Creditors & Accrued Expenses	20,382,161	15,627,826	20,111,850	15,524,326
	<u>23,460,344</u>	<u>17,409,894</u>	<u>203,998,763</u>	<u>172,423,626</u>

	Consolidated		CSE	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
16 REVENUE				
Commission on Brokerage	280,137,323	311,726,531	215,940,143	240,549,223
Listing Fees	14,606,250	14,428,750	14,606,250	14,428,750
Quotation Fees	1,412,701	1,828,558	1,412,701	1,828,558
Brokers Fees	8,673,500	7,885,000	8,673,500	7,885,000
Trading Member Fees	125,000,000	-	125,000,000	-
Charges for Remote Data Link	561,000	540,000	561,000	540,000
Charges for Computer Information	1,940,405	1,801,850	1,940,405	1,801,850
Listed Company Fees	14,290,545	16,516,140	-	-
Custodian Bank Fees	2,977,250	3,907,125	-	-
	<u>449,598,974</u>	<u>358,633,954</u>	<u>368,133,999</u>	<u>267,033,381</u>
17 OTHER INCOME				
Interest Income	78,244,488	48,256,633	78,244,488	48,256,633
Amortization of Deferred Grant	1,134,514	4,082,010	1,134,514	4,082,010
Profit/(Loss) on Disposal of Property & Equipment	60,839	87,406	60,839	87,406
Miscellaneous Income	4,661,816	1,050,055	3,748,719	561,900
	<u>84,101,657</u>	<u>53,476,104</u>	<u>83,188,560</u>	<u>52,987,949</u>
18 PERSONNEL COST				
Salaries	49,542,709	41,624,358	40,590,658	34,877,762
Ex Gratia Payment	11,934,494	12,690,991	9,468,985	10,537,943
Terminal Benefits (Gratuity)	4,982,299	2,115,547	4,420,808	1,756,848
Staff Welfare	3,221,637	2,186,556	2,678,134	1,853,773
Medical Expenses	1,516,855	964,839	1,260,955	820,113
Transport & Traveling	1,959,400	1,857,413	1,847,239	1,754,126
	<u>73,157,394</u>	<u>61,439,704</u>	<u>60,266,779</u>	<u>51,600,565</u>
19 OTHER OPERATING EXPENSES				
Administration Expenses	27,705,349	20,201,711	18,561,823	14,817,728
Rent	23,667,632	23,522,642	19,501,822	19,919,091
Stationery	7,626,205	7,738,918	1,451,689	1,356,678
Maintenance Costs	30,844,079	23,611,259	24,120,580	16,921,857
Local Training	1,156,521	636,720	961,411	541,212
Foreign Training / Foreign Traveling	2,295,490	3,108,623	1,856,572	2,494,146
Directors Fees	40,500	39,500	40,500	39,500
Auditors Remuneration	260,000	220,000	150,000	130,000
Marketing Expenses	10,909,533	32,151,265	8,591,059	26,026,820
Professional Charges & Subscription	10,287,505	8,523,884	10,092,050	8,401,047
Rebate on Internet Trading	7,866,757	-	5,121,151	-

Notes to the Financial Statements Contd.

	Consolidated		CSE	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
19 Other Operating Expenses Contd.				
Stamp Duty	75,723	-	65,619	-
Write Off / Provision for Bad Debts	111,402	1,549,715	109,512	890,945
Tsunami Relief Contribution	-	310,748	-	248,598
Property & Equipment/Intangible Assets Written Off	-	1,814,338	-	1,814,338
	<u>122,846,696</u>	<u>123,429,323</u>	<u>90,623,788</u>	<u>93,601,960</u>
20 TAXATION				
Current Tax Expenses:				
Current year	93,542,217	60,783,186	80,363,122	43,639,147
Under/(Over) Provision in prior years	1,939,988	370,545	1,696,923	42,042
	<u>95,482,205</u>	<u>61,153,731</u>	<u>82,060,045</u>	<u>43,681,189</u>
Deferred Tax Expenses:				
Origination & Reversal of Timing differences	956,723	(573,431)	956,723	(573,431)
	<u>96,438,928</u>	<u>60,580,300</u>	<u>83,016,768</u>	<u>43,107,758</u>
Reconciliation of Effective Tax Rates				
Accounting Profit	299,957,848	188,593,376	262,693,299	136,171,150
Tax at the domestic rate (Note 20.1)	91,850,582	57,888,568	78,807,990	40,851,345
Tax effect of expenses that are not deductible for tax purposes	11,918,053	12,204,914	11,918,053	12,204,914
Effect of Tax on Capital Allowances	(11,722,017)	(10,069,563)	(11,722,017)	(10,069,563)
Disallowed Provisions	1,495,599	759,267	1,359,096	652,451
Tax on profits for the period	<u>93,542,217</u>	<u>60,783,186</u>	<u>80,363,122</u>	<u>43,639,147</u>
Effective Tax Rate (%)	31	32	31	32

20.1 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.

Notional Credit for WHT on Government Securities on Secondary Market Transactions

As per the Inland Revenue Act No.38 of 2000 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. 7,824,449/- (Rs. 4,825,663/- in 2005)

21 CONTINGENCIES & COMMITMENTS

Action has been filed in the Labour tribunal by a former employee of the CSE claiming reinstatement. The CSE is contesting the action. The Order is due on 8th May 2007.

Case bearing No. 37623/MR has been filed in the District Court of Colombo against the CSE by a member firm. Damages have been prayed for against the CSE and the matter is being contested. The Trial commenced on 21st October 2005. Further hearing has been fixed for 3rd May 2007.

Case bearing No. 7408/SPL has been filed in the District Court of Colombo against the CSE on 5th October 2005 by a Listed Company. The interim relief sought against CSE was refused by Court. Subsequently CSE filed its Answer and the statement of objections and the matter has been fixed for inquiry. The Plaintiff has prayed to obtain cost of the action from the CSE. The Plaintiff withdrew the case without the liberty to file a fresh case subject to taxed costs.

22 CAPITAL COMMITMENTS

There are no capital commitments as at the balance sheet date other than those disclosed under Note 5 - Capital Work in Progress.

23 DIRECTORS INTEREST IN CONTRACTS

Mr. M. Eraj Wijesinghe, Director of the CSE is also Chairman of Bartleet Financial Services Ltd.

Mr. Anthony A. Page, Director of the CSE is also Chairman of Cargills (Ceylon) Ltd and Copyline (Pvt) Ltd and a Director of Kalamazoo Systems Ltd and Directories Lanka (Pvt) Ltd.

Mr. M. M. Udeshi, Director of the CSE is also a Director of Siedles (Pvt) Ltd.

Mr. Rienzie T. Wijetilleke, Director of the CSE is also Chairman of HNB Securities (Pvt) Ltd.

All the Directors of the CSE are also Directors of the Central Depository Systems (Private) Limited.

Refer Note 24 for other disclosures.

24 RELATED PARTY TRANSACTIONS

The company incurred a cost of Rs.12,142,410/- as salaries and other related cost for CEO & AGMs during the year. They are provided with a company maintained car. The company has provided a sum of Rs.5,896,500/- as gratuity provision during the year for the CEO & AGMs.

CSE paid Rs.1,837,770/- to Bartleet Financial Services Ltd on account of Rent and Electricity for the Matara Branch premises during the year.

CSE paid Rs.189,278/- on account of pantry provisions to Cargills (Ceylon) Ltd, paid Rs. 2,540,730/- and Rs. 1,835,898/- on account of printing CSE publications to Copyline (Pvt) Ltd and Kalamazoo Systems Ltd respectively and paid Rs. 121,406/- on account of listings in Yellow Pages to Directories Lanka (Pvt) Ltd during the year.

CSE paid Rs. 92,401/- to Siedles (Pvt) Ltd on account of computer stationery during the year.

CSE had purchased Rs. 185,000,000/- worth of Treasury Bill Repos from HNB Securities (Pvt) Ltd and earned interest amounting to Rs. 1,066,242 /- during the year.

CSE apportioned Rs. 36,526,946/- during the year to Central Depository Systems (Private) Limited as expenses.

Also refer Note 23 to the accounts.

25 SUBSEQUENT EVENTS

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

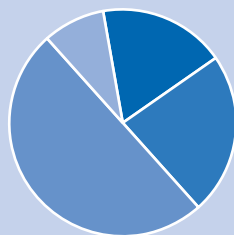
26 DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors take the responsibility for the preparation and presentation of these financial statements.

Key Financial Indicators

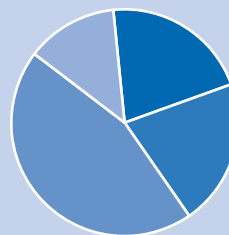
	2006	%	2005	%
Value Added				
Gross Income	533,700,631		412,110,058	
Less Cost of Providing Services	(122,119,845)		(122,212,508)	
Provision for Doubtful Debts	(726,851)		(1,216,815)	
	<u>410,853,935</u>		<u>288,680,735</u>	
Distribution of Value Added				
To Employees	73,157,394	17.8	61,439,704	21.3
To Government				
Taxation	96,438,928	23.5	60,580,300	21.0
Retained in the Organisation				
Retained Profits	203,518,920	49.5	128,013,076	44.3
Depreciation	37,738,693	9.2	38,647,655	13.4
	<u>410,853,935</u>	100	<u>288,680,735</u>	100

Value Added for 2006



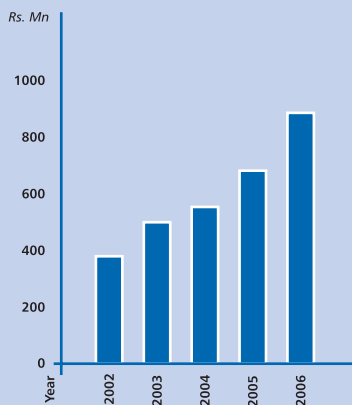
■ Employees	18%
■ Government	23%
■ Retained Profits	50%
■ Depreciation	9%

Value Added for 2005

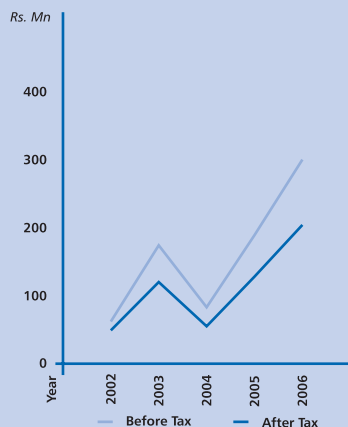


■ Employees	21%
■ Government	21%
■ Retained Profits	45%
■ Depreciation	13%

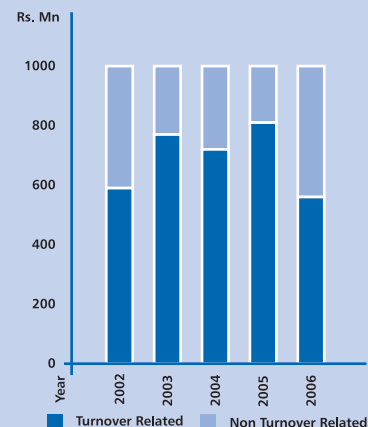
Net Assets Growth Over Five Years



Daily Average Turnover



Net Assets Growth Over Five Years



CORPORATE INFORMATION

NAME

Colombo Stock Exchange

LEGAL STATUS

A company incorporated in Sri Lanka
Limited by guarantee

SUBSIDIARY

Central Depository Systems (Pvt) Ltd.

REGISTERED OFFICE

04-01 West Block, World Trade Centre
Echelon Square
Colombo 1, Sri Lanka.

SECRETARIES

Secretarial Services Ltd.

AUDITORS

KPMG Ford, Rhodes, Thornton & Co.

BANKERS

Sampath Bank Ltd.

COLOMBO STOCK EXCHANGE

Tel: +94-11-2446581 (Hunting)

Fax: Clearing & Settlement: +94-11-2440396

Finance & Administration: +94-11-2448921

Information Technology: +94-11-2440162

Listings & Surveillance: +94-11-2448925

Business Development: +94-11-2445279

Legal: +94-11-2391128

E-Mail: info@cse.lk

www.cse.lk

BRANCHES

Matara Branch

38, Station Road, Matara

Tel: +94-41-2220094, +94-41-2220095

Fax: +94-41-4390546

Kandy Branch

"Ceybank House", 88 Dalada Veediya, Kandy

Tel: +94-81-4474407, +94-81-4474409

Fax: +94-81-4474475

Kurunegala Branch

1st Floor, Union Assurance Building

6 Rajapihilla Road, Kurunegala

Tel: +94-37-4691802, +94-37-4691804

Fax: +94-37-4691803

Negombo Branch

1st Floor, 142, Greens Road, Negombo

Tel: +94-31-2227859

Fax: +94-31-2227860



Colombo Stock Exchange
04-01 West Block, World Trade Centre
Echelon Square, Colombo 1
Sri Lanka.

www.cse.lk