



Annual
Report

A stylized logo consisting of four circles arranged in a 2x2 grid. The top-right and bottom-right circles are filled with a light grey color, while the top-left and bottom-left circles are hollow with a black outline.

Content

Vision & Mission	1
Graphical Review	2
Milestones	4
Introduction	5
Chairman's Message	7
Chief Executive Officer's Review	9
Corporate Social Responsibility	16
Human Resource Indicators	17
Board of Directors	18
Board Committees 2008-09	19
Management Team	20
Members of the CSE	21
Financial Information	23
Annual Report of the Board of Directors on the Affairs of the Colombo Stock Exchange	25
Report of the Audit Committee for the Year 2008	27
Statement of Directors' Responsibilities	28
Independent Auditor's Report	29
Balance Sheet	30
Income Statement	31
Statement of Changes in Equity	32
Consolidated Cash Flow Statement	33
Notes to the Financial Statements	34
Key Financial Indicators	46
Corporate Information	IBC

Vision

To be the preferred choice for creation of wealth and value

Mission

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

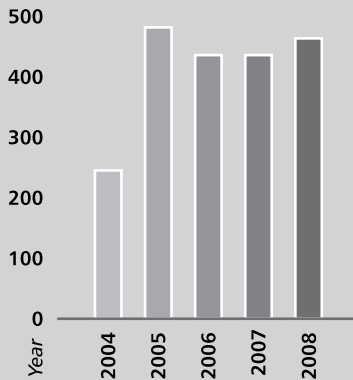
Our Values

- We live up to the expectations of a responsible organisation through uncompromising integrity in whatever we do
- We provide an unsurpassed level of customer care that delights our valued investors & stakeholders
- We discharge our duties with a high level of responsibility & commitment, maintaining professionalism at all levels
- We value the growth of our employees and provide opportunities for career development
- We work as a team with synergy in our journey towards achieving the vision

Graphical Review

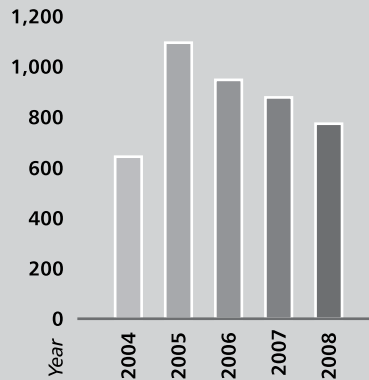
Daily Average Turnover

Rs. Mn



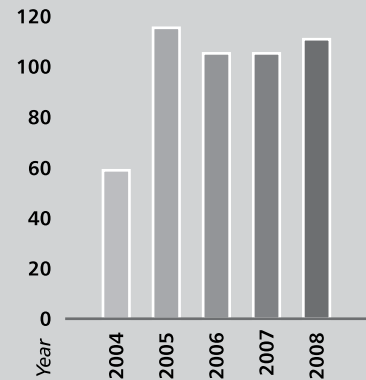
Number of Transactions

'000



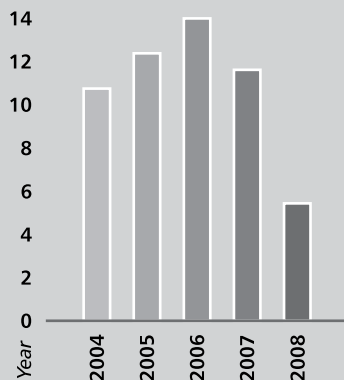
Value of Shares Traded

Rs. Bn



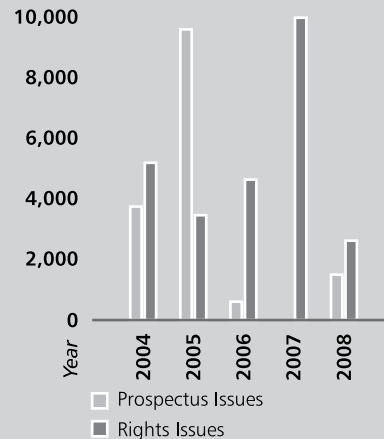
Market Price Earnings Ratio

Times



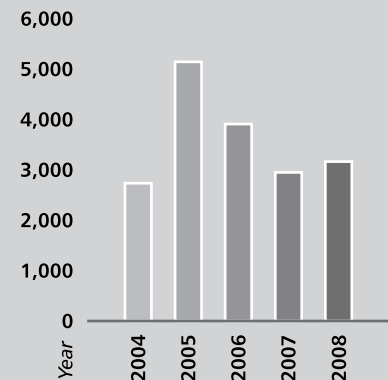
Value of Capital Raised (Equity)

Rs. Mn

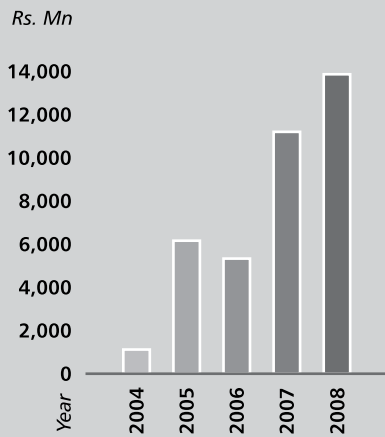


Volume of Shares Traded

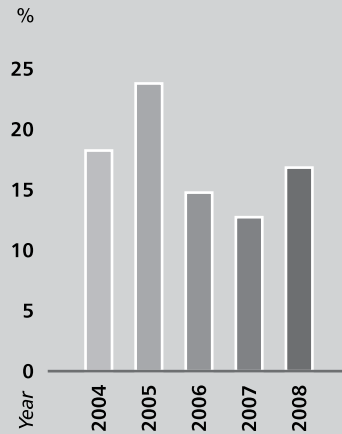
No. Mn



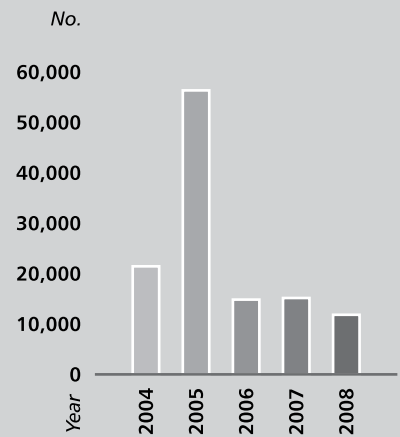
Net Foreign Purchases



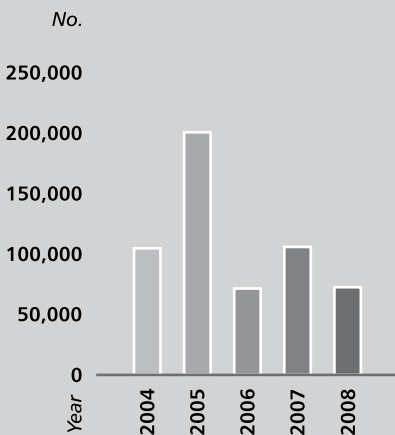
Trading Turnover as a % of Market Capitalisation



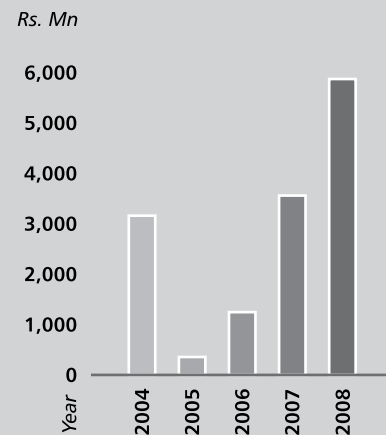
CDS New Accounts Opened



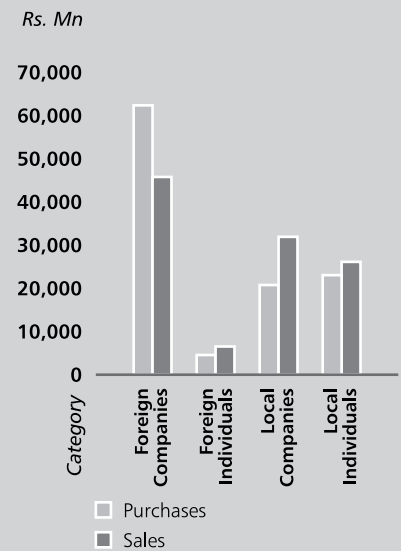
CDS Deposits



Value of Capital Raised (Debt)



Purchases & Sales Analysis 2008



Milestones

1896 Inception of share trading in Sri Lanka under the Colombo Share Brokers Association (CSBA)

1904 Name of the Colombo Share Brokers Association changed to Colombo Brokers Association (CBA)

1984 Establishment of a Public Trading Floor and inauguration of trading on the "open outcry system" by the Colombo Brokers Association.

1985 Commencement of a second trading floor by the Stock Brokers Association
Amalgamation of the Colombo Brokers Association and the Stock brokers Association trading floors to constitute the "Colombo Securities Exchange (GTE) Limited".

1986 The Colombo Securities Exchange (GTE) Ltd becomes a corresponding member of The International Federation of Stock exchanges (FIBV)

1987 Enactment of the Securities Council Act No. 36 of 1987 (now amended as the Securities & Exchange Commission Act) providing for the establishment of a regulator for the capital market.

1988 The Stock Exchange adopts new Rules for Listed Companies replacing the by-laws of the Colombo Brokers Association.

1989 Introduction of new Trading floor rules and New Conditions of sale

1990 Name changed from the Colombo Securities Exchange (GTE) Limited to the Colombo Stock Exchange. Liberalisation of investment in the stock market with the abolition of the 100% transfer of property

Tax on share purchases by non – nationals and the relaxation of Exchange Control on inward remittances for share purchases and outward remittances of surpluses on dealings in listed shares.

1991 Automation of the Clearing House of the Stock Exchange with the establishment of the Central Depository System (CDS).

1992 Abolition of Capital Gains Tax on shares

1994 Introduction of compliance officers in Member Firms

1995 Upgrade of the Central Depository System
The Stock Exchange shifts office to new premises at the World Trade Center.
The Company Takeovers and Mergers Code gazetted.

1996 Marks 100 years of Share trading in Sri Lanka.
Introduction of an Over the Counter Market for unlisted shares. The introduction of a two-tiered board, The Main Board and the Second Board.
The Colombo Stock Exchange is appointed as the National Numbering Agency by the Association of National Numbering Agencies (ANNA)

1997 Automation of trading with the installation of a State of the art Screen Based Trading System (ATS)
The establishment of a Settlement Guarantee Fund and a Compensation Fund

1998 The CSE is admitted as the 52nd member of the World Federation of Stock Exchanges

The CDS gains membership in the Asia-Pacific Central Securities Group (ACG)

1999 Introduction of the Milanka Price Index (MPI)
The establishment of Regional Branch of the CSE in Matara

2000 Formation of the South Asian Federation of Exchanges (SAFE)

2001 Introduction of Stock Borrowing & Lending
Re-Opening of the Public Gallery at the CSE premises

2003 The CSE opens a Regional Branch in Kandy

2004 Introduction of a new index on Total Returns (TRI)
Launch of a new system for the trading of Debt securities Trading System (DEX)

2005 The CSE opens a Regional Branch in Kurunegala
Launching of the new CSE logo

2006 5 new trading members admitted to the CSE to trade both equity and debt securities.

2007 The CSE opens a Regional Branch in Negombo
Introduction of a single tier settlement of T+3
Launch of a new website.

2008 Automated Market Surveillance System introduced to the CSE.

Introduction

Share trading in Sri Lanka commenced in the 19th Century, when British Planters needed funds to set up Tea Plantations in Sri Lanka. The Colombo Share Brokers Association commenced trading of shares in limited liability companies involved in setting up plantations in the country, in the year 1896.

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 formalisation of the market with the establishment of the "Colombo Securities Exchange (GTE) Limited" in 1985, which took over the operations of the 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 and 6 Trading Members licensed to trade both equity and 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 CSE 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 four sub committees appointed to administer the operations of the CSE. The Exchange, 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 Organisation (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 clearing and settlement functions 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 notably enhanced 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 its first South Asian member. It was also a founding member of the South Asian Federation of Exchanges (SAFE) in 2000.

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 and corporate debentures. DEX provides investors an opportunity to diversify their portfolio and thereby reduce risk.

235 companies are currently listed on the CSE, representing twenty (20) business sectors with a market capitalisation of Rs. 488.8 billion (approx. US \$ 4.3 billion) as at 31st December 2008.

The Exchange calculates two main Price Indices, namely, the All Share Price Index (ASPI) and the Milanka Price Index (MPI). Price indices are calculated for each of the 20 Business sectors. Total Return Indices (TRI) are also calculated to track the market performance on a Total Returns basis. The TRI 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. The CSE plans to introduce a new index in 2009 based on impact cost and market capitalisation.

The CSE provides companies the opportunity to raise equity and debt capital required for their expansion through the primary and secondary markets while providing 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 Dirisavi Board of the CSE; a Main Board for larger companies and a Dirisavi Board for small to medium companies and 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 realised 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 and electronic media and through a special local TV telecast. International financial

Introduction *Contd.*

press such as Reuters and Bloomberg also provide daily online trading information to investors worldwide. The CSE also conducted a TV series in 2008 to educate the masses about investing in the Stock Market in a step-by-step process.

The CSE website, www.cse.lk, provides access to a comprehensive array of real time market information, order book information and includes charts and graphs of Market and Company performance to help existing and potential investors make informed investment decisions. The website is the primary communication channel of the CSE and most information on the website is downloadable in Excel, CSV and XHTML formats. The CSE website also facilitates fast access to individual listed company profiles, as well as links to Online Trading platforms offered by stock broker firms. The MyCSE feature offers customised features at two levels, namely "Gold" and "Silver". "Stock Updates on the Move" provides investors with a customised SMS fitting in share prices of their choice and other indicators. The Stock Market Game will be launched in 2009.

The CSE has set up four branch offices with the objective of broad basing the stock market and providing wider access. These branches are located in the Southern (Matara), Central (Kandy), North Western (Kurunegala) and the Western (Negombo) provinces.

The CSE continues to initiate activities to improve the market infrastructure and the regulatory framework to integrate and strengthen the securities market in Sri Lanka.

Chairman's Message

2008 was a year without parallel in modern economic history. It was the year in which the markets punished the high leverage, risk taking and greed of the financial services sector resulting in a full blown crisis of confidence leading to the debt markets becoming non operational. Global equity markets were not spared the trauma either. The notion that developing countries in Asia were somehow "disconnected" from what was seen as a crisis engulfing the USA and Europe was quickly proved wrong and Asian markets, including Sri Lanka, suffered. Unfortunately Sri Lanka had to respond to the crisis somewhat slowly and less aggressively compared with some of the other affected Asian countries due to the tightness in fiscal and monetary space. All of these circumstances meant that the equity market did not respond as strongly as it might otherwise have, to the significant progress made towards capturing territory held by terrorists and to the positive impact on the balance of trade from sharply lower oil prices. Towards the end of 2008, Sri Lanka also had to contend with the failure of companies that had been engaged in raising deposits without supervision or regulation. Fortunately, the Central Bank moved commendably quickly and firmly to arrest the contagion effect on the regulated financial sector. Nevertheless more will need to be done before confidence can be fully restored. 2008 also saw a sell off of short term national debt by foreign holders although this trend was less pronounced in the case of equity investors. The resultant outflow of foreign exchange had an adverse impact on the foreign reserves of the country and has prompted the government to seek a line of credit of USD 1,900 million from the IMF, which is under negotiation, to support the balance of payments and rebuild reserves. The performance of the equity market in Sri Lanka and the CSE in 2008 has to be evaluated in this background.

The Chief Executive's report sets out the salient aspects of the performance of the CSE. While statistics show that the CSE in some ways performed better than some of the other markets, the fact remains that the CSE continues to be dogged by structural and macro issues that inhibit its development. Chief among them are the high level of broker risk, the lack of traded products, high transaction cost and poor liquidity. With regard to eliminating broker risk, a decision has been made to introduce a central counter party for settlements and the CSE is working on this. CSE is undoubtedly one of, if not the most, expensive exchanges in the world to trade on. A proposal to reduce the threshold for negotiated brokerage from the current high level of Rs 100 million per transaction did not find favour with the member brokers. In fact there is a move to reintroduce a minimum brokerage for even high value transactions which, if set at anything other than a very nominal level, is a retrograde step. The CSE also attempted to improve liquidity for the benefit of investors by improving the market microstructure and proposed (a) reducing the tick size to 0.10 cents from the current 0.25 cents, (b) reducing the lot size to 1 share from the current 100 and doing away with odd lots, and, (c) increasing the threshold for crossings from the current Rs 10 million to a minimum of Rs 25 million. None of these proposals could be implemented as they did not receive the approval of our broker members. In fairness to our members, they did offer counter arguments against the proposals and also made the point that these proposals may not improve liquidity but on the other hand increase their processing costs. Although nothing was indeed certain, since none of these measures were irreversible, the reluctance to try some new initiatives that would also force them to improve their own productivity was somewhat disappointing. I believe

that these constraints will continue until such time as the ownership of the exchange is divorced from those who use its platform for trading. This has been done successfully in many other countries through demutualization. There have been positive discussions in this regard with our members as well as the Securities and Exchange Commission and it is hoped that it could be progressed expeditiously. It is also to the credit of our broker members that there have been no settlement failures but the current infrastructure for risk management is woefully inadequate to move to a significantly higher level of activity.

The next group of stakeholders that the CSE addressed in 2008 was the listed companies. The listing rules were revamped taking into account the new Companies Act, the costs relating to continuous listing, flexibility needed to raise new equity and better investor protection. With regard to investor protection, the CSE also commissioned a new automated surveillance system aimed at identifying irregular transactions. The draft rules were published for public comment and some changes were introduced taking into account the responses. As usually happens in Sri Lanka, those who remained silent during the consultative phase have taken exception to some of the provisions relating to changes to disclosure requirements; specifically the removal of the requirement to send quarterly accounts to every shareholder or publish these in the newspaper and the ability, if they so wish, for companies to send their annual reports on magnetic medium instead of in a printed form with an option available for shareholders to obtain a full annual report upon request. Along with these changes the CSE also reduced the time granted for quarterly and annual disclosure of financial performance by 2 and 4 weeks respectively. The CSE is of the view that

Chairman's Message *Contd.*

no investor can trade on the exchange except through a broker, the investors are well within their right to require their brokers to provide value added information relating to their investments by speedily disseminating financial information related to listed entities. The significant cost saving to companies brought about by these changes will eventually accrue to the benefit of shareholders.

The CSE remains committed to increasing the market liquidity and a short term initiative under consideration is to encourage same day trading. Day trading is not popular in Sri Lanka due to high transaction costs although it is very popular elsewhere. Moves are afoot to get the transaction costs reduced for day trades. A longer term initiative is to introduce a limited range of derivative trading such as futures on indices and in liquid shares. The establishment of a central counter party to reduce the counter party risk is an essential pre-requisite for implementing this initiative.

Mr. Gomin Dayasri resigned as a Director in February 2008. On behalf of the Board, I thank him for the valuable contribution that he made to the Board during his tenure as a Director. The Board also notes with appreciation the efforts of the staff of the CSE, ably led by Surekha Sellahewa.

The timing of the recovery of the global economy is still uncertain. However, we should not let this unduly cloud the investment decisions in Sri Lanka. While there are some negative factors still to be dealt with in the short term, the opening up of the East and the North and resumption of economic activity connected with reconstruction and resettlement and the international support that these activities are likely to attract should help

Sri Lanka to recover ahead of the curve. The sharp decline in policy interest rates will no doubt feed into the banking system in the months to come and all of these factors should help to improve corporate profitability and investor sentiment. The CSE for its part will strive to equitably deal with the interests of all its stakeholders while stridently moving towards and making the necessary investments to achieve its vision to contribute to the wealth of the nation by creating value through securities.



Nihal Fonseka
Chairman

11th May 2009

Chief Executive Officer's Review

GLOBAL OVERVIEW

The year 2008 proved to be an exceptionally challenging year for the global economy and finance.

It was a crunch time for stock markets, with global markets collectively witnessing erosion of personal wealth to the tune of US\$ 30 trillion, which has adversely affected investor interest, as well as plans for new issuances by several companies.

The MSCI Emerging Markets Index comprising 746 companies in developing nations declined by 54% in 2008, considered as the worst annual performance since the index was introduced in 1987. The broad equity market indices of member exchanges of the World Federation of Exchanges (WFE), weighted by market capitalisation, receded by 41.9% on average in local currency in 2008 compared to 2007, and by 43.8% on average in US dollar terms.

Except a handful, most of the Stock Exchanges experienced a decline in market capitalisation and value of share trading during the year 2008. The exchanges that topped erosion in their market capitalisation include the Bombay Stock Exchange (64.4%), National Stock Exchange (India) (63.8%), Shanghai Stock Exchange (61.4%), Korea Exchange (58.1%), and the Indonesia Stock Exchange (53.3%).

CSE PERFORMANCE

The main price indices of the CSE, the All Share Price Index (ASPI) and the Milanka Price Index (MPI) faced pressures in 2008, continuing from the negative growth of 2007. The ASPI registered a decline of 40.9% to close the year at 1,503.0 while the MPI closed the year at 1,631.3, recording a drop of 50.4%.

Figure 1: Market Performance: 2004 - 2008

	2008	2007	2006	2005	2004
ASPI	1,503.0	2,541.0	2,722.4	1,922.2	1,506.9
% Change	(40.9)	(6.7)	41.6	27.5	41.9
MPI	1,631.3	3,291.9	3,711.8	2,451.1	2,073.7
% Change	(50.4)	(11.3)	51.4	18.1	9.3
Equity Turnover (Rs Mn)	110,453.9	104,985.4	105,153.7	114,599.2	59,052.0
Net Foreign Inflow (Rs Mn)	13,950.5	11,254.3	5,377.3	6,144.5	1,106.3
Daily Average Turnover (Rs Mn)	464.1	435.6	436.3	481.5	246.0
Shares Traded (No Mn)	3,154.9	2,887.3	3,912.3	5,128.3	2,752.0
Trades (No)	776,244	876,928	952,382	1,100,451	645,083
Market Cap (Rs Bn)	488.8	820.7	834.8	584.0	382.1
Market PER Year End (Times)	5.4	11.6	14.0	12.4	10.8
Turnover to Average Market Cap (%)	16.9	12.7	14.8	23.7	18.3
Dividend Yield (%)	5.6	2.5	2.2	2.7	3.2
Price to Book Value (Times)	0.8	1.8	2.0	1.7	1.3

Source: Colombo Stock Exchange

The ASPI was placed among the top 5 performing broad market indices in the Asia Pacific region as per data from the World Federation of Exchanges.

Figure 2: Top 5 Performing Broad Equity Market Indices in 2008 (in local currency)

Rank	Asia/Pacific	% Change (2008/2007)
1.	Jasdaq	(33.2)
2.	New Zealand Stock Exchange	(33.7)
3.	Korea Exchange	(40.7)
4.	Colombo Stock Exchange	(40.8)
5.	Bursa Malaysia	(41.6)

Source: World Federation of Exchanges (WFE)

The market capitalisation of the CSE experienced an erosion of 40.4% to close the year 2008 at Rs. 488.8 billion, as against Rs. 820.7 billion recorded as at the end of the previous year.

Chief Executive Officer's Review *Contd.*

Value of shares traded

In 2008 the 2nd highest equity market turnover in the history of the CSE was recorded, amounting to Rs. 110.4 billion, the highest turnover being Rs. 114.6 billion recorded in 2005. The largest contribution to the turnover was a trade of 35.2% of the equity of Sri Lanka Telecom PLC on 1st April 2008, amounting to Rs. 33.4 billion, this being the highest daily turnover recorded at the CSE on a trading day.

Figure 3: Main Contributors to Market Turnover in 2008

	Company	Turnover in 2008 (Rs Bn)	Contribution to Market Turnover (%)
1	Sri Lanka Telecom PLC	43.9	39.8
2	Associated Motorways PLC	9.7	8.8
3	John Keells Holdings PLC	6.6	6.0
4	Distilleries Company of SL PLC	3.1	2.8
5	Dialog Telekom PLC	2.8	2.6
	Rest of the market	44.3	40.0
		110.4	

Source: Colombo Stock Exchange

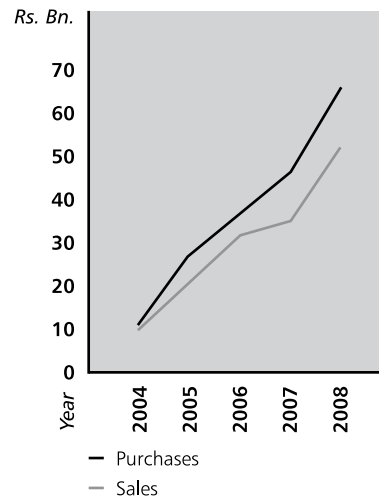
Foreign Investment

Notably, the CSE has seen a gradual increase in foreign investor activity, over the past few years, with the largest net foreign inflow of Rs. 13.9 billion being recorded in 2008.

Foreign investors accounted for 54% of equity turnover in 2008, the highest contribution since 1996 and were net buyers for nine months of 2008 with the exception of June, October and November. Figure 4 sets out the growth in foreign investment during the past five years and reflects that foreigners have remained net buyers during the same period.

Figure 4: Growth in Foreign Inflow and Outflow 2004 - 2008

Foreign Investment



Source: Colombo Stock Exchange

DIVISIONAL REVIEWS

Business Development

Investor Relations

TV Programme on the Stock Market

In order to improve the public awareness and to attract new investors, the CSE decided to telecast a TV series titled 'Stock Market' from October to December 2008. The weekly TV programme of 30 minutes duration was telecast in Sinhala on Swarnavahini.

Ratings obtained from the Lanka Market Research Bureau (LMRB) for the programme indicate that the viewership continually placed this programme among the top 3 programmes telecast during the time belt.

Educational Seminars

The CSE continued its initiative of building awareness and educating the public on investing in the Stock Market. 25 public awareness programmes were conducted in 2008 in Colombo, for different investor categories i.e. beginners, existing investors and professionals, introducing basic concepts of investing in the Stock Market.

Two workshops on 'Planning Your Financial Future – Plan to Retire Rich!' were conducted in August and November 2008. The two workshops attracted over 150 participants who were introduced to basics on financial planning, asset allocation, identifying good investments and portfolio management.

The four branches of the CSE conducted 38 public seminars to educate over 7,000 potential investors, and 60 focus group seminars in 2008. The branches also conducted 6 programmes for lapsed investors, with the aim of re-activating accounts that have been dormant for a considerable period of time. seven Investor Day programmes were conducted during

the course of the year in Gampaha, Matara, Kandy, Kurunegala, Negombo, Akurana and Dambulla.

90 educational seminars were conducted for over 10,000 ordinary and advanced level students in Colombo and at schools in the Southern, Central, North Western and Western provinces.

The CSE also conducted 13 workshops for University students and lecturers, including 6 Capital Market Awareness Days at the Universities of Kelaniya, Sri Jayawardenapura, Ruhuna, Peradeniya, Uva-Wellassa and Rajarata, enabling undergraduates to understand the workings of the Colombo bourse, with the participation of Stock Broker firms and the Securities & Exchange Commission.

A turnover of Rs. 4 billion was generated in 2008 by individuals who attended CSE seminars from 2006 to 2008.

Branch Network

The CSE branch network attracted over 2,000 new retail investors into the stock market during the year. A total of 2,492 new CDS accounts were opened through the four branches operating in Matara, Kandy, Kurunegala and Negombo. This accounted for 21% of the total CDS accounts opened during the year.

The contribution of the CSE branches to market turnover was 3.9% in 2008.

Information Dissemination

The CSE website was enhanced further in 2008 to include more features. 'MyCSE', a portfolio management tool introduced in July 2008, offers customised features such as detailed charts, real time order book information, historical prices, and access to the CSE historical information database. This section also provides a facility to maintain a stock portfolio.

"Interested in Investing in the CSE", launched in July 2008, allows browsers to register with CSE and obtain a free information booklet on investing, and aims at assisting potential investors to make strategic investment decisions. Over 1,000 local and foreign website users registered for this service during the year. "Stock Updates on the Move", launched in October 2008 provides investors with a customised SMS, providing share price information on companies of their choice and other indicators at the end of a market day.

The site had 5,807,436 hits for the year of 2008. (Source: eFutures)

Broker Training

The CSE conducted training programmes for Investment Advisors of Stockbroker Firms during the year 2008 in association with professional bodies such as the Chartered Institute of Management Accountants (CIMA) and the Chartered Institute of Marketing (CIM) with the objective of improving the professionalism and competency of the staff of member firms. Four programmes conducted for Investment Advisors attached to CSE branches included workshops on the features of the new Companies Act, Portfolio Management and Analysis of Financial Statements. The CSE also conducted a workshop on Customer Relationship Management for staff of all Broker Firms.

Regulatory Affairs

Trading and Market Surveillance *Market surveillance system*

The purpose of carrying out market surveillance functions is to ensure the maintenance of a fair and orderly market.

Market surveillance functions were carried out manually by the CSE until June 2008. The Exchange identified the need to have an automated surveillance system which is capable of detecting common market

malpractices such as insider dealing, price manipulations and front running.

For this purpose the CSE evaluated proposals of three system providers and decided to acquire the surveillance system operated by the National Stock Exchange of India (NSE). The new surveillance system was implemented in 2 stages, phase 1 (with end of day alerts) in June 2008 and phase 2 (with on line alerts) in December 2008.

The CSE referred 24 suspected cases of market malpractices, comprising of 14 cases of price manipulations, 6 cases of insider dealing and 4 cases of front running, to the SEC for further investigations during the year 2008. The SEC has further investigated 10 such cases. In addition the CSE also warned 4 Broker Firms on issues relating to price manipulation of securities during the period under review.

Monitoring Debtors' positions of Broker Firms

With the rapid declines of the CSE indices and turnovers during the final quarter of 2008, the surveillance division monitored closely the debtors' position of the Broker Firms, by requesting Broker Firms to submit detailed information regarding their debtors' position every two weeks with effect from October 2008. As a result of continuous monitoring, the CSE noted that the overall debtors' position of the market was reduced by 40% during the period 1st October - 31st December 2008.

Listing & Corporate Affairs

Two Initial Public Offerings (IPO) of equity during the year raised capital of Rs. 1.5 billion in total, which was a considerable improvement over 2007. A third company was listed by way of an introduction. Four debenture issues raised over Rs. 5.5 billion, an increase of Rs. 2 billion over 2007.

Chief Executive Officer's Review *Contd.*

Figure 5: New Listings in 2008

Name of Company	Equity Listing / Debenture Listing	Type of Listing	Amount Raised (Rs Mn)
Janashakthi Insurance	Equity	IPO	396.0
Ceylinco Insurance (non-voting)	Equity	IPO	1,122.5
Renuka Holdings	Equity	Introduction	-
Bank of Ceylon	Debentures	IPO	4,272.3
LB Finance	Debentures	IPO	450.0
Singer (Sri Lanka)	Debentures	IPO	300.0
Seylan Bank	Debentures	IPO	559.3

Source: Colombo Stock Exchange

Rs. 5.1 billion was raised by listed companies through further issues, which included Rs. 2.6 billion rights issues by nine listed companies, two warrants issues amounting to Rs. 1.99 billion and a private placement of shares amounting to Rs. 0.5 billion.

Total revenue from listing services amounted to Rs. 16 million for 2008, of which annual listing fees amounted to Rs. 15 million, accounting for 95% of listing revenue. Additional listing fees contributed to 5% of total revenue and included rights issues, share swaps and private placements.

With the introduction of the Companies Act No. 7 of 2007, share repurchases

by listed companies were executed through the CSE. Two listed companies repurchased shares through the automated trading system and one listed company repurchased their shares through a private transfer (approved by the SEC).

Furthermore, the CSE implemented amendments to the CSE Listing Rules to clearly specify what action the CSE would take against Companies that were transferred to the Default Board for non-compliance with Listing Rules. Implementing these amendments and close monitoring of Companies by both the CSE and SEC resulted in a significant reduction of listed companies on the Default Board of the CSE. Nine companies were transferred out of the Default Board

by the end of 2008 bringing the number of listed companies on the Default Board down to 16 as at 31st December 2008.

Corporate Governance

In March 2007, the CSE introduced minimum rules on Corporate Governance for listed companies. In terms of the rules, in the first year of introduction of the rules (i.e. the financial year commencing 1st April 2007) listed companies had to publish in the Annual Reports, whether they had complied with the Corporate Governance rules and if not, explain the reasons for non-compliance.

The CSE reviewed the Corporate Governance disclosures published in the Annual Reports for the financial year ended 31st March 2008.

The Annual Reports of 169 listed entities were reviewed, which represented approximately 72% of all entities listed on the CSE. Reviewing the details provided, it was noted that 78% of Main Board Companies and 66% of Second Board Companies complied with the CSE Corporate Governance rules.

Compliance with the CSE Corporate Governance rules however became mandatory from the financial year commencing 1st April 2008.

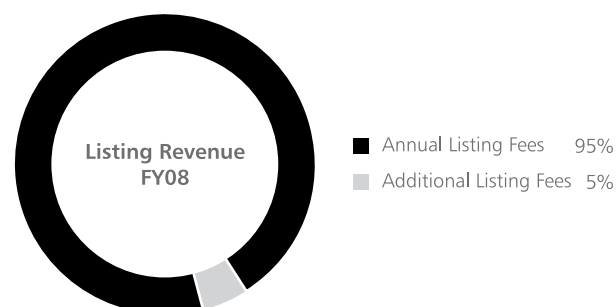
CENTRAL DEPOSITORY SYSTEM (CDS)

Performance

The Central Depository System (Pvt) Ltd (CDS) recorded an increase of 2.8% in Revenue over the previous year despite a decline in operations in 2008. The CDS recorded a Profit after Tax of Rs. 6.7 million which was a decline of 42% over the previous year due to higher operating costs.

There was a decline of 27% in the number of new CDS accounts opened in 2008.

Figure 6: Listings Revenue for 2008



The number of client accounts maintained by the CDS increased by 2.5% to a total of 478,202 client accounts as at 31st December. A total of 8,356 local individuals, 234 foreign investors and 134 local institutional accounts were opened in CDS during the year.

Figure 7: Operational Activities of the CDS

	2008	2007	2006	2005	2004
Operational Highlights					
New Accounts (No.)	11,833	15,020	14,823	56,465	21,348
Deposits (No.)	72,474	106,080	71,154	200,836	104,870
Withdrawals (No.)**	10,726	208	212	205	315
Transfers (No.)	17,326	16,981	18,535	17,872	12,877
Trades (No.)	776,260	877,292	953,887	1,103,092	647,831
Market Days (No.)	238	241	241	238	242
Listed Companies (No.)	235	235	237	239	242
Participants (No.)	36	36	37	35	34
Registration Status of Securities Accounts (as at 31st December)					
Local Individuals (No.)	361,643	353,287	343,697	334,085	290,340
Foreign Individuals (No.)	2,675	2,577	2,487	2,377	2,044
Local Companies (No.)	5,042	4,908	4,755	4,529	3,720
Foreign Companies (No.)	3,604	3,468	3,305	3,174	3,047
(The above break-up excludes the number of multiple registrations sought by the same client through different participants)					
Total Number of Registrations	478,202	466,369	451,349	436,526	380,050
Value of Securities Held (as at 31st December)					
By Domestic Clients (Rs. Mn)	162,325	260,455	248,693	179,781	140,380
By Foreign Clients (Rs. Mn)	108,006	157,633	121,383	79,999	54,652
Total Market Value of Securities held (Rs. Mn)	270,332	418,088	370,076	259,780	195,032
Equity Market Capitalisation - (Rs. Mn)	488,813	820,652	834,763	584,040	382,665
Percentage Value held by the CDS	54%	50%	44%	44%	50%
Number of Shares in Custody (as at 31st December)					
By Domestic Clients (No. Mn)	7,684	7,680	6,746	5,854	4,043
By Foreign Clients (No. Mn)	4,457	3,564	1,738	1,527	749
Total (No. Mn)	12,140	11,244	8,484	7,381	4,792

Source: Colombo Stock Exchange

** Withdrawals in 2008 include 10,608 direct withdrawals made due to Consolidation and Sub-division of shares.

Settlement Risk

In order to mitigate the risk of settlement default by the buyer, the CDS implemented an interim mechanism where Broker firms

are required to obtain a 15% cash margin from any client who purchases shares to the value of Rs. 20 million or more and deposit that margin in cash at the

Chief Executive Officer's Review *Contd.*

settlement bank of the CDS or provide a bank guarantee in favour of the CDS by T + 1. The cash margin can be set off against the final settlement on T + 3. Trades executed through custodian banks are excluded from this requirement.

Compliance

Compliance by the CDS and broker firms with the rules of Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka was further strengthened during the year.

Compliance officers of Members Firms under the facilitation of the CDS reached a consensus and decided to adopt a common Know Your Client (KYC) form to be used by all broker firms in order to fulfil the requirements under the Financial Transaction Reporting Act.

Operations

Several new initiatives to improve the operations of the CDS were implemented.

- A digital document scanning and revival system for disaster recovery purposes was implemented. Under this system all account opening documents submitted to the CDS are electronically archived in a central server with an off site tape back up.
- The CDS implemented an electronic system of recording and retrieval of authorised signatories of CDS Participants.
- The CDS automated the document returns form and the account opening acknowledgements form thereby increasing the efficiency of CDS operations.

Services

- The CDS published Sinhala and Tamil translations for all account opening forms.

- All CDS forms were made available through the CSE web site in a downloadable format, enabling participants and investors to fill soft copy versions of the CDS forms and use the same for submission to the CDS.
- The CDS introduced a procedure to recognise nominations of shareholders under section 544 of the Civil Procedure Code. Under this law, a shareholder could nominate a person/s of his /her choice to receive the share portfolio in the event of the death of the shareholder. The benefit is that this nomination need not be part of testamentary proceedings and will give immediate title of the shares to the nominees of a deceased shareholder.
- Three training workshops for documentation officers and compliance officers of broker firms were conducted during the year with a view to improving their knowledge on CDS guidelines, rules, documentation standards and Know Your Client norms under the Financial Intelligence Unit rules.

Swift Connectivity

The CDS successfully migrated the connectivity to SWIFT to the local service bureau, namely, Lanka Financial Services Bureau (Pvt) Ltd, resulting in significant cost savings for the CDS.

Audit

The CDS implemented a process audit of the CDS operations through the CSE internal audit team and its recommendations are now being implemented in order to strengthen the internal controls of the CDS.

Information Technology

Oracle Database upgrade

The Oracle database was upgraded to Version 10. Some of the enhanced and new features available are as follows:

- Automatic Storage Management
- Flashback new features and enhancements
- Enhancements to Report Manager and RMAN backup process performance tuning and PL/SQL
- Automatic Database Diagnostic monitor

Lotus Notes upgraded to Version 8

Lotus Notes was upgraded for Version 8.0.2, which is the latest available version with enhanced functionality. A comprehensive training programme was conducted for all staff members highlighting the new features available and the facilities that could enhance and stream-line communication.

Attendance Recording System

A secure attendance recording system was implemented for the CSE by using a biometrics access control system. The biometrics scanners were interfaced to the HR system that was developed by the CSE IT Division. The system records all staff movement and logs information to an Oracle database. A summary of late attendance and staff absenteeism is generated by the system and emailed to the Head of each Division daily.

ATS, CDS and Network audit

A comprehensive audit was carried out on the ATS, CDS, Network and the database by Ernst & Young Sri Lanka and Australia. The following areas were covered under the audit

- Threat and Vulnerability Assessment of Servers and Network Components
- External Attack & Penetration

- System Capacity and Redundancy Review
- WAN Evaluation
- Application System Audit
- Application Security and General Control Audit
- Database review
- Replication procedure review

The CSE is in the process of implementing the recommended changes.

STRATEGIC DIRECTION

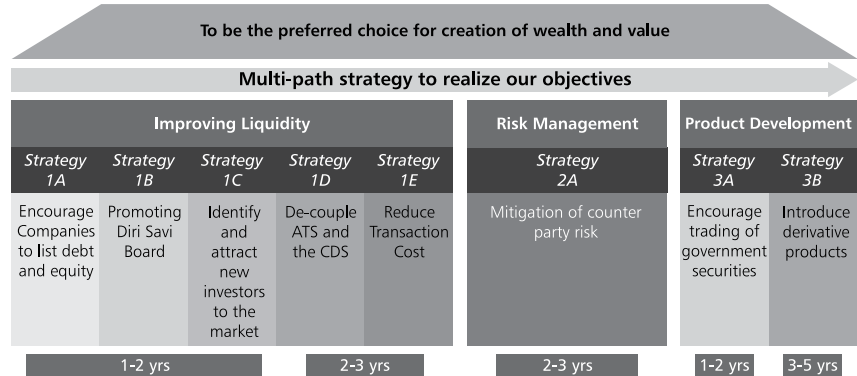
In view of the market turbulence faced world over, Stock Exchanges will need to focus on fairness & transparency and efficiency to prove their resilience.

To set the future direction for the Stock Exchange, the CSE developed a strategic plan for the period 2009-2013, taking into account the views of the senior executive team as well as external stakeholders. The process was facilitated by Mr. Nigel Penny of ClaritasAsia Pte Ltd, Singapore.

The CSE identified three main strategies to focus on during the period 2009-2013, namely, improving Liquidity, Risk Management and Product Development. Hence the main objectives to be addressed during the next five years will be

- increasing turnover velocity from 12% to 25%
- increasing the number of new companies (equity) listed each year through IPO's from 2 to 5 companies
- increasing the rating for the Depository and Capital Market Infrastructure risk from BBB to A+ by setting up a Clearing Corporation which will act as a Central Counterparty to all trades executed at the CSE

Figure 8: Strategic Plan 2009-2013



The CSE has formulated an action plan based on these objectives and have commenced implementing strategies for the year 2009.

Appreciation

I express my sincere gratitude to the Chairman and Board of Directors of the CSE for their invaluable advice and direction. I thank the Securities & Exchange Commission of Sri Lanka for supporting the CSE's initiatives. I acknowledge the cooperation of the Broker Firms and listed companies.

To the Management and staff of the CSE, thank you for your commitment and contribution to the CSE.

S. Sellahewa

Surekha Sellahewa
Chief Executive Officer

11th May 2009

Corporate Social Responsibility

Christmas Party for Underprivileged Children

The staff of CSE organised a Christmas party for fifty underprivileged children from the Bloemendhal area utilising the budget allocated for the staff Christmas get-together. The evening was organised with the assistance of Sisters attached to the Good Shepherd Convent, Kotahena. The

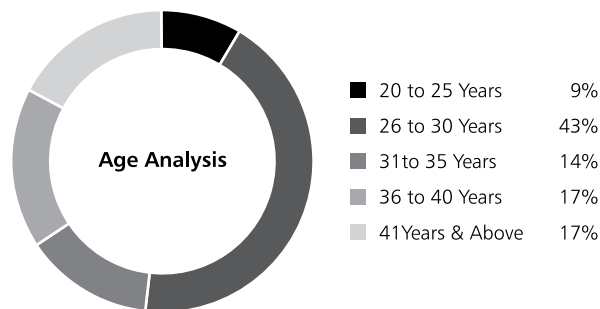
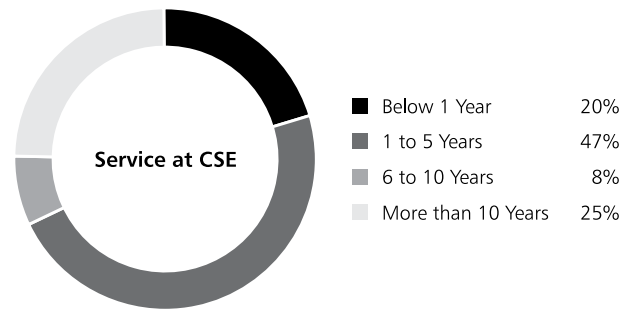
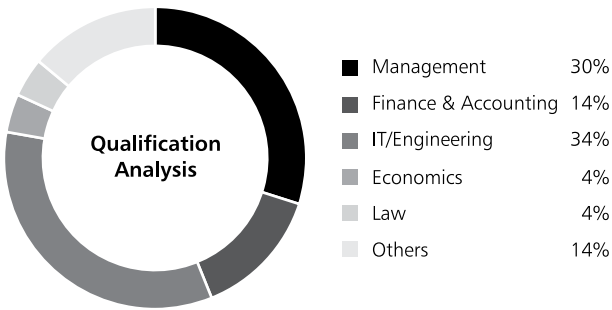
children were entertained by Santa Claus, a clown and a magician and participated in numerous fun filled activities to celebrate Christmas 2008. The CSE also gifted them with school supplies for the year 2009.

The evening was a pleasant experience for the children as well as the staff of CSE who made an effort to lighten up their lives.



Human Resource Indicators

2008	
Senior Management	5
Management	11
Executives	59
Clerical	9
Other	9



Board of Directors

(As at 31st March 2009)

Mr. Nihal Fonseka (*Chairman*)

Mr. M.M. Udeshi

Mr. Paul Ratnayeke

Mr. Murtaza Jafferjee

Mr. Krishan Balendra

Mr. Ashroff Omar

Mr. Dhakshitha T.W. Thalgodapitiya

Professor Malik Ranasinghe

Board Committees 2008-09

1.

Rules 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. M. Jafferjee

Mr. J.H.P. Ratnayeke

Mr. K. Balendra

2 Representatives from the Colombo Stock Brokers Association

2.

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. D. Thalgodapitiya - *Chairman*

Mr. M.M. Udeshi

Mr. M. Jafferjee

Mr. K. Balendra

3.

Arbitration & Disciplinary Committee

The Arbitration & Disciplinary sub committee reviews and considers all doubts and disputes arising between the Members of the CSE in the course of business, as well as matters of a disciplinary nature concerning the Members and clients of Members, recommends suitable action to the Board of Directors.

Mr. A. Omar - *Chairman*

Mr. Nihal Fonseka

Mr. M.M. Udeshi

Mr. D. Thalgodapitiya

4.

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. J.H.P. Ratnayeke

Prof. M. Ranasinghe

Mr. Nihal Fonseka

Mr. A. Omar

Management Team

Chief Executive Officer - Ms. Surekha Sellahewa

Assistant General Manager, Clearing & Settlement - Mr. Rajeeva Bandaranaike

Assistant General Manager, Information Technology - Mr. Lalin Paranavitana

Assistant General Manager, Regulatory Affairs - Mr. Renuke Wijayawardhane

Senior Manager, Human Resource - Mr. Charita Dumbukola

Manager, Business Development - Mr. Tushara Jayaratne

Manager, Finance & Administration - Mr. Kusal Nissanka

Manager, Legal - Ms. Renu Ranatunge

Manager, Listing & Corporate Affairs - Ms. Ruwani Munasinha

Manager, Systems Operation - Mr. Chatura Kulatilaka

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

Acuity Stockbrokers (Pvt) Ltd.

Level 6, Acuity House, No. 53, Dharmapala
Mawatha, Colombo 3.
Tel. 2206206
Fax: 2206298/9
E-mail: sales@acuitystockbrokers.com

Mr. Deva Ellepola
Managing Director/CEO

John Keells Stockbrokers (Pvt) Ltd.

130, Glennie Street, Colombo 2.
Tel. 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/CEO

DP Global Securities (Pvt) Ltd.

3rd Floor, Forbes & Walkers Building,
46/38, Navam Mawatha, Colombo 2.
Tel. 4700111, 2307366
Fax: 2307365, 4700112
E-mail: dpgs1@sltnet.lk
Website: www.dpgonline.com

Mr. Deepta Ekanayake
Managing Director

Somerville Stockbrokers (Pvt) Ltd.

137, Vauxhall Street, Colombo 2.
Tel. 2329201-5, 2332827, 2338292-3
Fax: 2338291,
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

Mr. Murtaza Jafferjee
Chairman/ Managing Director

Lanka Securities (Pvt) Ltd.

228/2, Galle Road, Colombo 4.
Tel. 4706757, 2554942
Fax: 4706767
E-mail: lankasec@sltnet.lk
Website: www.lsl.lk

Mr. Kosala Gamage
Chief Operating 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. Dihan Dedigama
Chief Executive Officer

Ceylinco Stockbrokers (Pvt) Ltd.

Ceylinco House, Level 9, 69, Janadhipathi
Mawatha, Colombo 1.
Tel. 4-714300, 4714388-9, 0777-891871,
0777-896064
Fax: 2387228
E-mail: info@ecsbl.com
Website: www.ecsbl.com

Mr. Sriyan Gurusinghe
Director/General Manager

Lanka Orix Securities (Pvt) Ltd.

42, Sir 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@sltnet.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@sltnet.lk
Website: www.ctsmith.lk

Mrs. Cecilia Muttukumaru
Managing Director

HNB Stockbrokers (Pvt) Ltd.

Level 6, Acuity House, No. 53, Dharmapala
Mawatha, Colombo 03.
Tel. 2206206
Fax: 2206298/9
E-mail: hnb@hnbstock.com
Website: www.hnbstock.com

Mr. Deva Ellepola
Managing Director/CEO

NDB Stockbrokers (Pvt) Ltd.

5th Floor, NDB Building, 40, Navam
Mawatha, Colombo 2.
Tel. 2314170-8
Fax: 2314180
E-mail: mail@ndbs.lk

Mrs. Prasansini Mendis
Chief Executive Officer

Members of the CSE *Contd.*

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. Harinlal Aturupane

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

Mr. Nandun Jayatillake

Chief Executive Officer

First Guardian Equities (Pvt) Ltd.

32nd Floor, East Tower, World Trade
Centre, Echelon Square, Colombo 1.

Tel: 5884400

Fax: 5884401

E-mail: info@firstguardianequities.com

Mr. Rohan Goonewardene

Managing Director/CEO

Taprobane Securities (Pvt) Ltd.

10, Gothami Road, Colombo 08.

Tel: 5328100

Fax: 5328109

E-mail: anuradha@taprobane.lk, dinal@taprobane.lk

Mr. Ashan Dassanayake

Chief Executive Officer

Amana Securities Ltd.

532/4F, Srikotha Lane, Galle Road,
Colombo 03.

Tel: 2372561-4

Fax: 2372565

E-mail: info@asl.lk

Website: www.asl.lk

Mr. Mohamed Riyas

Chief Operating Officer

SKM Lanka Holdings (Pvt) Ltd

No.377/3, Galle Road, Colombo 03.

Tel: 2372415-6

Fax: 5371139

E-mail: skmlankaholdings@gmail.com

Mr. R.M.B. Senanayake

General Manager, Operations

Financial Information

Annual Report of the Board of Directors on the Affairs of the Colombo Stock Exchange

The Board of Directors of the Colombo Stock Exchange has pleasure in presenting their report to the Members, together with the audited consolidated financial statements for the year ended 31st December 2008.

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

The audited financial statements were approved by the Board of Directors on 19th March 2009.

General

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

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

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

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

CSE, and is accountable to the Board of Directors.

Principal Activities

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

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

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

Review of operations and future developments

A review of the activities of the CSE during the year is contained in the Chairman's Message (pages 7 to 8) and the Chief Executive Officer's message (pages 9 to 15) of the Annual Report 2008. These reports form an integral part of the Annual Report.

Financial Statements & Auditor's Report

The financial statement of the Company and its subsidiary for the year ended 31st December 2008 duly signed by the Manager Finance & Administration and two of the Directors of the Company are given on pages 30 to 45 and form an integral part of the annual report of the Board.

Messrs KPMG Ford, Rhodes, Thornton and Co. the Auditors of the company carried out the audit on the consolidated financial statements for the year ended 31st December 2008 and their report on those statements which forms an integral part of the Report of the Board of Directors, is given on page 29 of this Annual Report.

A sum of Rs. 350,000/- (Rs. 300,000/- in 2007) was paid to them on account of providing audit services. A sum of Rs.321,665/- (Rs.300,236/- in 2007) was paid on account of professional services including tax related services. The details of their remuneration are given in Note 20 to the financial statements. The Auditors do not have any interest in the CSE or its subsidiary other than that of Auditors.

Accounting policies

The accounting policies adopted in preparation of the financial statements are given on pages 34 to 36. The company adopted the Sri Lanka Accounting Standard No.16 (Revised 2006) on Employee Benefits in 2008, which became effective for financial years beginning on or after July 1, 2007. There have been no changes in the accounting policies adopted by the company & its subsidiary, during the year under review.

Donations

Donations made during the year amounted to Rs. 940,799/- (Rs. 252,400/- in 2007). From this amount, a sum of Rs. 864,400/- (Rs. 200,000/- in 2007) was made to approved charities.

Board of Directors

The Board of Directors of the company consists of eight Directors. The following Directors held office as at the balance sheet date.

Name of the Director	Status
Mr. Nihal Fonseka (<i>Chairman</i>)	Elected
Mr. M.M.Udeshi	Elected
Mr. J.H.P. Ratnayake	Elected
Mr. M.A. Jafferjee	Elected
Mr. K. Balendra	Elected
Mr. M.A.Omar	Appointed
Mr. D.T.W. Thalgodapitiya	Appointed
Professor M. Ranasinghe	Appointed

Messrs J.H.P. Ratnayake and M.A. Jafferjee retire by rotation at the conclusion of

Annual Report of the Board of Directors on the Affairs of the Colombo Stock Exchange *Contd.*

the Annual General Meeting in terms of Article 50 of the Articles of Association and being eligible, are offering themselves for re-election.

In terms of Section 211 (1) of the Companies Act No.7 of 2007, Mr M. M. Udeshi is due to retire from the office of Director on 14th day of May 2009.

In terms of Article 52 of the Articles of Association any Member of the Exchange shall be entitled to nominate any other Member of the Exchange (... Where such Member is a body corporate it shall be entitled to nominate a Director representing such body corporate) for election to the Board. Such nomination shall be made in writing signed by the proposer and deposited at the Registered Office of the Exchange not less than fourteen (14) days before the date of the proposed Annual General Meeting accompanied by a writing from the nominee indicating his willingness to be so elected.

A nomination so made would be placed before the shareholders at the Annual General Meeting subject to obtaining the prior consent of the Securities and Exchange Commission in terms of Section 25(1) of the Securities and Exchange Commission of Sri Lanka Act No.36 of 1987 (as amended) and Article 47 of the Articles of Association of the Exchange.

Nomination/s should be deposited on or before 22nd day of May 2009.

Resignations

Mr.Gomin Dayasri was a Director of the company resigned from the Board during the year with effect from 29th February 2008.

Directors' Interest Register

The CSE maintains a Directors' Interests Register as stipulated by the Companies Act No. 7 of 2007. The Directors of the

CSE have disclosed their interests in other companies to the Board and those interests are recorded in the Interests Register conforming to the provisions of the Companies Act No.7 of 2007. The particulars of those entries are set out on page 45 of the Financial Statements which form an integral part of the Annual Report of the Board.

Directors interest in contracts and related party transactions are given on Note 24 of the Financial Statements which form an integral part of the Annual Report of the Board.

Directors' Responsibility for Financial Reporting

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

Directors' Remuneration

In terms of the Articles of Association of the CSE "...no member of the Council of Management of Governing Body of the Exchange shall be appointed to any salaried office of the Exchange or any office of the Exchange paid by fees, and that no remuneration or other benefit in money or moneys worth shall be given by the Exchange to any member of such Council or Governing Body except repayment of out of pocket expenses".

Article 53 further states that, 'the Exchange shall repay to any Director of the Board all such reasonable expenses as he may incur in connection with or about the business or management of the Exchange or may pay to such Director such allowances as the Board thinks proper in respect of such

expenses. Other than in respect of the foregoing no Director of the Board shall be entitled to any remuneration or salary by virtue of his office per se".

In compliance with the provisions of the Articles of Association, the Company has not made any payments on account of Directors' remuneration other than payment pertaining to meet out of pocket expenses for attending Board Meeting as given in Note 24 to the financial statements.

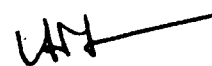
Appointment of Auditors

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

Events occurring after the Balance Sheet date

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


For and on behalf of the Board of Directors.



Nihal Fonseka
Chairman



Ashroff Omar
Director



Secretarial Services Limited
Secretaries

11th May 2009

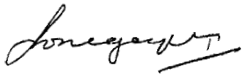
Report of the Audit Committee for the Year 2008

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 Manager Finance & Administration attends the meetings of the Audit Committee on invitation. The Company Secretary functions as the Secretary to the Audit Committee.

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 financial statements for the year ended 31st December 2008 were discussed and approved by the Committee at the Audit Committee meeting held on 09th March 2009 for submission to the Board. The Committee reviewed & approved the draft letter of representation to be given to the External Auditors for the year 2008. The Committee recommended the inclusion of the Statement of Directors' Responsibilities in the 2008 Annual Report.

On behalf of the Audit Committee;



Dhakshitha Thalgodapitiya
Chairman - Audit Committee

19th March 2009

Statement of Directors' Responsibilities

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

As per the provisions of the Companies Act No. 07 of 2007 the Directors are required to prepare financial statements for each financial year and place them before a General Meeting. The financial statements comprise the Balance Sheet as at 31st December 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow for the year then ended and Notes thereto.

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

1. the state of affairs of the Company & its Subsidiary as at Balance Sheet date ; and
2. the Profit or Loss of the Company & its Subsidiary for the financial year ended on the balance sheet date.

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

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

The Directors confirm that the Financial Statements of the Colombo Stock Exchange (CSE) and its subsidiary Central Depository Systems (Private) Limited (CDS) for the year ended 31st December 2008 presented in this report have been

prepared in accordance with the Sri Lanka Accounting Standards and the Companies Act No: 07 of 2007.

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

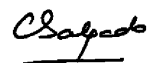
The Directors have taken reasonable steps to safeguard the assets of the CSE and its subsidiary CDS and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

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.

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

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

By Order of the Board



Secretarial Services Limited
Secretaries

Colombo
19th March 2009

Independent Auditor's Report



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
+94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE MEMBERS OF COLOMBO STOCK EXCHANGE

Report on the Financial Statements

We have audited the accompanying financial statements of Colombo Stock Exchange, the consolidated financial statements of the Company and its subsidiaries as at December 31 2008 which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year

ended December 31, 2008 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Report on Other Legal and Regulatory Requirements

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

Ferdinand Rhodes Thornton & Co.

CHARTERED ACCOUNTANTS
Colombo.

19th March 2009.

KPMG Ford, Rhodes, Thornton & Co, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

A.N. Fernando FCA
M.R. Mihular FCA
P.Y.S. Perera FCA
T.J.S. Rajakarier FCA
Ms. S. Joseph ACA

S. Sirikananathan FCA
Ms. M. P. Perera FCA
C.P. Jayatilake FCA
W.W.J.C. Perera FCA

Balance Sheet

As at 31st December 2008	Note	Consolidated		CSE	
		2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
ASSETS					
Non Current Assets					
Property and Equipment	3	79,957,912	106,446,031	79,957,868	106,445,987
Intangible Assets	4	22,291,393	30,933,640	22,291,393	30,933,640
Capital Work in Progress	5	11,151,267	-	11,151,267	-
Development Cost		-	1	-	1
Investments in Subsidiary	6	-	-	50,025,000	50,025,000
Investments in Treasury Bonds		-	59,196,689	-	59,196,689
Investments in Units Trusts	7	800,000,000	-	800,000,000	-
Investments in LFSB	8	1,000,000	2,000,000	-	-
Total Non Current Assets		914,400,572	198,576,361	963,425,528	246,601,317
Current Assets					
Inventories		4,834,752	4,484,196	4,776,849	4,429,083
Investments in Treasury Bills and Repos		69,208,596	850,942,049	69,208,596	850,942,049
Investments in Unit Trusts	7	203,120,779	-	203,120,779	-
Investments in Fixed Deposits		-	51,830,601	-	51,830,601
Other Receivables	9	68,192,034	56,434,642	64,841,486	50,178,550
Income Tax Recoverable		4,180,854	3,617,431	-	-
Cash and Cash Equivalents	10	24,352,314	26,441,099	24,272,610	26,190,722
Total Current Assets		373,889,329	993,750,018	366,220,320	983,571,005
Total Assets		1,288,289,901	1,192,326,379	1,329,645,848	1,230,172,322
EQUITY AND LIABILITIES					
Accumulated Fund					
Revenue Reserve of CDS		1,006,592,811	889,761,598	1,006,592,811	889,761,598
Capital Reserve	11	40,506,027	46,735,261	-	-
Capital Redemption Reserve	11	49,975,000	49,975,000	-	-
Conference Fund Account	11	50,000,000	40,000,000	-	-
		558,713	558,713	558,713	558,713
Total Capital and Reserves		1,147,632,551	1,027,030,572	1,007,151,524	890,320,311
Non Current Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	12	55,439,970	51,939,970	55,439,970	51,939,970
Employee Retirement Benefits	13	14,512,570	17,511,897	14,512,570	17,511,897
Deferred Grants	14	1,036,012	1,603,112	1,036,012	1,603,112
Deferred Tax Liabilities	15	6,603,934	9,249,506	6,603,934	9,249,506
Total Non Current Liabilities		77,592,486	80,304,485	77,592,486	80,304,485
Current Liabilities					
Brokers' Deposits in lieu of Bank Guarantee		12,555,000	30,645,000	6,250,000	24,250,000
Income Tax Payable		7,808,739	13,021,294	7,808,739	13,021,294
Other Payables	16	25,435,737	28,583,732	213,577,710	209,534,936
Tsunami Fund Payable		8,040,474	6,754,470	8,040,475	6,754,470
Bank Overdraft	10	9,224,914	5,986,826	9,224,914	5,986,826
Total Current Liabilities		63,064,864	84,991,322	244,901,838	259,547,526
Total Equity and Liabilities		1,288,289,901	1,192,326,379	1,329,645,848	1,230,172,322

The accounting policies & notes as set out in page 34 to 45 form an integral part of the Financial Statements.

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

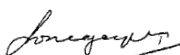


Manager Finance & Administration

These Financial Statements were approved by the Board of Directors on 19th March 2009.



A.N. Fonseka
Chairman



Dhakshitha Thalgodapitiya
Director

19th March 2009.
Colombo.

Income Statement

For the Year Ended 31st December	Note	Consolidated		CSE	
		2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
Revenue	17	370,981,759	327,794,908	288,797,841	247,817,758
Other Income	18	118,587,777	179,423,429	120,960,597	179,168,348
		<u>489,569,536</u>	<u>507,218,337</u>	<u>409,758,438</u>	<u>426,986,106</u>
Personnel Cost	19	(84,644,330)	(84,761,887)	(72,200,529)	(74,094,013)
Depreciation and Amortisation		(49,073,247)	(42,257,935)	(49,073,247)	(42,257,935)
Other Operating Expenses	20	(193,142,536)	(171,970,166)	(134,533,250)	(121,400,682)
Profit before taxation		<u>162,709,423</u>	<u>208,228,349</u>	<u>153,951,412</u>	<u>189,233,476</u>
Taxation	21	(42,107,444)	(66,188,256)	(37,120,199)	(58,800,227)
Net profit for the year		<u>120,601,979</u>	<u>142,040,093</u>	<u>116,831,213</u>	<u>130,433,249</u>

The accounting policies & notes as set out in page 34 to 45 form an integral part of the Financial Statements.

Statement of Changes in Equity

For the Period Ended 31st December 2008

	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 2007	759,328,349	45,128,417	49,975,000	30,000,000	558,713	884,990,479
Net Profit for the year	142,040,093	-	-	-	-	142,040,093
Transferred to/(from) during the year	-	(10,000,000)	-	10,000,000	-	-
Revenue Profit of CDS for the year	(11,606,844)	11,606,844	-	-	-	-
Balance as at 31st December 2007	889,761,598	46,735,261	49,975,000	40,000,000	558,713	1,027,030,572
Net Profit for the year	120,601,979	-	-	-	-	120,601,979
Dividends	2,940,624	(2,940,624)	-	-	-	-
Transferred to/(from) during the year	-	(10,000,000)	-	10,000,000	-	-
Revenue Profit of CDS for the year	(6,711,390)	6,711,390	-	-	-	-
Balance as at 31st December 2008	1,006,592,811	40,506,027	49,975,000	50,000,000	558,713	1,147,632,551

	Accumulated Fund Rs.	Conference Fund Account Rs.	Total Rs.
CSE			
Balance as at 1st January 2007	759,328,349	558,713	759,887,062
Net Profit for the year	130,433,249	-	130,433,249
Balance as at 31st December 2007	889,761,598	558,713	890,320,311
Net Profit for the year	116,831,213	-	116,831,213
Balance as at 31st December 2008	1,006,592,811	558,713	1,007,151,524

The accounting policies & notes as set out in page 34 to 45 form an integral part of the Financial Statements.

Consolidated Cash Flow Statement

For the Year Ended 31st December		Consolidated			CSE	
		2008	2007	2008	2007	
Note	Rs.	Rs.	Rs.	Rs.		
Cash Flows from Operating Activities						
		162,709,423	208,228,349	153,951,412	189,233,476	
Adjustments For :						
Depreciation / Amortisation	3/4	49,073,247	42,257,936	49,073,247	42,257,936	
Interest Income	18	(55,912,411)	(153,733,433)	(55,912,411)	(153,733,433)	
Amortisation of Deferred Grant	14	(767,100)	(2,814,776)	(767,100)	(2,814,776)	
(Profit) / Loss on Sale of Property & Equipment		(1,277,714)	(7,709,508)	(1,277,714)	(7,709,508)	
Gain on Redemption of Unit Trust Investments		(1,123,781)	-	(1,123,781)	-	
Property & Equipment / Intangible Assets Written Off		-	2,624,239	-	2,624,239	
Dividend Income		(41,307,135)	-	(43,953,697)	-	
Gratuity Provision	13	(2,764,127)	5,722,675	(2,922,935)	4,796,591	
Provision for Bad Debts		555,977	60,785	295,067	55,655	
Operating Profit before Working Capital Changes		109,186,379	94,636,267	97,362,088	74,710,180	
(Increase) / Decrease in Inventories		(350,556)	681,046	(347,767)	684,557	
(Increase) / Decrease in Other Receivables	9	(10,320,152)	(10,078,609)	(13,964,784)	(8,831,392)	
Increase / (Decrease) in Other Payables	16	(1,861,990)	5,758,996	8,134,148	7,097,864	
Increase / (Decrease) in Broker Deposits		(14,590,000)	(157,575,000)	(14,500,000)	(157,750,000)	
Cash Generated from Operations		82,063,681	(66,577,300)	76,683,685	(84,088,791)	
Income Tax Paid		(45,747,913)	(89,269,481)	(40,197,244)	(73,843,516)	
Gratuity Paid	13	(235,200)	(910,722)	(235,200)	(910,722)	
Net Cash Flow from Operating Activities		36,080,568	(156,757,503)	36,251,241	(158,843,029)	
Cash Flow from Investing Activities						
Interest Income		79,832,529	123,630,782	79,832,529	123,630,782	
Purchase of Property & Equipment and Intangible Assets		(13,942,884)	(81,593,537)	(13,942,884)	(81,593,537)	
Proceeds from Sale of Property & Equipments		1,277,717	8,086,946	1,277,717	8,086,946	
(Increase) / Decrease in Deposits & Treasury Bills & Bonds		863,066,327	114,699,517	863,066,327	114,699,517	
Investment in LFSB		-	(2,000,000)	-	-	
Dividend Income		41,307,135	-	41,307,135	-	
(Increase)/Decrease in Investments in Unit Trusts		(1,001,996,998)	-	(1,001,996,998)	-	
Work in Progress		(11,151,267)	-	(11,151,267)	-	
Net Cash Flow from Investing Activities		(41,607,441)	162,823,708	(41,607,441)	164,823,708	
Cash Flow from Financing Activities						
Grants Received	14	200,000	2,173,333	200,000	2,173,333	
		200,000	2,173,333	200,000	2,173,333	
Net Increase/ (Decrease) in Cash and Cash Equivalents		(5,326,873)	8,239,538	(5,156,200)	8,154,012	
Cash and Cash Equivalents at beginning of the Year		20,454,273	12,214,735	20,203,896	12,049,884	
Net Cash and Cash Equivalents at end of the Year	10	15,127,400	20,454,273	15,047,696	20,203,896	
Cash in hand		170,000	170,000	165,000	165,000	
Cash at bank		8,263,745	6,940,172	8,202,601	6,721,075	
RTGS Account		13,560	26,280	-	-	
Short term investment - overnight repo		15,905,009	19,304,647	15,905,009	19,304,647	
Cash & Cash Equivalents		24,352,314	26,441,099	24,272,610	26,190,722	
Bank Overdraft		(9,224,914)	(5,986,826)	(9,224,914)	(5,986,826)	
Net Cash & Cash Equivalents		15,127,400	20,454,273	15,047,696	20,203,896	

The accounting policies & notes as set out in page 34 to 45 form an integral part of the 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 acts as a depository for such securities.

(C) Number of Employees

The number of employees at the end of the year was 92 (92 in 2007).

2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the company for the year ended 31st December 2008 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 March 2009.

(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) and the requirements of the Companies Act No. 7 of 2007.

(B) Basis of preparation

The consolidated financial statements are presented in Sri Lankan Rupees rounded to the nearest Rupee and prepared on the historical cost basis.

The accounting policies are consistent with those used in the previous year.

The company balance sheet represents the assets, liabilities and reserves. The consolidated balance sheet includes the assets and liabilities of the company and its subsidiary Central Depository Systems (Private) Limited. The statement of income of the company comprises of commission on brokerage, listing fees, quotation fees, broker fees, trading member fees, charges for remote data link and charges for computer information. The consolidated statement of income includes listed company fees and custodian fees in addition to the above.

The accounting policies have been applied consistently by the company and its subsidiary. The preparation of the financial statements in conformity with SLAS require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(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	5 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 amortisation.

(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 estimate 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 capitalised only when it increases 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, Bonds and Fixed Deposits are stated at their cost plus accrued interest component.

Units purchased from unit trusts are held for yield or capital growth in the medium

or long-term. Such units are stated in the balance sheet at cost or market value, whichever is lower.

(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 comprise 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 – Employees' Provident Fund and Trust Fund**

All employees of the company are members of the Employees' Provident Fund and Employees' Trust Fund, to which the employer contributes 12% and 3% respectively of such employees' basic salary, cost of living and other similar allowances under the Provident Fund Act No. 15 of 1958 as amended and Trust Fund Act No. 46 of 1980. The company contribution is recognised as an expense in the income statement as incurred.

(ii) Defined benefits plans

Provision had been made for retiring gratuities from the first year of service for all the employees up to 31st December 2007, in conformity with Sri Lanka Accounting Standards 16- Retirement Benefits Costs which was effective till 31st March 2007. However, under the Payment of Gratuity Act No. 12 of 1983, the liability of an employee arises only on the completion of 5 years of continued service. The Provision is not externally funded.

Based on the Sri Lanka Accounting Standards 16- (Revised 2006)-Employee Benefits ("SLAS 16") which became effective from the financial year commencing after 1st July 2007, the Gratuity Formula method has been adopted by the Exchange. Accordingly the provision has been made from 1st January 2008, adopting the Gratuity Formula method.

(L) Provisions

A provision is recognised 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. Dividend income from unit trusts is recognised in the period they are declared.

(P) Expenses

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

Notes to the Financial Statements *Contd.*

(Q) Provision for Taxation

(i) 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. 10 of 2006 and amendments thereto.

(ii) Deferred Taxation

Deferred Tax is provided using the liability method on temporary differences as at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

(iii) Withholding Tax on Dividends Distributed by Subsidiary

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

(R) Comparative information

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

	Furniture & Fittings	Computers & Office Equipment	Motor Vehicles	Telephones	Total 31.12.08	Total 31.12.07
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
3. PROPERTY & EQUIPMENT - CONSOLIDATED						
Cost as at 01.01.2008	57,970,378	179,097,614	22,823,952	10,417,549	270,309,493	223,856,556
Additions	1,620,295	7,983,832	-	318,897	9,923,024	62,254,129
Assets Written Off	-	-	-	-	-	(4,677,945)
Disposals / Transfers	-	(285,768)	(1,436,896)	-	(1,722,664)	(11,123,247)
Transfer from Development cost	-	1,501,202	-	-	1,501,202	-
Cost as at 31.12.2008	59,590,673	188,296,880	21,387,056	10,736,446	280,011,055	270,309,493
Accumulated Depreciation						
as at 01.01.2008	32,172,409	119,875,220	6,625,316	5,190,517	163,863,462	143,486,198
Charge for the year	5,533,722	25,008,862	4,155,728	1,712,829	36,411,141	33,176,780
Assets Written Off	-	-	-	-	-	(2,053,706)
Disposals/Transfers	-	(285,766)	(1,436,895)	-	(1,722,661)	(10,745,809)
Transfer from Development cost	-	1,501,201	-	-	1,501,201	-
Accumulated Depreciation						
as at 31.12.2008	37,706,131	146,099,517	9,344,149	6,903,346	200,053,143	163,863,462
Written Down Value as at 31.12.2008	21,884,542	42,197,363	12,042,907	3,833,100	79,957,912	
Written Down Value as at 31.12.2007	25,797,969	59,222,394	16,198,636	5,227,032	106,446,031	
PROPERTY & EQUIPMENT - CSE						
Cost as at 01.01.2008	57,579,061	176,100,458	22,823,952	10,356,699	266,860,170	220,407,233
Additions	1,620,295	7,983,832	-	318,897	9,923,024	62,254,129
Assets Written Off	-	-	-	-	-	(4,677,945)
Disposals / Transfers	-	(285,768)	(1,436,896)	-	(1,722,664)	(11,123,247)
Transfer from Development cost	-	1,501,202	-	-	1,501,202	-
Cost as at 31.12.2008	59,199,356	185,299,724	21,387,056	10,675,596	276,561,732	266,860,170
Accumulated Depreciation						
as at 01.01.2008	31,781,115	116,878,083	6,625,316	5,129,669	160,414,183	140,036,919
Charge for the year	5,533,722	25,008,862	4,155,728	1,712,829	36,411,141	33,176,779
Assets Written Off	-	-	-	-	-	(2,053,706)
Disposals/Transfers	-	(285,766)	(1,436,895)	-	(1,722,661)	(10,745,809)
Transfer from Development cost	-	1,501,201	-	-	1,501,201	-
Accumulated Depreciation						
as at 31.12.2008	37,314,837	143,102,380	9,344,149	6,842,498	196,603,864	160,414,183
Written Down Value as at 31.12.2008	21,884,519	42,197,344	12,042,907	3,833,098	79,957,868	
Written Down Value as at 31.12.2007	25,797,946	59,222,375	16,198,636	5,227,030	106,445,987	

Notes to the Financial Statements *Contd.*

	Consolidated		CSE	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
4 INTANGIBLE ASSETS				
Cost				
As at 01.01.2008	104,019,684	82,017,663	104,019,684	82,017,663
Acquired during the year	4,019,861	22,002,021	4,019,861	22,002,021
As at 31.12.2008	108,039,545	104,019,684	108,039,545	104,019,684
Amortisation				
Amortisation as at 01.01.2008	73,086,044	64,004,887	73,086,044	64,004,887
Provision for the year	12,662,108	9,081,157	12,662,108	9,081,157
Amortised as at 31.12.2008	85,748,152	73,086,044	85,748,152	73,086,044
Net Book Value	22,291,393	30,933,640	22,291,393	30,933,640

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

5 CAPITAL WORK IN PROGRESS

Cost as at 01.01.2008	-	2,662,613	-	2,662,613
Incurred during the year	11,151,267	-	11,151,267	-
Transfers	-	(2,662,613)	-	(2,662,613)
Cost as at 31.12.2008	11,151,267	-	11,151,267	-

The above amount includes the cost of developing a new Market Surveillance System for the Colombo Stock Exchange.

6 INVESTMENTS IN SUBSIDIARY

Central Depository Systems (Pvt) Ltd.				
5,000,000 Ordinary Shares	-	-	25,000	25,000
5,000,000 Redeemable Preference Shares	-	-	50,000,000	50,000,000
	-	-	50,025,000	50,025,000

7 INVESTMENT IN UNIT TRUSTS

Non Current Investments				
NAMAL- Gilt Edge Fund	600,000,000	-	600,000,000	-
CEYBANK- Gilt Edge Fund	200,000,000	-	200,000,000	-
	800,000,000	-	800,000,000	-
Current Investments				
NAMAL- Money Market	203,120,779	-	203,120,779	-
	203,120,779	-	203,120,779	-

	Units	2008 Cost	Market Value/ Net Asset Value
	No	Rs.	Rs.
7.1 UNIT TRUSTS			
NAMAL- Gilt Edge Fund	60,019,368	600,000,000	623,601,235
CEYBANK- Gilt Edge Fund	20,000,000	200,000,000	201,600,000
NAMAL- Money Market	20,034,181	203,120,779	208,155,149
Total Investments in Unit Trust- CSE		1,003,120,779	1,033,356,384
Total Investments in Unit Trusts- Consolidated		1,003,120,779	1,033,356,384

NAMAL & CEYBANK Gilt Edge Funds are Close Ended Unit Trusts which invest exclusively in a portfolio of Government Securities.

	Consolidated		CSE	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
8 INVESTMENT IN LFSB				
Ordinary Shares	1,000,000	2,000,000	-	-
	1,000,000	2,000,000	-	-

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

9 OTHER RECEIVABLES

Trade Debtors	6,680,108	11,577,612	4,249,584	6,567,227
Provision for Doubtful Debts	(1,136,613)	(787,636)	(813,678)	(725,611)
Commission on Brokerage Receivable	955,792	5,561,347	712,833	4,264,204
Prepayments	24,069,877	20,099,620	24,069,877	20,099,620
Advance Payments	5,398,451	707,891	5,398,451	707,891
Refundable Deposits	14,875,162	9,241,264	14,875,162	9,241,264
Sundry Debtors	3,366,691	2,694,128	2,366,691	2,694,128
Other Receivable	3,052,717	2,070,086	3,052,717	2,059,497
Staff Loans	10,929,849	5,270,330	10,929,849	5,270,330
	68,192,034	56,434,642	64,841,486	50,178,550

Notes to the Financial Statements *Contd.*

	Consolidated		CSE	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
10 CASH AND CASH EQUIVALENTS				
Treasury Bill Overnight Repos	15,905,009	19,304,647	15,905,009	19,304,647
Cash at Bank	8,263,745	6,940,172	8,202,601	6,721,075
RTGS Account	13,560	26,280	-	-
Cash in Hand	170,000	170,000	165,000	165,000
Cash & Cash Equivalents	24,352,314	26,441,099	24,272,610	26,190,722
Bank Overdraft	(9,224,914)	(5,986,826)	(9,224,914)	(5,986,826)
Net Cash & Cash Equivalents	15,127,400	20,454,273	15,047,696	20,203,896

11 RESERVES & FUND

Capital Reserve

This represents 4,997,500 Ordinary Shares issued by CDS on capitalisation of its Revenue Reserves in Year 2004.

Capital Redemption Reserve

This represents the fund created in order to redeem the preference shares, which were issued in 04/03/2004, of CDS within a period of 5 years. These Preference Shares are redeemable on 04/03/2009.

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	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
12 BROKER DEPOSITS IN LIEU OF BANK GUARANTEE				
Broker Deposits (Note 12.1)	54,500,000	51,000,000	54,500,000	51,000,000
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
	55,439,970	51,939,970	55,439,970	51,939,970

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

	Consolidated		CSE	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
13 EMPLOYEE RETIREMENT BENEFITS				
Balance b/f as at 01/01/2008	17,511,897	12,699,944	17,511,897	12,699,944
Provision made during the year	(2,764,127)	5,722,675	(2,922,935)	4,796,591
Transfer To CDS	-	-	158,808	926,084
Payments made during the year	(235,200)	(910,722)	(235,200)	(910,722)
Balance c/f as at 31/12/2008	<u>14,512,570</u>	<u>17,511,897</u>	<u>14,512,570</u>	<u>17,511,897</u>
14 DEFERRED GRANTS				
Grant Received from USAID for Capital Market Development				
Received In 1992	9,100,113	9,100,113	9,100,113	9,100,113
Received In 1995	38,176,645	38,176,645	38,176,645	38,176,645
Received In 1996	81,880	81,880	81,880	81,880
Received In 1997	340,000	340,000	340,000	340,000
Grant Received from Brokers				
Received in 1992	340,384	340,384	340,384	340,384
Computers from MIT (Note 14.1)				
Received in 1998	1,980,000	1,980,000	1,980,000	1,980,000
Grant Received from SEC for Trade Automation				
Received in 1996	20,000,000	20,000,000	20,000,000	20,000,000
Received in 1997	12,862,590	12,862,590	12,862,590	12,862,590
Received in 1999	12,602,392	12,602,392	12,602,392	12,602,392
Grant Received from SEC for Trade Automation Audit				
Received in 2000	967,347	967,347	967,347	967,347
Grant Received from SEC for Video Documentary				
Received in 2004	400,000	400,000	400,000	400,000
Grant Received from SEC for Matara Branch				
Received in 2002	2,061,591	2,061,591	2,061,591	2,061,591
Grant Received from SEC for Kandy Branch				
Received in 2005	1,000,000	1,000,000	1,000,000	1,000,000
Grant Received from SEC for Australia & New Zealand Road Show				
Received in 2005	3,500,000	3,500,000	3,500,000	3,500,000
Grant Received from SEC for Kurunegala Branch				
Received in 2006	2,880,000	2,880,000	2,880,000	2,880,000
Grant Received from SEC for ITN Data Ticker				
Received in 2007	2,173,333	2,173,333	2,173,333	2,173,333

Notes to the Financial Statements *Contd.*

	Consolidated		CSE	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
14 DEFERRED GRANTS <i>Contd.</i>				
Grant Received from SEC for ITN Data Ticker Received in 2008	200,000	-	200,000	-
	<u>108,666,275</u>	<u>108,466,275</u>	<u>108,666,275</u>	<u>108,466,275</u>
Amortisation of Deferred Grant				
Balance brought forward	(106,863,163)	(104,048,387)	(106,863,163)	(104,048,387)
Write back during the year	(767,100)	(2,814,776)	(767,100)	(2,814,776)
	<u>(107,630,263)</u>	<u>(106,863,163)</u>	<u>(107,630,263)</u>	<u>(106,863,163)</u>
Balance carried forward	<u>1,036,012</u>	<u>1,603,112</u>	<u>1,036,012</u>	<u>1,603,112</u>

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

	Consolidated		CSE	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
15 DEFERRED TAX LIABILITIES				
The gross movement on the deferred income tax account is as follows.				
At the beginning of the year	9,249,506	2,803,323	9,249,506	2,803,323
Income statement release (Note 21)	(2,645,572)	6,446,183	(2,645,572)	6,446,183
At the end of year	<u>6,603,934</u>	<u>9,249,506</u>	<u>6,603,934</u>	<u>9,249,506</u>
Recognised deferred tax liabilities				
Deferred Tax Liabilities are attributable to following items				
Property, Plant & Equipments	10,957,705	14,503,075	10,957,705	14,503,075
Employee Retirement Benefits	(4,353,771)	(5,253,569)	(4,353,771)	(5,253,569)
	<u>6,603,934</u>	<u>9,249,506</u>	<u>6,603,934</u>	<u>9,249,506</u>
16 OTHER PAYABLES				
Interest Payable to Brokers	1,684,296	1,275,889	1,684,296	1,275,889
Current Account with CDS (Pvt) Ltd.	-	-	188,681,232	181,124,398
Payments Received in Advance	402,991	376,539	402,991	376,539
Sundry Creditors & Accrued Expenses	23,348,450	26,931,304	22,809,191	26,758,110
	<u>25,435,737</u>	<u>28,583,732</u>	<u>213,577,710</u>	<u>209,534,936</u>

	Consolidated		CSE	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
17 REVENUE				
Commission on Brokerage	296,547,373	278,994,422	228,715,120	215,159,402
Listing Fees	15,281,250	14,808,750	15,281,250	14,808,750
Quotation Fees	779,041	1,726,481	779,041	1,726,481
Brokers Fees	16,458,000	13,438,000	16,458,000	13,438,000
Trading Member Fees	25,000,000	-	25,000,000	-
Charges for Remote Data Link	741,000	720,000	741,000	720,000
Charges for Computer Information	1,823,430	1,965,125	1,823,430	1,965,125
Listed Company Fees	11,644,065	13,156,080	-	-
Custodian Bank Fees	2,707,600	2,986,050	-	-
	<u>370,981,759</u>	<u>327,794,908</u>	<u>288,797,841</u>	<u>247,817,758</u>
18 OTHER INCOME				
Interest Income	55,912,411	153,733,433	55,912,411	153,733,433
Dividend Income- Unit Trusts	41,307,135	-	41,307,135	-
Dividend Income- CDS	-	-	2,646,562	-
Gain on Redemption of Money Market Unit Trusts	1,123,781	-	1,123,781	-
Amortization of Deferred Grant	767,100	2,814,776	767,100	2,814,776
Profit/(Loss) on Disposal of Property & Equipment	1,277,714	7,709,508	1,277,714	7,709,508
Miscellaneous Income	18,199,636	15,165,712	17,925,894	14,910,631
	<u>118,587,777</u>	<u>179,423,429</u>	<u>120,960,597</u>	<u>179,168,348</u>
19 PERSONNEL COST				
Salaries	68,384,548	60,109,461	58,742,481	52,929,732
Staff Bonus	10,793,054	11,348,621	9,183,910	9,956,272
Terminal Benefits (Gratuity)	(2,740,305)	5,861,588	(2,922,935)	4,796,591
Staff Welfare	3,334,590	3,196,036	2,796,878	2,666,153
Medical Expenses	1,781,942	1,414,953	1,486,580	1,113,688
Transport & Traveling	3,090,501	2,831,228	2,913,615	2,631,577
	<u>84,644,330</u>	<u>84,761,887</u>	<u>72,200,529</u>	<u>74,094,013</u>
20 OTHER OPERATING EXPENSES				
Other operating expenses include the following;				
Directors' Fees	167,000	170,000	167,000	170,000
Auditors' Remuneration	350,000	300,000	205,000	175,000
Fees Paid to Auditors for Non-Audit Services	321,665	300,236	230,292	213,842
Legal Fees	2,382,873	218,606	1,480,248	218,606
Professional Charges & Subscription	20,592,037	21,192,280	18,923,640	17,349,281
Write Off / Provision for Bad Debts	555,977	60,785	295,067	55,655
Property & Equipment Written Off	-	2,624,239	-	2,624,239

Notes to the Financial Statements *Contd.*

	Consolidated		CSE	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
21 TAXATION				
Current Tax Expenses :				
Current year	43,445,076	57,654,150	38,530,971	50,421,774
Under/(Over) Provision in prior years	1,307,940	2,087,923	1,234,800	1,932,270
	<u>44,753,016</u>	<u>59,742,073</u>	<u>39,765,771</u>	<u>52,354,044</u>
Deferred Tax Expenses				
Origination & Reversal of Temporary differences	(2,645,572)	6,446,183	(2,645,572)	6,446,183
Total Income Tax Expense	<u>42,107,444</u>	<u>66,188,256</u>	<u>37,120,199</u>	<u>58,800,227</u>
Reconciliation of Effective Tax Rates				
Accounting Profit	<u>162,709,423</u>	<u>208,228,349</u>	<u>153,951,412</u>	<u>189,233,476</u>
Tax at the domestic rate (21.1)	<u>50,177,024</u>	<u>63,418,248</u>	<u>46,185,423</u>	<u>56,770,043</u>
Tax effect of expenses that are not deductible for tax purposes	18,965,714	11,503,672	18,401,192	11,503,672
Effect of Tax on Capital Allowances	(11,559,721)	(19,307,615)	(11,559,721)	(19,307,615)
Disallowed Provisions	(14,432,003)	2,039,845	(14,495,923)	1,455,674
Dividend Tax	294,062	-	-	-
Tax on profits for the period	<u>43,445,076</u>	<u>57,654,150</u>	<u>38,530,971</u>	<u>50,421,774</u>
Effective Tax Rate (%)	<u>27</u>	<u>28</u>	<u>25</u>	<u>27</u>

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

As per the Inland Revenue Act No.10 of 2006 any person who derived income from the secondary market transactions in Government securities issued after or outstanding at 1st April 2002 would be entitled to a notional credit in relation to tax payable by such person. Accordingly, the net interest earned by the CSE for the year, has been grossed up in the Financial Statements and the resulting notional credit is Rs. 4,766,082/- (Rs.15,190,283/- in 2007)

22 CONTINGENCIES & COMMITMENTS

1. The case bearing No. HCALT 40/08 has been filed in the High Court of Colombo against the CSE by Ms. Preeni Witharanage, who is a former employee of the Colombo Stock Exchange (CSE) claiming reinstatement. This case is an appeal filed against the decision made by the Labour Tribunal on 22nd April 2008 to dismiss the case bearing No. LT 01/91/97. The Written Submissions of the Appellant is to be filed on 11th June 2009
2. The 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. Currently the witness for the Plaintiff is being Cross Examined. A delay in the proceedings has occurred due to the Judge, who was hearing the case, been promoted. The CSE has written to the Judicial Service Commission requesting the same Judge to be permitted to hear and complete the case. The case was postponed to the 30th April 2009 in order to ascertain the decision of the Judicial Service Commission in this regard.
3. The case bearing No. 58365/MR has been filed in the District Court of Colombo against the CSE by Mr. Iqbal Bin Issac, a shareholder pertaining to his shareholding of Touchwood Investment Ltd. The Trial commenced on the 17th February 2009. Further hearing has been fixed for the 14th May 2009 for further Examination of the Plaintiff.

4. The Department of Inland Revenue has issued assessment notices for income tax amounting to Rs 16.1 million for the year of assessment 2005/2006 & Rs. 17.6 million for the year of assessment 2006/2007 respectively. The company has appealed to quash the income tax assessments issued by the Inland Revenue.

Since the outcome of this is not known as at balance sheet date, no provision has been made in the financial statements.

23 CAPITAL COMMITMENTS

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

24 KEY MANAGEMENT PERSONNEL INFORMATION & RELATED PARTY TRANSACTIONS

KEY MANAGEMENT PERSONNEL INFORMATION

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

CSE paid Rs.167,000/- during the year as Directors' Fees. (Rs. 170,000/- in 2007.)

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

	2008 Rs.	2007 Rs.
Short term employee benefits	25,961,952	21,457,242
Long term employee benefits	791,724	8,186,500

Name of the Related party	Name of Director	Position	Relationship	Nature of Transaction
National Asset Management Ltd	Mr. Nihal Fonseka	Chairman	Director	CSE has invested Rs 803,120,779/- in Unit Trusts and received Rs. 35,307,135/- as dividends.

Central Depository Systems (Pvt) Ltd is a fully owned subsidiary of the Colombo Stock Exchange. CSE apportioned Rs. 59,499,296/- to Central Depository Systems (Pvt) Ltd as expenses during the year.

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

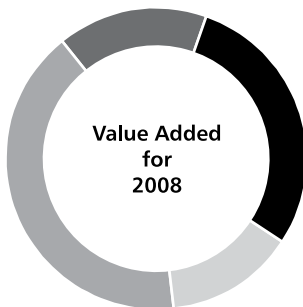
The directors are responsible for the preparation and presentation of financial statements in accordance with Sri Lanka Accounting Standards.

27 COMPARATIVE INFORMATION

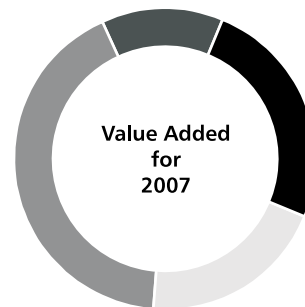
The Accounting policies have been consistently applied by the company and are consistent with those used in the previous year. Comparative information relating to the Intangible Assets and the Computers & Office Equipments in the Balance sheet have been reclassified to conform to the current year presentation.

Key Financial Indicators

	2008	%	2007	%
Value Added				
Gross Income	489,569,536		507,218,337	
Less: Cost of Providing Services	(193,142,536)		(171,970,166)	
	<u>296,427,000</u>		<u>335,248,171</u>	
Distribution of Value Added				
To Employees	84,644,330	28.6	84,761,887	25.3
To Government				
Taxation	42,107,444	14.2	66,188,256	19.7
Retained in the Organisation				
Retained Profits	120,601,979	40.7	142,040,093	42.4
Depreciation	49,073,247	16.5	42,257,935	12.6
	<u>296,427,000</u>	<u>100</u>	<u>335,248,171</u>	<u>100</u>

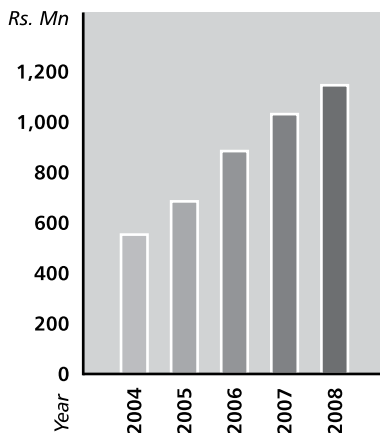


■ Employees	29%
■ Government	14%
■ Retained Profits	41%
■ Depreciation	16%

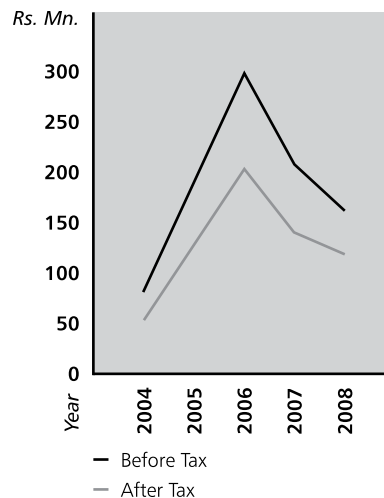


■ Employees	25%
■ Government	20%
■ Retained Profits	42%
■ Depreciation	13%

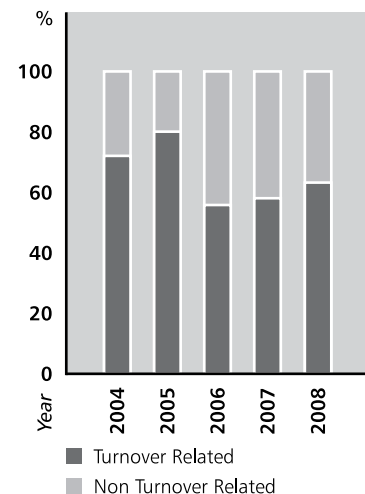
Net Asset Growth Over Five Years

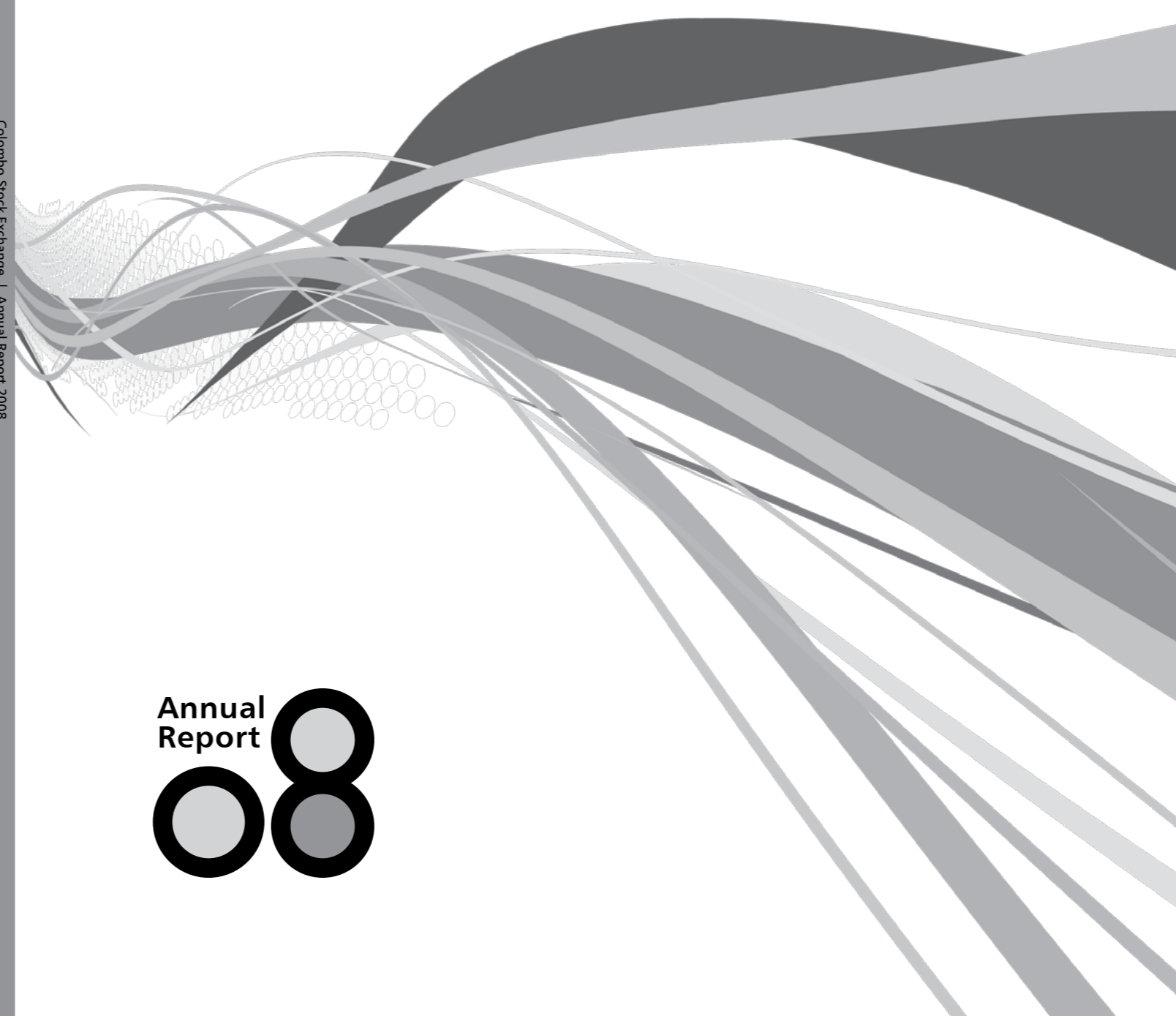


Income Before & After Tax



Total Income





Corporate Information

NAME

Colombo Stock Exchange

LEGAL STATUS

A company incorporated in Sri Lanka
Limited by guarantee

COMPANY REGISTRATION NO.

GL 12

SUBSIDIARY

Central Depository Systems (Pvt) 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 PLC

COLOMBO STOCK EXCHANGE

Tel: +94-11- 2356456

Fax: Clearing & Settlement: +94-11-2440396
Finance: +94-11-4627566
Information Technology: +94-11-2440162
Regulatory Affairs: +94-11-2448925
Business Development: +94-11-2445279
Listing & Corporate Affairs: +94-11-2391128
Administration: +94-11-2325804

E-Mail: info@cse.lk

Website: 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, Jude City Building
142, Greens Road, Negombo
Tel: +94-31-2227859, +94-31-2227861
Fax: +94-31-2227860



www.cse.lk