

85.00  
175.25 200.50  
TECHNOLOGY 107.50  
13.25 14.00 13.50 87.9K ONHL  
SECOND BEST PERFORMING  
STOCK EXCHANGE IN THE WORLD  
44.00 47.50 45.75 65.9K SLM  
77.00 82.75 80.00 2.0K TUI  
330.00 334.00 332.00 16.0K YC  
83.00 99.00 85.00 1.4K  
100.00 103.00 100.00 45.6K  
565.00 579.50 570.00 7.6K  
28.00 29.25 29.00 31.6K  
23.00 24.00 23.00 2.0K  
220.00 200.00 100.00



**CISIE**

COLOMBO STOCK EXCHANGE

Annual Report 2009



**HIGHEST EVER**

ALL SHARE PRICE INDEX

3,385.6 points

**HIGHEST EVER**

ALL SHARE PRICE INDEX GROWTH

125.3% FOR A YEAR

**HIGHEST EVER**

MILANKA PRICE INDEX GROWTH

136% FOR A YEAR

**HIGHEST EVER**

ANNUAL TURNOVER

Rs.142.5 bn

**HIGHEST EVER**

MARKET CAPITALISATION

Rs.1,092.1 bn

AS AT 31ST DECEMBER

# CSE WAS NAMED THE SECOND BEST PERFORMING STOCK EXCHANGE IN THE WORLD...

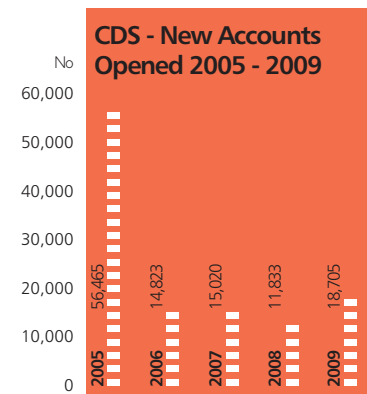
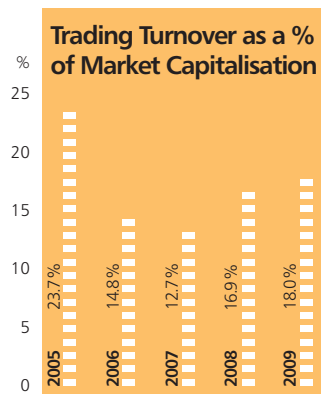
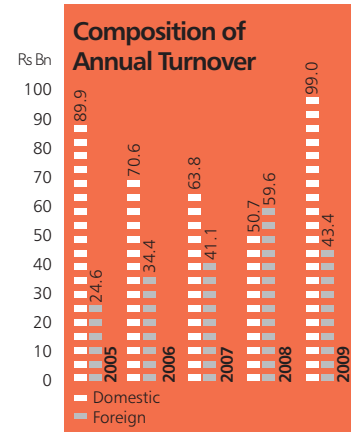
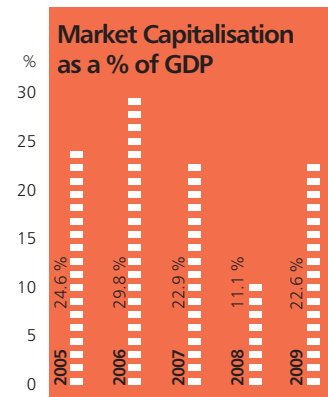
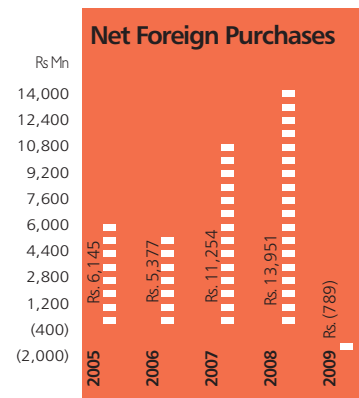
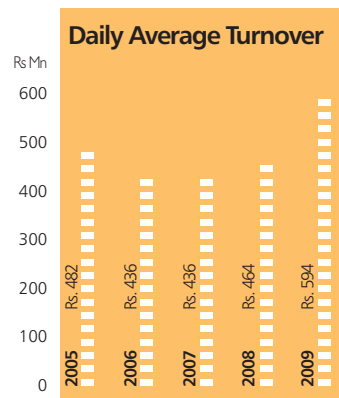
## AND THE BEST PERFORMING STOCK EXCHANGE IN ASIA

2009 was a historic year in many ways for the Colombo Stock Exchange.

This was the year that saw us shattering virtually every record previously set, creating positive investor sentiment around the globe and bringing Sri Lanka and the Colombo Stock Exchange under the spotlight of international attention.

2009 was the year that saw us achieve an all-time high with the benchmark index, the All Share Price Index, closing the year at 3,385.6 points. The ASPI also recorded a growth rate of 125% which was again, the highest rate ever achieved.

This report reveals these and several other fine achievements that we are proud to record in the year under review, as we continue to stay true to our vision of becoming the preferred choice in creating wealth and value. Yet we don't plan to rest on our laurels, strategising instead to build on these achievements so as to maintain a vibrant and growth oriented Exchange in the years to come.



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“Based on the exceptional performance of the All Share Price index, the CSE was ranked the Best Performing Stock Exchange from amongst the 52 member exchanges of the World Federation of Exchanges (WFE) and the 2nd Best Performing Market in the world by Bloomberg News.”

## A Graphical Review

A quick look at our performance

2009

Market Price/Earnings Ratio

**16.6** Times

2009

CDS - Deposits

**43,933** No

2009

Value of Capital Raised (Equity)

**7.8** Rs Bn

2009

Value of Shares Traded

**142.5** Rs Bn

2009

Number of Transactions

**1.27** Mn

2009

Number of Shares Traded

**4.7** Bn

# Key Economic Indicators 2009

	2009*	2008
<b>Demography</b>		
Mid year population ('000 persons)	20,450	20,217
Growth of population (%)	1.1	1.0
<b>Output</b>		
GDP at current market prices (Rs. Billion)	4,825	4,411
GNP at current market prices (Rs. Billion)	4,769	4,306
<b>Real Output (% change)</b>		
GNP	4.8	4.6
GDP	3.5	6.0
<b>Aggregate Demand and Savings (% of GDP)</b>		
Consumption	82.0	86.1
Private	64.3	70.0
Government	17.6	16.2
Investment	24.5	27.6
Private	17.9	21.1
Government	6.6	6.5
Savings		
Domestic	18.0	13.9
National	23.9	17.8
<b>Prices and Wages (% change)</b>		
Colombo Consumers' Price Index (2002=100) Annual Average	3.4	22.6
Colombo Consumers' Price Index (2002=100) Point to Point-end period	4.8	14.4
<b>Exchange Rates</b>		
Annual Average Rs/US\$	114.9	108.3
<b>Interest Rates (% per annum at end year)</b>		
Treasury Bill yield rate		
91 days	7.7	17.3
364 days	9.3	19.1
Deposit Rates		
Commercial Banks' Average Weighted Deposit Rate (AWDR)	8.0	11.6
Lending Rates		
Commercial Banks' Average Weighted Prime Lending Rate (AWPR)	10.9	18.5


\* Provisional Data

Source: Central Bank of Sri Lanka Annual Report 2009

# Summarised Trading Statistics

	2009	2008	2007	2006
<b>Equity Market</b>				
Annual Turnover (Rs Mn)	142,462.6	110,453.9	104,985.4	105,153.7
Domestic (Rs Mn)	99,010.8	50,796.9	63,815.7	70,675
Foreign (Rs Mn)	43,451.8	59,656.9	41,169.7	34,479
Foreign Contribution to total turnover (%)	30.5	54.0	39.2	32.8
Market Days (No)	240	238	241	241
Daily Average Turnover (Rs Mn)	593.6	464.1	435.6	436.3
Shares traded (No Mn)	4,762.7	3,154.9	2,887.3	3,912.3
Domestic (No Mn)	3,784.2	1,934.9	2,009.9	3,178.2
Foreign (No Mn)	978.4	1,220.0	877.3	734.2
Trades (No)	1,266,299	776,244	876,928	952,382
Domestic (No)	1,190,822	730,415	831,663	908,220
Foreign (No)	75,477	45,829	45,265	44,162
New Listing (No)	3	3	-	2
Delisting (No)	6	2	2	4
Companies Listed	231	235	235	237
Companies Traded	231	232	231	232
Market Capitalisation (Rs Bn)	1,092.1	488.8	820.7	834.8
Market PER year end (Times)	16.6	5.4	11.6	14.0
Turnover to Market Capitalisation (%)	18.0	16.9	12.7	14.8
Dividend Yield Year End (%)	3.0	5.6	2.5	2.2
Price to Book Value Year End (Times)	1.7	0.8	1.8	2.0
Market Cap. as a % of GDP	22.6	11.1	22.9	29.8
<b>Price Indices</b>				
All Share Price Index	3,385.6	1,503.0	2,541.0	2,722.4
y-o-y Change %	125.3	(40.9)	(6.7)	41.6
Milanka Price Index	3,849.4	1,631.3	3,291.9	3,711.8
y-o-y Change %	136.0	(50.4)	(11.3)	51.4
<b>Foreign Trading</b>				
Annual Turnover (Rs Mn)	43,451.8	59,656.9	41,169.7	34,478.6
Purchases (Rs Mn)	43,057.3	66,632.2	46,796.8	37,167.3
Sales (Rs Mn)	43,846.3	52,681.7	35,542.5	31,789.9
Net Foreign Flow (Rs Mn)	(789.0)	13,950.5	11,254.3	5,377.3
<b>Debt Market</b>				
<b>Corporate Debt</b>				
Turnover (Rs 000)	136,765	102,639.3	98,903	405,211
No of Trades	42	27	144	321
No of Debentures Traded (000)	1,020	953.5	1,020	2,421
<b>Government Debt</b>				
Turnover (Rs 000)	98,977	195,157.4	709,333	207,080
No of Trades	42	69	208	379
No of Securities Traded (000)	102,778	208,182.6	742,736	213,242

Source: Colombo Stock Exchange

A portrait of Nihal Fonseka, Chairman of the Colombo Stock Exchange, standing in a modern building with large windows. He is wearing a dark grey suit, a white shirt, and a blue patterned tie. He has his arms crossed and is smiling slightly. The background shows a glass and steel structure with a large window.

“There is no doubt that much of the credit for the exceptional performance of the Colombo Stock Market in 2009 should go to the Government.”

A handwritten signature in black ink, appearing to read 'Nihal Fonseka'.

**Nihal Fonseka**  
Chairman

3rd May 2010

“The CSE believes that the time is ripe for placing the investment story for Sri Lanka on the world stage through high profile promotional activities.”

## How we did it

### Chairman’s statement

As is customary, I am addressing this message to the broader group of stakeholders of the Colombo Stock Exchange (CSE) including our member stockbrokers, issuers of securities and investors.

The euphoria associated with the performance of the CSE in 2009 is well deserved. As set out in detail in the Chief Executive's Review, the CSE performed exceptionally well in 2009 when compared with other markets as well as its own historical performance. The world's second best performing market in terms of the rise in indices to historically high levels, highest ever market capitalisation surpassing LKR 1 trillion for the first time and highest ever annual turnover are obvious factors that can be highlighted. Another noteworthy factor was that the achievements of the CSE were driven by domestic investors with foreign investors being net sellers (about USD 7 million) for the first time in 8 years mainly due to the global unwinding of investments by a foreign fund towards the end of 2009. However, to put this into perspective, at the end of 2009, foreign share ownership still represented 21% of market capitalisation, marginally lower than the share at the end of 2008, but well above the proportions at the end of the previous three years.

There is no doubt that much of the credit for the exceptional performance of the market in 2009 should go to the Government on two counts. Firstly, the Government led by His Excellency Mahinda Rajapakse provided the required political leadership to the security forces to enable the writ of the elected government to be established in the entire land, sea and air space of this country for the first time in nearly three decades. This had an enormous positive impact on business and investor sentiment from May 2009. Secondly, the bleak global and domestic economic circumstances that prevailed at the start of 2009 changed for the better as the year progressed. While the worst effects of the financial meltdown in global markets were brought under control by concerted action of the governments of the world's traditional economic powers without triggering a much feared global economic depression, in Sri Lanka, the government and the Central Bank succeeded in rebuilding the depleted foreign reserves and providing a catalyst to stronger economic growth by relaxing monetary policy and ushering in a relatively low interest rate regime. All of these factors improved the future prospects of listed entities and triggered a shift in investments from fixed income assets to equity. This shift had a material impact on the strong performance of the CSE in 2009.

In the euphoria surrounding the performance of the CSE in 2009, it is easy to lose sight of some of the intrinsic issues facing the CSE that could hold it back from moving to the next level to make its mark among regional markets in a sustainable manner. For instance, it is necessary to bear in mind that due to poor liquidity, market velocity of the CSE is very low compared with other regional markets. In previous Annual Reports, I have also identified high

transaction costs, a small investor base, poor investor education, high level of broker risk, lack of new listings, insufficient traded products, insufficient attention to practicing good corporate governance and insufficient disclosure by some issuers, underdeveloped fund management industry, market microstructure and ownership structure of the CSE as factors that impinge on the development and expansion of the market. Some areas of concern have seen an improvement and the Chief Executive's Review outlines the progress that has been made and initiatives that are already underway to deal with them. Proposed action plans on several of these matters are included in the current strategic plan of the CSE approved and monitored by the board of directors. The strategic plan also envisages introduction of new traded products including basic derivative products. Better risk mitigation through a Central Counterparty and Delivery versus Payment are also initiatives that are being addressed by the CSE.

I would like to dwell on two important internal issues that will have an impact on the future of the CSE. There is no doubt that the transaction costs on the CSE rank among the highest in the world. This is despite the actions taken in the last few years to reduce brokerage and other fees charged by the CSE and the Securities and Exchange Commission (SEC) for large transactions. The brokerage is still fixed and high for most of the trades. Even though the CSE and SEC have admitted and licensed new trading members, the fixed transaction costs have meant that investors have not received the full benefit from increased competition. There is a natural fear among members that reduction in brokerage will render their business unviable. This may indeed be so if the members do not change the way they do business and increase their turnover several fold and use technology to handle and control greater volumes of transactions. Stockbrokers elsewhere have successfully reduced their dependence on brokerage by providing value added services to investors and our members need to do the same. Practically, all regional markets that have migrated to negotiable brokerage have been successful in significantly growing turnover and there is no reason to believe that Sri Lanka will be any different; in any case negotiable brokerage is not an irreversible step and can be changed if future market developments or conditions dictate otherwise. Thus, the SEC's directive in this regard to reduce transaction fees by an average of 20% from July 2010 is a step in the right direction. For its part, the CSE has made representations to the government to remove the share transaction levy of 0.2% from the sales leg of day trades with a view to encouraging this activity which is currently at a very low level. This particular aspect of trading currently yields negligible revenue to the government and increased activity will improve the contribution. The ownership structure of the CSE is another matter of importance. The member owned

exchange has certainly put the CSE on the map but it now requires to be demutualised to ensure that, going forward, one group of stakeholders, namely its broker members, do not exercise disproportionate influence over the future direction of the CSE. To be fair by the members, there has been broad agreement among members that this should be the way forward and the modalities of effecting the structural change are under consideration by the SEC. It is hoped that we can move forward in the current year.

Mr. M M Udeshi retired as a director on 14th May 2009 in terms of Section 211 (1) of the Companies Act No. 7 of 2007. Mr. J H P Ratnayake and Mr. M A Jafferjee relinquished office as directors at the last Annual General Meeting and appointed director Prof. Malik Ranasinghe resigned from the board on 6th August 2009. I welcome Prof. Laksiri Fernando and Mr. Hiran de Alwis who joined the board on 10th September 2009 as appointed directors and Dr. Saman Kelegama who joined the board as a director representing members on 1st April 2010. I wish to thank all my colleagues on the board, both past and present, for their commitment to directing the affairs of the CSE and the contributions they made to the deliberations of the board.

On behalf of the board of directors, I also acknowledge the support the CSE received from the SEC including its Chairman, former Director General and its management on various matters of mutual interest and look forward to a continuing close dialogue with our regulator.

Ms. Surekha Sellahewa, the Chief Executive, provided able leadership to a group of professional staff and the board acknowledges the efforts of all employees in the year of transformation that we have ended. There is much more to be done and the board looks forward to their continued commitment.

The inclusion of the North and East in the future development of Sri Lanka and the political stability flowing from decisive elections held recently will provide a platform for the strong economic growth of the country that is necessary to propel it firmly into the category of middle income nations. In this scenario, the CSE is very mindful of the role it has to play in capital formation which is an essential ingredient for meeting the objective of "Mahinda Chintana - idiri dekma" (forward vision) to double Sri Lanka's per capita income to USD 4,000 in the next six years. The CSE believes that the time is ripe for placing the investment story of Sri Lanka on the world stage through high profile promotional activities and will be happy to work in partnership with the relevant agencies of the government in such an endeavour.



An investor takes a look at the Data Wall on the CSE Trading Floor

**“I have got Sri Lanka on my mind...”**

Jim Rogers' success mantra: Invest where demand is low : CNBC-TV 21/7/09

“The capital market is important to a country's economic and social system. It plays the crucial roles of capital raising for both the public and private sectors, promoting balance and stability in the financial system”

## 2009 - A Record Breaking Year

### CEO's review

The year 2009 marked an end to a three decade armed conflict and provided the Government with an opportunity to create a stable macro economic environment where industries and businesses can thrive. Thus Sri Lanka is poised to achieve a high sustainable growth in the coming years.

We are proud to note that the Colombo Stock Exchange (CSE) was ranked the second best performing market in the world in the year 2009 (Bloomberg data). It was indeed a record breaking year.

**Figure 1: CSE Market Highlights for the year 2009**

	<b>New Record in 2009</b>	<b>Previous Record</b>
Highest ASPI	3,385.6 on 30th Dec	3,016.4 on 13th Feb 2007
Highest Annual ASPI Growth Rate (%)	125.3	118.0 (1991)
Highest Annual MPI Growth Rate (%)	136.0	51.4 (2006)
Highest Annual Turnover (Rs Bn)	142.5	114.6 (2005)
Highest Average Daily Turnover (Rs Mn)	593.6	481.5 (2005)
Highest no. of Transactions for the year (Mn)	1.27	1.10 (2005)
Highest no. of Transactions (for a Day)	15,290 on 18th June	13,254 on 28th July 2005
Highest Market Capitalisation	Rs. 1,092.1 Bn as at 30th Dec	Rs. 938.7 Bn as at 13th Feb 2007

Source: Colombo Stock Exchange

### Index Performance

The All Share Price Index (ASPI) and the Milanka Price Index (MPI) recorded the highest ever annual increase of 125% and 136% and closed at 3,385.6 and 3,849.4 points, respectively. Based on the exceptional performance of the All Share Price Index, the CSE was ranked the Best Performing Exchange amongst the 52 member exchanges of the World Federation of Exchanges (WFE).

The 20 Sector indices too recorded gains, the Construction and Engineering sector leading with a 356.5% increase.



“We are proud to note that the Colombo Stock Exchange (CSE) was ranked the second best performing market in the world in the year 2009.

It was indeed a record breaking year.”

*S. Sellaheva*

**Surekha Sellaheva**  
Chief Executive Officer

3rd May 2010

**Figure 2: Growth of Sector Indices 2009**

Sector	Change (%)
Construction and Engineering	356.5
Investment Trusts	322.9
Oil Palms	254.4
Trading	239.6
Diversified Holding	211.7
Hotels and Travels	198.7
Chemicals and Pharmaceuticals	155.2
Banks Finance and Insurance	133.6
Motors	130.7
Beverage Food and Tobacco	113.7
Manufacturing	110.8
Services	105.0
Land and Property	94.4
Health Care	89.7
Plantations	71.8
Information Technology	39.3
Footwear and Textiles	38.1
Stores and Supplies	37.4
Telecommunications	35.5
Power and Energy	25.6

Source: Colombo Stock Exchange

### Trading Activity

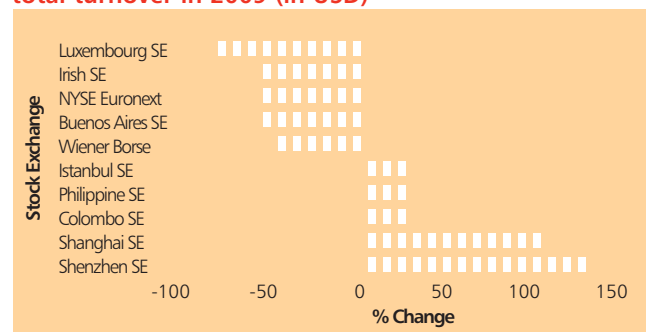
#### Turnover

Market turnover, which remained at low levels during the first 4 months of the year, showed a significant increase from May 2009 mainly due to domestic investor participation.

The CSE achieved the highest turnover for a given year of Rs. 142.5 billion in 2009, surpassing the previous record of Rs.114.6 billion generated in 2005. The average daily turnover for the year increased to Rs.593.6 million.

An analysis of the turnover growth of Member Exchanges by the World Federation of Exchanges placed the CSE at number three for the year (refer Figure 3).

**Figure 3: Top 5 WFE members in terms of variations in total turnover in 2009 (in USD)**



Source: WFE 2009 Market Highlights, World Federation of Exchanges

Foreign investors accounted for 30.5% of total equity turnover for the year. Despite the record market performance, foreign investors were net sellers (Rs. 789 million) for the first time since 2001. This was due mainly to the sale of significant holdings in several blue chip companies by an overseas fund management company that was winding down its funds towards the end of the year. The fact that these divestments were easily absorbed by domestic investors without an adverse price impact was encouraging.

**Figure 4: Investor Contribution to Total Market Turnover 2005-2009**

Year	Total Market Turnover (Rs Bn)	Turnover (Rs Bn)	
		Domestic	Foreign
2005	114.5	89.9	24.6
2006	105.1	70.6	34.5
2007	104.9	63.8	41.1
2008	110.4	50.7	59.7
2009	142.4	99.0	43.4

Source: Colombo Stock Exchange

### Trading Volumes

Trading volumes were high during the year, resulting in 4.76 billion shares being traded. A total of 1.27 million transactions took place at the CSE, setting another new record for the Exchange. The number of transactions in a single day of trading also reached a milestone in 2009 when 15,290 trades were executed on 18th June 2009.

### Operational Highlights 2009

#### Market Liquidity

The low liquidity in the market is an issue besetting the Exchange. The CSE's turnover velocity (Annual Turnover/average Market Cap. for the year) of the CSE in 2009 was 18 % which is very low in comparison with other exchanges in the region.

**Figure 5: Turnover Velocity of selected Asian Stock Exchanges**

Exchange	Year-end 2009 Turnover Velocity (%)	Year-end 2008 Turnover Velocity (%)
Bursa Malaysia	23.9	20.3
Hong Kong Exchange	66.9	77.7
National Stock Exchange India	61.5	87.5
Singapore Exchange	46.1	48.9
Thailand Stock Exchange	62.5	83.7

Source: World Federation of Exchanges

The low liquidity will be addressed by increasing the active investor base, increasing the number of listed companies with a large capitalisation and adequate public float, improving

market micro structures and introducing more asset classes for trading.

### Active investor base

The CSE has identified the need to significantly increase the domestic investor base. However we want investors to be aware of the risks of investing in listed shares as well and to make informed decisions. To this end the CSE has been conducting investor education programmes throughout the year.

There was a notable increase in interest amongst the public on investing in shares listed on the CSE, due to the excellent performance of the CSE which was often being highlighted in the media.

The CSE restructured its educational programmes and conducted programmes for different investor segments i.e. high net worth individuals, young professionals and the preretirement segment. 11 four-part workshops for beginners teaching them the basics on investing in the stock exchange and 112 introductory seminars on the Stock Market were conducted during the year.

The CSE published over 150 articles focusing on creating awareness on stock market investments, in local print and online media in all 3 languages. Articles were also published on websites and in publications of the Sri Lankan High Commissions/Missions abroad.

### TV programme

A 13 week TV series titled "Milanka" was telecast on Sirasa TV with the objective of educating the general public on investing in shares listed on the CSE as well as investments in Unit Trusts.

Ratings released by the Lanka Market Research Bureau (LMRB) measuring the popularity of the programme placed 'Milanka' at the top position for 8 episodes and within the top three programmes for the remaining 5 episodes from among all TV programmes telecast during the same time period.

### New Listings

Encouraging new listings amongst largely capitalised companies (stated capital of over Rs. 100 million) with at least a 25% public holding is another important goal identified to increase the liquidity and market capitalisation of the equity market.

The CSE has a "Diri Savi" Board to encourage small and medium sized companies to raise capital by listing their shares on the Exchange. The company must have a minimum Stated Capital of Rs. 35 million and a public

holding of 10% in order to list their shares on the Diri Savi Board. We conducted two workshops, and visited 12 potential companies to encourage listings on the CSE.

### Initial Public Offerings (IPOs)

During the year there were three IPOs of shares which raised a total sum of Rs. 1.2 billion. New listing rules for the listing of closed-end funds were introduced. The first closed-end IPO raised Rs. 537 million. Additionally, a listed company raised Rs. 1.9 billion through an issue of shares for public subscription. Two debenture issues valued at Rs. 1.1 billion were also listed during the year.

**Figure 6: IPOs in 2009**

Name of Company	Equity/ Closed-end Fund	Amount Raised (Rs Mn)	Number of Times Oversubscribed
Capital Reach Leasing	Equity	55.8	1.1
Hemas Power	Equity	626.0	3.7
Namal Acuity Value Fund	Closed-end Fund	537.6	0.5

Source: Colombo Stock Exchange

### Further issue of securities

During the year, a total of Rs. 5.2 billion was raised by 13 listed companies through Rights issues. three Listed companies raised Rs. 1.3 billion through private placement of their shares. CSE approval was granted for two warrant offers valued at Rs. 4.8 billion.

### Risk Management

The CSE has initiated a project to address the Counter party risk prevalent in trading of shares in the secondary market. The National Clearing Corporation, a subsidiary of the National Stock Exchange in India is the consultant to the project.

A Delivery Vs Payment (DVP) mechanism will also be introduced to address the asset commitment risk prevalent in the equity market. In a DVP system, the securities will remain with the seller and will only be delivered to the buyer on settlement day upon the receipt of funds. Presently, securities are immediately transferred to the buyer's account on execution of the transaction, thereby exposing the seller to a 3-day settlement risk.

### Settlement Banks

In July 2009 three more banks were approved as settlement banks for the CSE. Bank of Ceylon, Commercial Bank of Ceylon PLC and HSBC will now provide settlement banking functions in addition to Sampath Bank PLC.

## Market Surveillance

The Surveillance Division referred 12 cases of suspected market malpractices, (7 cases of suspected insider dealing and 5 cases of suspected price manipulations) to the Securities and Exchange Commission of Sri Lanka (SEC).

## Corporate Disclosures

The CSE is fundamentally a disclosure based market. The listing rules require listed companies to make prompt and accurate disclosure of price sensitive information to the Exchange.

In terms of the listing rules amended in 2009 quarterly Financial Statements must be released to the Exchange within 45 days of the end of the first, second and third quarters and two months from the end of the fourth quarter. The requirement to send the quarterly Financial Statements to the shareholders was deleted in the amended rules.

The Annual Report of listed entities must be released within 5 months from the close of the financial year. Listed companies may issue the Annual Report to shareholders in a CD-ROM instead of a printed copy of the Annual Report.

To improve speedy dissemination of corporate announcements to the market, all announcements including Financial Statements (Annual Reports and interim Financial Statements) are now published on the CSE website instead of being faxed/emailed to broker firms as was done previously. Listed companies have been given the facility of uploading their Financial Statements directly on to the CSE website. The response of listed companies in this regard has been encouraging.

## Reduction in fees for transactions of over Rs. 100 million

On a directive issued by the SEC on 6th May 2009 to CSE, CDS and SEC fees charged from investors on a purchase/sale transaction over Rs. 100 million was reduced by 50%.

**Figure 7: Transaction Cost Over Rs. 100 Mn - Equity**

	Previous Fees (%)	New Fees (%)
Total Transaction Cost	0.425 + Negotiable Brokerage	0.4125 (Minimum)
Brokerage	Negotiable	0.1000 (minimum brokerage)
CSE Fees	0.105	0.0525
CDS Fees	0.030	0.0150
SEC	0.090	0.0450
Share Transaction Levy	0.200	0.2000

Source: Colombo Stock Exchange

## Circuit Breaker for the Market

Considering the steep decline in the market indices in 2008 the CSE introduced a market-wide index based circuit breaker where the CSE would impose a market halt for 30 minutes in the event the Milanka Price Index (MPI) falls by more than 5% from the previous market day's close. This is to provide a 'cooling off' period for the market when there is an unusual decline in the index. The CSE imposed a market halt for 30 minutes on 21st January 2009.

## Central Depository System (CDS)

The Depository activity increased significantly in 2009 with a

- 58% increase in the number of new client accounts
- 144% increase in the number of shares dematerialised from scrip form into electronic form (904.4 million shares in 2008 to 2.2 billion shares in 2009)
- the number of dematerialised shares held through the CDS was up from 54% in 2008 to 56% in 2009.
- 149% increase in the number of intra-account transfers

**Figure 8: CDS Operations 2006 - 2009**

	2009	2008	2007	2006
<b>Operational Highlights (No.)</b>				
New Accounts	18,705	11,833	15,020	14,823
Deposits	43,933	72,474	106,080	71,154
Withdrawals	920	10,726	208	212
Transfers	43,151	17,326	16,981	18,535
Trades	1,266,299	776,260	877,292	953,887
Listed Companies	231	235	235	237
Participants	37	36	36	37
<b>Securities Accounts as at 31st December (No.)</b>				
Local Individuals	371,862	361,643	353,287	343,697
Foreign Individuals	2,867	2,675	2,577	2,487
Local Companies	5,262	5,042	4,908	4,755
Foreign Companies	3,713	3,604	3,468	3,305
(The above excludes multiple registrations of account holders through different participants)				
Total Number of Registrations	496,907	478,202	466,369	451,349
<b>Value of Securities held by the CDS as at 31st December (Rs Mn)</b>				
Domestic Clients	387,688	162,325	260,455	248,693
Foreign Clients	231,217	108,006	157,633	121,383
Market Value of Securities	618,906	270,332	418,088	370,076
Shares (%)	56	54	51	44
Debt Securities (%)	34	51	52	43
<b>Quantity of Shares held by the CDS as at 31st December (No. Mn)</b>				
Domestic Clients	9,351	7,684	7,680	6,746
Foreign Clients	4,984	4,457	3,564	1,738
Total	14,335	12,140	11,244	8,484

Source: Central Depository System (CDS)

### **The way forward**

Supported by the optimism over the end of the civil war, the outlook for the country and the capital market is very positive despite large budget deficits weighed down by reconstruction costs.

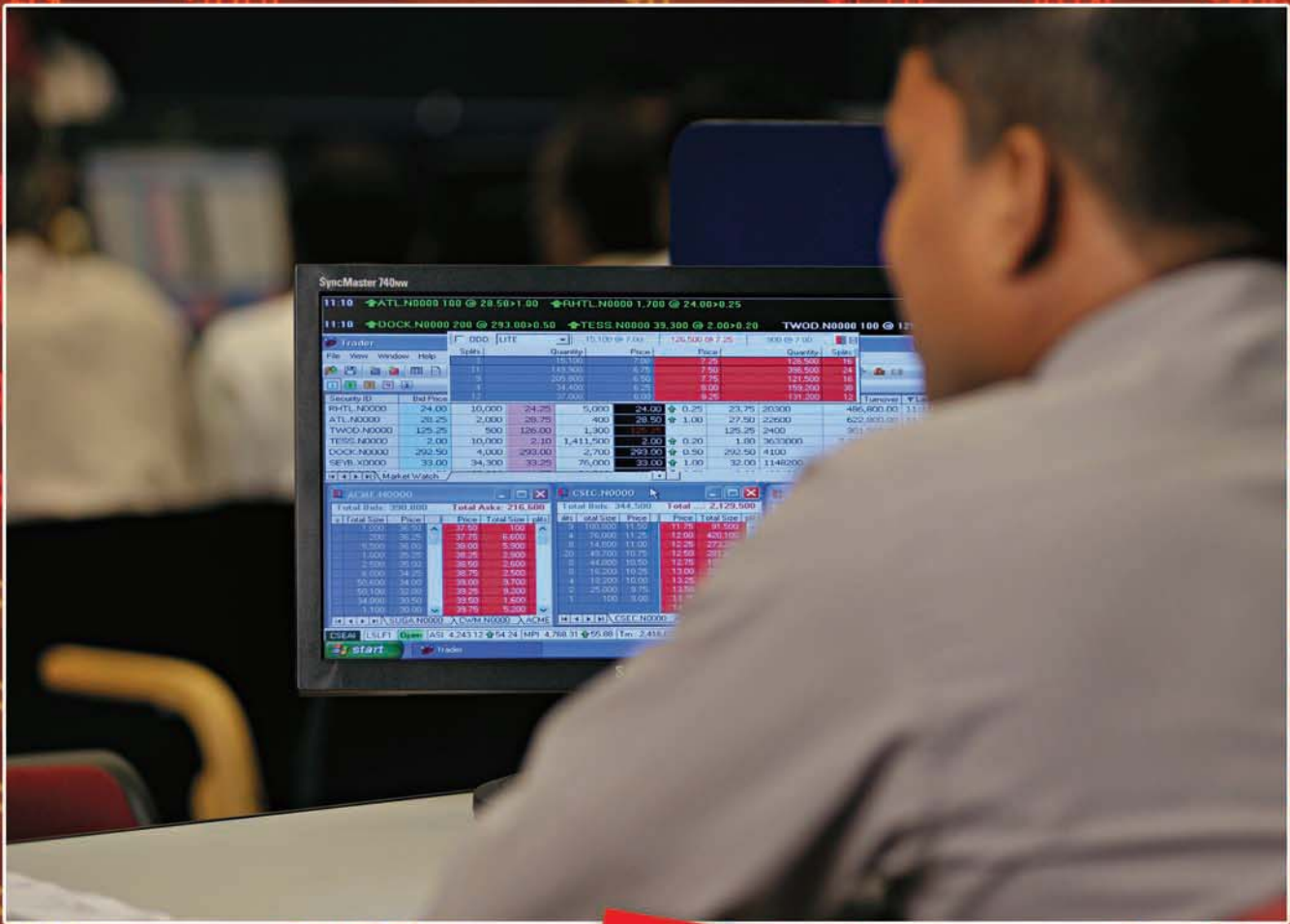
With the Global economy in recovery mode and with higher domestic and foreign investment growth opportunities, it is the responsibility of the policy makers to ensure a framework of policies that would be conducive to investment and economic development viewed from a long term perspective.

The capital market is important to a country's economic and social system. It plays the crucial roles of capital raising for both the public and private sectors, promoting balance and stability in the financial system, decreasing dependence on the banking sector, driving the economy forward, creating jobs as well as being an alternative method for savings.

It is opportune for the CSE in consultation with all its stakeholders to address the challenges this market faces in order to increase the overall competitiveness of the capital market of Sri Lanka, to create wealth and value to the investors and issuers.

### **Appreciation**

I thank the Chairman and the Board of Directors of the CSE for their valued direction and advice. I would like to thank the Chairman, former Director General, Mr. Channa De Silva, and the Directors of the SEC for always supporting the Exchange in all its endeavours. I acknowledge the co-operation of the Broker Firms and Listed Companies. I also thank the management and staff for their unstinted effort and commitment.



A broker at work at a Broker Terminal on the CSE Trading Floor

**"Markets such as Sri Lanka are attractive for frontier market investors."**

- Frontier markets to be hidden treasure of 2010 9th Dec 2009 - Reuters

# Events of 2009

## Highlights of the year under review

Since the end of the war, CSE indices drove upwards, rapidly creating new records. Shown here are some images of landmark events and significant occasions, taken during this spectacular year.



**22nd January** Officials of Capital Reach Leasing Ltd and the CSE on the first day of trading of the Company's shares.



**2nd April** H.E. Dr. Khalid Bin Mohammad Al Attiyah, Minister of State for International Cooperation of the State of Qatar and his delegation visited the CSE.



**20th July** The Trading Floor was reopened in the presence of Dr. Sarath Amunugama, Minister of Public Administration and Home Affairs and Dep. Minister of Finance and Planning.



**6th October** The Prime Minister of Sri Lanka, Hon. Ratnasiri Wickramayake, visited CSE when the market cap surpassed Rs. 1 Trillion for the first time.



**8th October** Hemas Power PLC listed 125.2 million of its ordinary shares on the Diri Savi board of the CSE on the 08th of October 2009, through an IPO.



**12th October** Officials of National Asset Management Company and Acuity Partners on the first day of trading of Namal Acuity Value Fund.



**26th October** The CDS implemented the new multiple settlement bank system for the settlement of secondary market transactions on the CSE. Pictured here is the exchange of agreement with Commercial Bank of Ceylon, one of three new settlement banks.

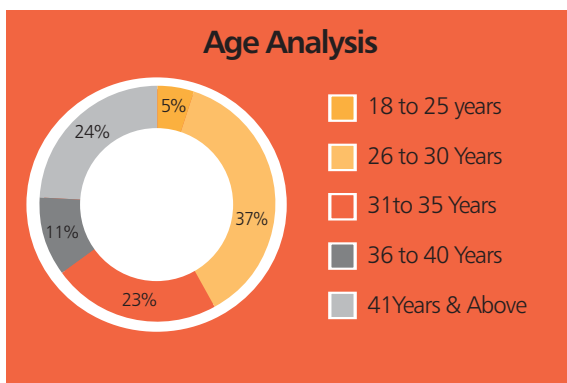
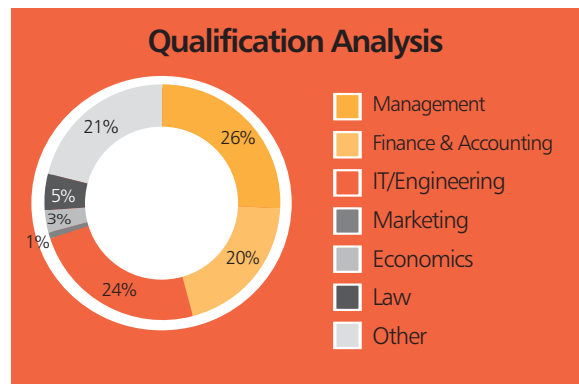
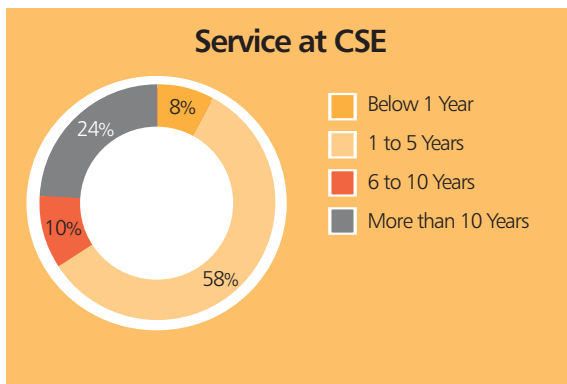


**16th November** Singapore-based Fund Manager, Dr. Mark Mobius, Executive Chairman of global mutual fund giant Templeton Asset Management Ltd visited the CSE on his tour of the island.



# Team driven success.

Human Resource Indicators - 2009



Senior Management	5
Middle Management	6
Junior Management	7
Executives	60
Clerical	11
Other	8

# Board Committees 2009/2010

## 1. Rules and Bye-laws Committee

The Rules and Bye-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. A N Fonseka - Chairman

Mr. C V Kulatilaka

Mr. H M C de Alwis

Mr. K Balendra

2 Representatives from the Colombo Stockbrokers 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 T W Thalgodapitiya - Chairman

Mr. C V Kulatilaka

Mr. K Balendra

Prof. H L P Fernando

## 3. Arbitration and Disciplinary Committee

The Arbitration and 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 and recommends suitable action to the Board of Directors.

Prof. H L P Fernando - Chairman

Mr. M A Omar

Mr. A N Fonseka

Mr. H M C de Alwis

## 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. H M C de Alwis - Chairman

Prof. H L P Fernando

Mr. A N Fonseka

Mr. M A Omar



*L to R: Seated*

Dhakshitha Thalgodapitiya  
Nihal Fonseka (Chairman)  
Prof. Laksiri Fernando

*L to R: Standing*

Hiran de Alwis  
Krishan Balendra  
Ashroff Omar  
Dr. Saman Kelegama  
Vajira Kulatilaka

## Colombo Stock Exchange Board of Directors

Mr. **NIHAL FONSEKA**, a career banker, is the Chief Executive Officer of DFCC Bank. He is a Vice Chairman of the Association of Development Financing Institutions in Asia and Pacific and a member of the Governing Board of the NIBM. He serves as a member of the Advisory Committee on Finance and Banking of the Ceylon Chamber of Commerce and a member of the National Payments Council, Inter-regulatory Institutions Council and the Presidential Commission on Taxation.

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

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

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

Mr. **ASHROFF OMAR**, Chief Executive Officer of Brandix Lanka Ltd and a Director of Phoenix Ventures Ltd and many of its subsidiaries. Founder Chairman of The Joint Apparel Association Forum and former Chairman of The Sri Lanka Apparel Exporters Association. He is also a Director of John Keells Hotels and the Sri Lanka Institute of Nanotechnology and Chairman of NANCO. He is a Chartered Member of The Textile Institute International, UK and a senior member of the Society of Plastics Engineers, Connecticut, USA.

Mr. **DHAKSHITHA THALGODAPITIYA**, an accountant by profession, is CEO/Secretary General of the Chamber of Construction Industry Sri Lanka. He has served the public sector as Chairman/CEO of Sri Lanka Land Reclamation and Development Corporation, River Valleys Development Board, and Lanka Machine Leasers Ltd. He has also carried out many assignments with international organisations. He holds post graduate qualifications in Management from the George Washington University, Washington D.C.

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

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

*L to R: Seated*

Ms. Surekha Sellahewa  
Rajeeva Bandaranaike  
Lalin Paranavitana

*L to R: Standing*

Renuke Wijayawardhane  
Chatura Kulatilaka  
Ms. Renu Ranatunge  
Kusal Nissanka  
Ms. Ruwani Munasinha  
Tushara Jayaratne  
Charita Dumbukola

Colombo Stock Exchange

# Management Team

Ms. Surekha Sellahewa	- Chief Executive Officer
Mr. Rajeeva Bandaranaike	- Assistant General Manager, Clearing and Settlement
Mr. Lalin Paranavitana	- Assistant General Manager, Information Technology
Mr. Renuke Wijayawardhane	- Assistant General Manager, Regulatory Affairs
Mr. Charita Dumbukola	- Senior Manager, IT Security Administration and Projects
Mr. Tushara Jayaratne	- Manager, Business Development
Mr. Kusal Nissanka	- Manager, Finance and Administration
Ms. Renu Ranatunge	- Manager, Legal
Ms. Ruwani Munasinha	- Manager, Listing and Corporate Affairs
Mr. Chatura Kulatilaka	- Manager, Systems Operation





# 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, 53, Dharmapala Mawatha, Colombo 3.

Tel.2206206 Fax: 2206298/9

E-mail: sales@acuitystockbrokers.com

Website: www.acuitystockbrokers.com

### **Mr. Deva Ellepola**

Managing Director/CEO

## **John Keells Stockbrokers (Pvt) Ltd.**

130, Glennie Street, Colombo 2.

Tel. 4710721-4 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

Website: www.ashaphillip.com

### **Mr. Dimuthu Abeysekera**

Director/CEO

## **Assetline Securities (Pvt) Ltd.,**

3rd Floor, Forbes and Walkers Building, 46/38, Navam Mawatha, Colombo 2.

Tel. 4700111, 2307366 Fax: 4700112, 2307365

E-mail: dpgs1@sltnet.lk

Website: www.dpgsonline.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

Website: www.jbs.lk

### **Mr. Murtaza Jafferjee**

Chairman and 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. 4714300, 4714388, 4714389, 0777-891871,

0777-896064 Fax: 2387228

E-mail: info@ecsbl.com

Website: www.ecsbl.com

**Mr. Sriyan Gurusinghe**

Director/General Manager

**Capital TRUST Securities (Pvt) Ltd.**

42, Sir Mohamed Macan Markar Mawatha, Colombo 3.

Tel. 5335225, Fax: 5365725

E-mail: inquiries@capitaltrust.lk

Website: www.capitaltrust.lk

**Mr. Tushan Wickremasinghe**

Managing Director

**S C Securities (Pvt) Ltd.**

2nd Floor, 55 D.R. Wijewardena Mawatha, Colombo 10.

Tel. 4711000, Fax: 2394405

E-mail: cscres@slt.net.lk

**Mr. Harsha Fernando**

Director/CEO

**CT Smith Stockbrokers (Pvt) Ltd.**

4-14, Majestic City, 10, Station Road, Colombo 4.

Tel. 2552290 - 4 Fax: 2552289

E-mail: ctssales@slt.net.lk

Website: www.ctsmith.lk

**Mrs. Cecilia Muttukumaru**

Managing Director

**D N H Financial (Pvt) Ltd.**

Level 16, West Tower, World Trade Centre, Colombo 1.

Tel. 5732222 Fax: 5736264,

E-mail: info@dnhfinancial.com

Website: www.dnhfinancial.com

**Mr. Seedantha Kulatilake**

General Manager/CEO

**N D B Stockbrokers (Pvt) Ltd.**

5th Floor, NDB Building, 40, Navam Mawatha, Colombo 2.

Tel. 2314170 to 2314178 Fax: 2314180

E-mail: mail@ndbs.lk

Website: www.ndbs.lk

**Mrs. Prasansini Mendis**

Chief Executive Officer

**Trading Members- Debt and Equity****Capital Alliance Securities (Pvt) Ltd.**

Level 5, "Millennium House",

46/58 Navam Mawatha, Colombo 2.

Tel: 2317777 Fax: 2317788,

Website: www.capitalalliance.lk

**Mr. Harinlal Aturupane**

Chief Executive Officer

**SMB Securities (Pvt) Ltd.**

47, Dharmapala Mawatha, Colombo 3.

Tel: 5539593 Fax: 2339292

E-mail: smbsecurities@gmail.com

Website: www.smb.lk.com

**Mr. Nandun Jayatillake**

Chief Executive Officer

**First Guardian Equities (Pvt) Ltd.**

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

Tel: 5884400 Fax: 5884401

E-mail: info@firstguardianequities.com

Website: www.firstguardianequities.com

**Mr. Rohan Goonewardene**

Managing Director/CEO

**Taprobane Securities (Pvt) Ltd.**

2nd Floor, 10, Gothami Road, Colombo 08.

Tel: 5231000 Fax: 5328177

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

Website: www.taprobane.lk

**Mr. Dinal Wijemanne**

Chief Executive Officer

**Amana Securities Ltd.**

532/4F, Srikotha Lane, Galle Road, Colombo 3.

Tel: 2372561-4, Fax: 2372565

E-mail: info@asl.lk

Website: www.asl.lk

**Mr. Mohammed Riyaz**

Acting Chief Executive Officer

**SKM Lanka Holdings (Pvt) Ltd.**

377/3, Galle Road, Colombo 3.

Tel: 2372413-4, Fax: 2372416

E-mail: info@skmlankaholdings.com

Website: www.skmlankaholdings.com

**Mr. R. M. B. Senanayake**

General Manager, Operations



# Financial Information

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- Audit Committee Report 31 •Directors' Responsibility for Financial Reporting 32
- Independent Auditors' Report 33 •Balance Sheet 34 •Income Statement 35 •Statement of Changes in Equity 36 •Consolidated Cash Flow Statement 37
- Notes to the Financial Statements 38 •Key Financial Indicators 51

# 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 2009.

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 03rd May 2010.

## 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. CSE is also a member of the South Asian Federation of Exchanges (SAFE).

The policy making body of the CSE is the Board of Directors comprised 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 and 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 Operation and future developments

A review of the activities of the CSE during the year is contained in the Chairman's Message (pages 6 to 8) and the Chief Executive Officer's Review (pages 10 to 15) of the Annual Report 2009. These reports form an integral part of the Annual Report.

## Financial Statements and Auditor's Report

The Financial Statements of the Company and its subsidiary for the year ended 31st December 2009 duly signed by the Manager Finance and Administration and two of the Directors of the Company are given on pages 34 to 50 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 2009 and their report on those statements which forms an integral part of the Report of the Board of Directors, is given on page 33 of this Annual Report.

A sum of Rs. 395,000/- (Rs. 350,000/- in 2008) was paid to them on account of providing audit services. A sum of Rs.366,258/- (Rs.321,665/- in 2008) was paid on account of tax related services. The detail of their remuneration is given in Note 21 to the Financial Statements. As far as the Directors are aware the Auditors do not have any interest with the CSE or its subsidiary other than those disclosed above.

### Board Audit Committee

The composition of the Board Audit committee, comprising Non Executive Directors is provided on page 19.

The CEO and other members of Management attend the meeting by invitation. The report of the Board Audit Committee is given on page 31.

### Accounting Policies

The accounting policies adopted in preparation of the Financial Statements are given on pages 38 to 40. There have been no changes in the accounting policies adopted by the company and its subsidiary, during the year under review.

### Donations

Donations made during the year amounted to Rs. 629,310/- (Rs. 940,799/- in 2008). From this amount, a sum of Rs. 500,000/- (Rs. 864,400/- in 2008) was made to approved charities.

### Board of Directors

The following Directors held office as at the Balance Sheet date.

<u>Name of the Director</u>	<u>Status</u>
Mr. A.N. Fonseka (Chairman)	Elected
Mr. K. Balendra	Elected
Mr. C.V. Kulatilaka (w.e.f.05th October 2009)	Elected
Mr. M.A. Omar	Appointed
Mr. D.T.W. Thalagodapitiya	Appointed
Prof. H.L.P. Fernando (w.e.f.10th September 2009)	Appointed
Mr. H.M.C. de Alwis (w.e.f.10th September 2009)	Appointed

Mr. A.N. Fonseka and Mr.K. Balendra retire by rotation at the conclusion of the Annual General Meeting in terms of Article 50 of the Articles of Association, and being eligible and offering themselves for re-election.

The following Directors ceased to be Directors during the year 2009.

Mr. M.M.Udeshi (w.e.f 15th May 2009)  
Prof. M. Ranasinghe (w.e.f.06th August 2009)  
Mr. J.H.P. Ratnayake (w.e.f.13th August 2009)  
Mr. M.A.Jafferjee (w.e.f.13th August 2009)

### Directors' Interest Register

The CSE maintains a Directors' Interests Register as stipulated by the Companies Act No. 7 of 2007. The Directors of the CSE have disclosed their interests in other companies to the Board and those interests are recorded in the Interests Register conforming to the provisions of the Companies Act No.7 of 2007. The particulars of those entries are set out on pages 48 and 50 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 25 of the Financial Statements which form an integral part of the Annual Report of the Board.

### Directors' Responsibility for Financial Reporting

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

### Directors' Remuneration

In compliance with the provisions of the Articles of Association, the CSE has not made any payments on account of Directors' remuneration other than payment pertaining to meet out of pocket expenses for attending Board Meeting as given in Note 25 to the Financial Statements.

### 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.

## Annual Report of the Board of Directors on the Affairs of the Colombo Stock Exchange (Contd.)

### Appointment of Auditors

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

### Annual General Meeting

The Annual General Meeting will be held at the Auditorium of Colombo Stock Exchange, 4-1, West Block, World Trade Centre, Colombo 01 (Registered office), on Tuesday, 29th June 2010 at 3.00 P.m.

**For and on behalf of the Board of Directors.**



Chairman



Director



**Secretarial Services Limited**

Secretaries

03rd May 2010

Colombo

# Audit Committee Report

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

## **The members of the Board appointed Audit Committee are;**

Mr. D.T.W. Thalgodapitiya - Chairman  
Mr. K. Balendra  
Prof. H.L.P. Fernando  
Mr. C.V. Kulatilaka

All 4 members of the Audit Committee are Non-Executive Directors. The Chief Executive Officer, Assistant General Manager -IT and Manager Finance and Administration attend the meetings of the Audit Committee on invitation. The Company Secretary functions as the Secretary to the Audit Committee. The committee had two meetings during the year under review.

The Committee is empowered to examine matters relating to the financial affairs of the CSE and its subsidiary Central Depository Systems (Pvt) Ltd (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 independence of the External Auditor was evaluated by the committee and also reviewed the non audit services provided by the Auditors to ensure that provision of such services does not impair the External Auditors' independence. The Audit Committee reviewed the Financial Statements audited by KPMG Ford Rhodes Thornton and Company for the financial year ended 31st December 2009 together with the management comments on the observations made by the Auditors and approved the Financial Statement at the Audit Committee meeting held on 12th March 2010 for submission to the Board. The Committee reviewed and approved the draft Letter of Representation to be given to the External Auditors for the year 2009. The Audit committee has recommended to the Board of Directors the re-appointment of the external Auditor KPMG Ford Rhodes Thornton and Company and fixed the Auditors'

remuneration, for approval at the Annual General Meeting. The committee further decided that the Lead Audit Partner is required to be rotated every five years, in order to ensure the independence of the Auditor. The internal audit function is outsourced to Ernst and Young Advisory Services (Pvt) Ltd.

The Committee recommended the inclusion of the Statement of Directors' Responsibility for Financial Reporting in the 2009 Annual Report.

On behalf of the Audit Committee;



**D.T.W. Thalgodapitiya**  
Chairman - Audit Committee

Colombo  
03rd May 2010

# Directors' Responsibility for Financial Reporting

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

As per the provisions of the Companies Act No. 07 of 2007 the Directors are required to prepare Financial Statements for each financial year and place them before a General Meeting. The Financial Statements comprise the Balance Sheet as at 31st December 2009, 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 and its Subsidiary give a true and fair view of:

1. the state of affairs of the Company and its Subsidiary as at Balance Sheet date and
2. the Profit or Loss of the Company and 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 (Pvt) Ltd (CDS) for the year ended 31st December 2009 presented in this report have been prepared in accordance with the Sri Lanka Accounting Standards, Companies Act No: 07 of 2007 and Sri Lanka Accounting and Auditing Standard Act No: 15 of 1995.

The Directors have adopted the going concern basis in preparing the Financial Statements. The Directors are of the view that the CSE and 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  
03rd May 2010

# Independent Auditors' 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](http://www.lk.kpmg.com)

## TO THE MEMBERS OF THE COLOMBO STOCK EXCHANGE Report on the Financial Statements

We have audited the accompanying Financial Statements of Colombo Stock Exchange, the consolidated Financial Statements of the Company and its subsidiaries as at December 31, 2009 which comprise the Balance Sheet as at December 31, 2009, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

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

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2009 and the Financial Statements give a true and fair view of the Company's state of affairs as at December 31, 2009 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, 2009 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.

### CHARTERED ACCOUNTANTS

Colombo  
03rd May 2010

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

A. N. Fernando FCA  
Ms. M. P. Perera FCA  
T. J. S. Rajakarier FCA  
Ms. S. M. B. Jayasekara ACA

S. Sirikananathan FCA  
P. Y. S. Perera FCA  
W. W. J. C. Perera FCA  
W. K. D. C. Abeyrathne ACA

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

# Balance Sheet

As at 31st December 2009		Consolidated			CSE
Note	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.	
<b>ASSETS</b>					
<b>Non Current Assets</b>					
Property and Equipment	4	59,996,440	79,957,912	59,996,396	79,957,868
Intangible Assets	5	26,166,253	22,291,393	26,166,253	22,291,393
Capital Work in Progress	6	6,650,477	11,151,267	6,650,477	11,151,267
Investments in Subsidiary	7	-	-	25,000	50,025,000
Investments in Units Trusts	8	800,000,000	800,000,000	800,000,000	800,000,000
Investments in LFSB	9	1,000,000	1,000,000	-	-
<b>Total Non Current Assets</b>		<b>893,813,170</b>	<b>914,400,572</b>	<b>892,838,126</b>	<b>963,425,528</b>
<b>Current Assets</b>					
Inventories		3,338,841	4,834,752	3,305,763	4,776,849
Investments in Treasury Bills and Repos		80,098,526	69,208,596	80,098,526	69,208,596
Investments in Unit Trusts	8	387,645,125	203,120,779	387,645,125	203,120,779
Trade and Other Receivables	10	66,082,328	68,192,034	60,989,970	64,841,486
Income Tax Recoverable		-	4,180,854	-	-
Cash and Cash Equivalents	11	47,852,958	24,352,314	30,234,148	24,272,610
<b>Total Current Assets</b>		<b>585,017,778</b>	<b>373,889,329</b>	<b>562,273,532</b>	<b>366,220,320</b>
<b>Total Assets</b>		<b>1,478,830,948</b>	<b>1,288,289,901</b>	<b>1,455,111,658</b>	<b>1,329,645,848</b>
<b>EQUITY AND LIABILITIES</b>					
Accumulated Fund		1,148,066,219	1,006,592,811	1,148,066,219	1,006,592,811
Revenue Reserve of CDS		57,653,380	40,506,027	-	-
Capital Reserve	12	99,975,000	49,975,000	-	-
Capital Redemption Reserve	12	-	50,000,000	-	-
Conference Fund Account	12	558,713	558,713	558,713	558,713
<b>Total Equity</b>		<b>1,306,253,312</b>	<b>1,147,632,551</b>	<b>1,148,624,932</b>	<b>1,007,151,524</b>
<b>Non Current Liabilities</b>					
Brokers' Deposits in lieu of Bank Guarantee	13	61,689,970	55,439,970	61,689,970	55,439,970
Retirement Gratuity Obligation	14	29,888,522	14,512,570	29,888,522	14,512,570
Deferred Grants	15	531,434	1,036,012	531,434	1,036,012
Deferred Tax Liabilities	16	686,801	6,603,934	686,801	6,603,934
<b>Total Non Current Liabilities</b>		<b>92,796,727</b>	<b>77,592,486</b>	<b>92,796,727</b>	<b>77,592,486</b>
<b>Current Liabilities</b>					
Brokers' Deposits in lieu of Bank Guarantee		35,395,000	12,555,000	10,000,000	6,250,000
Income Tax Payable		11,140,663	7,808,739	1,730,440	7,808,739
Other Payables	17	23,224,151	25,435,737	191,938,464	213,577,710
Tsunami Fund Payable		9,133,298	8,040,474	9,133,298	8,040,475
Bank Overdraft	11	887,797	9,224,914	887,797	9,224,914
<b>Total Current Liabilities</b>		<b>79,780,909</b>	<b>63,064,864</b>	<b>213,689,999</b>	<b>244,901,838</b>
<b>Total Equity and Liabilities</b>		<b>1,478,830,948</b>	<b>1,288,289,901</b>	<b>1,455,111,658</b>	<b>1,329,645,848</b>

The above Balance Sheet is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 38 to 50.

These Financial Statements are prepared in accordance with the requirement of the Companies Act No 07 of 2007.



Manager Finance and Administration

Signed for and on behalf of the Board by:



Director



Director

3rd May 2010

Colombo

# Income Statement

For the year ended 31st December 2009		Consolidated			CSE
	Note	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Revenue</b>	18	398,783,419	370,981,759	297,120,127	288,797,841
Other Income	19	144,772,387	118,587,777	145,973,422	120,960,597
		543,555,806	489,569,536	443,093,549	409,758,438
Staff Cost	20	(112,689,698)	(84,644,330)	(96,491,908)	(72,200,529)
Depreciation and Amortisation		(40,816,536)	(49,073,247)	(40,816,536)	(49,073,247)
Other Operating Expenses	21	(199,917,100)	(193,142,536)	(149,074,002)	(134,533,250)
<b>Profit before taxation</b>		190,132,472	162,709,423	156,711,103	153,951,412
Income Tax	22	(31,511,711)	(42,107,444)	(15,237,695)	(37,120,199)
<b>Net profit for the year</b>		158,620,761	120,601,979	141,473,408	116,831,213

The above Income Statement is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 38 to 50.

## Statement of Changes in Equity

As at 31st December 2009	Accumulated Fund Rs.	Revenue Reserve of CDS Rs.	Capital Reserve Rs.	Capital Redemption Reserve Rs.	Conference Fund Account Rs.	Total Rs.
<b>Balance as at 01st January 2008</b>	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	-	-	-	-
<b>Balance as at 31st December 2008</b>	1,006,592,811	40,506,027	49,975,000	50,000,000	558,713	1,147,632,551
Net Profit for the year	158,620,761	-	-	-	-	158,620,761
Redemption of Preference Shares	-	-	-	-	-	-
Capitalisation of Capital Redemption Reserve (Note 12)	-	-	50,000,000	(50,000,000)	-	-
Dividends	1,677,847	(1,677,847)	-	-	-	-
Revenue Profit of CDS for the year	(18,825,200)	18,825,200	-	-	-	-
<b>Balance as at 31st December 2009</b>	1,148,066,219	57,653,380	99,975,000	-	558,713	1,306,253,312

CSE	Accumulated Fund Rs.	Conference Account Rs.	Total Rs.
<b>Balance as at 01st January 2008</b>	889,761,598	558,713	890,320,311
Net Profit for the year	116,831,213	-	116,831,213
<b>Balance as at 31st December 2008</b>	1,006,592,811	558,713	1,007,151,524
Net Profit for the year	141,473,408	-	141,473,408
<b>Balance as at 31st December 2009</b>	1,148,066,219	558,713	1,148,624,932

The above Statements of Changes in Equity is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 38 to 50.

# Consolidated Cash Flow Statement

As at 31st December 2009		Consolidated			CSE
Note	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.	
<b>Cash Flows from Operating Activities</b>					
	190,132,472	162,709,423	156,711,103	153,951,412	
Net Profit before Taxation					
<b>Adjustments For :</b>					
Depreciation / Amortisation	4/5 40,816,536	49,073,247	40,816,536	49,073,247	
Interest Income	19 (2,477,566)	(55,912,411)	(2,477,566)	(55,912,411)	
Amortisation of Deferred Grant	15 (504,578)	(767,100)	(504,578)	(767,100)	
(Profit) / Loss on Sale of Property and Equipment	(1,478,804)	(1,277,714)	(1,478,804)	(1,277,714)	
Gain on Redemption of Unit Trust Investments	(48,305)	(1,123,781)	(48,305)	(1,123,781)	
Dividend Income	(124,123,665)	(41,307,135)	(125,498,727)	(43,953,697)	
Gratuity Provision	14 15,375,952	(2,764,127)	12,712,320	(2,922,935)	
Provision for Bad Debts	13,566	555,977	2,010	295,067	
<b>Operating Profit before Working Capital Changes</b>	<b>117,705,608</b>	<b>109,186,379</b>	<b>80,233,989</b>	<b>97,362,088</b>	
(Increase) / Decrease in Inventories	1,495,911	(350,556)	1,471,086	(347,767)	
(Increase) / Decrease in Other Receivables	10 2,096,140	(10,320,152)	3,849,506	(13,964,784)	
Increase / (Decrease) in Other Payables and Tsunami Fund	17 (1,118,762)	(1,861,990)	(17,882,791)	8,134,148	
Increase / (Decrease) in Broker Deposits	29,090,000	(14,590,000)	10,000,000	(14,500,000)	
<b>Cash Generated from Operations</b>	<b>149,268,897</b>	<b>82,063,681</b>	<b>77,671,790</b>	<b>76,683,685</b>	
Income Tax Paid	(29,668,309)	(45,747,913)	(26,985,370)	(40,197,244)	
Gratuity Paid	14 -	(235,200)	-	(235,200)	
<b>Net Cash Flow from Operating Activities</b>	<b>119,600,588</b>	<b>36,080,568</b>	<b>50,686,420</b>	<b>36,251,241</b>	
<b>Cash Flow from Investing Activities</b>					
Interest Income	2,229,809	79,832,529	2,229,809	79,832,529	
Purchase of Property and Equipment and Intangible Assets	(14,051,201)	(13,942,884)	(14,051,201)	(13,942,884)	
Proceeds from Sale of Property and Equipments	1,951,348	1,277,717	1,951,348	1,277,717	
(Increase) / Decrease in Deposits and Treasury Bills and Bonds	(10,889,930)	863,066,327	(10,889,930)	863,066,327	
Dividend Income	124,123,665	41,307,135	125,498,727	41,307,135	
(Increase) / Decrease in Investments in Unit Trusts	(184,476,041)	(1,001,996,998)	(184,476,041)	(1,001,996,998)	
Work in Progress	(6,650,477)	(11,151,267)	(6,650,477)	(11,151,267)	
Disposal of Investment in Subsidiary	-	-	50,000,000	-	
<b>Net Cash Flow from Investing Activities</b>	<b>(87,762,827)</b>	<b>(41,607,441)</b>	<b>(36,387,765)</b>	<b>(41,607,441)</b>	
<b>Cash Flow from Financing Activities</b>					
Grants Received	15 -	200,000	-	200,000	
<b>Net Cash Flow from Financing Activities</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>200,000</b>	
Net Increase / (Decrease) in Cash and Cash Equivalents	31,837,761	(5,326,873)	14,298,655	(5,156,200)	
Cash and Cash Equivalents at beginning of the Year	15,127,400	20,454,273	15,047,696	20,203,896	
<b>Net Cash and Cash Equivalents at end of the Year</b>	<b>46,965,161</b>	<b>15,127,400</b>	<b>29,346,351</b>	<b>15,047,696</b>	
Cash in hand	160,000	170,000	155,000	165,000	
Cash at bank	1,677,416	8,263,745	1,409,301	8,202,601	
RTGS Account	15,440	13,560	-	-	
Short term investment - overnight repo	46,000,102	15,905,009	28,669,847	15,905,009	
Cash and Cash Equivalents	47,852,958	24,352,314	30,234,148	24,272,610	
Bank Overdraft	(887,797)	(9,224,914)	(887,797)	(9,224,914)	
<b>Net Cash and Cash Equivalents</b>	<b>46,965,161</b>	<b>15,127,400</b>	<b>29,346,351</b>	<b>15,047,696</b>	

The above Cash Flow Statement is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 38 to 50.

# Notes to the Financial Statements

## 1 REPORTING ENTITY

### 1.1 General

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

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

### 1.2 Principal activities and nature of operations

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

### 1.3 Number of employees

The number of employees at the end of the year was 97 (92 in 2008).

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

The consolidated Financial Statements of the company for the year ended 31st December 2009 comprise the Central Depository Systems (Private) Limited, a wholly owned subsidiary of the Colombo Stock Exchange which was incorporated on 2nd September 1991. The Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLASs), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 7 of 2007.

The Financial Statements were authorised for issue by the Board of Directors on 03rd May 2010.

### 2.2 Basis of measurement

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

### 2.3 Use of estimates and judgments

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards (SLASs) require management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

## 3 SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of consolidation

#### Subsidiary

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

#### Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra - group transactions, are eliminated in preparing the consolidated Financial Statements.

### 3.2 Foreign currencies

#### Foreign currency transactions

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

Foreign exchange differences arising on translation are recognised in the Income Statement.

### 3.3 Property and equipment

#### Recognition and measurement

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

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

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

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

#### Subsequent costs

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

#### Depreciation

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

The estimated useful lives are as follows:

Furniture and Fittings	6 - 7 years
Computers and Office Equipment	5 years
Motor Vehicles	5 years
Telephones	4 years

### 3.4 Intangible assets

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of

the asset can be measured reliably in accordance with the Sri Lanka Accounting Standards No.37, Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation.

#### 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
-------------------	---------

#### 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.

### 3.5 Development costs

Expenditure on development activities, 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.

### 3.6 Investments

Investment in subsidiary is held at cost.

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

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

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

### 3.7 Inventories

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

### 3.8 Trade and other receivables

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

### 3.9 Cash and cash equivalents

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

### 3.10 Impairment of assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash - generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

## Notes to the Financial Statements (Contd.)

### 3.11 Employee benefits

#### Defined contribution plans - Employees' Provident Fund and Trust Fund

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

#### Defined benefits plans

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

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

### 3.12 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.

### 3.13 Trade and other payables

Trade and other payables are stated at their cost.

### 3.14 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.

### 3.15 Income tax expenses

#### Current tax

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

### Deferred taxation

Deferred tax is recognised using the Balance Sheet liability method. The tax effect of all temporary differences which occur where items are allowed for income tax purposes in a period different from that when they are recognised in the Financial Statements is included in the provision for deferred taxation at current rates of taxation.

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

The carrying amount of deferred tax asset is reviewed at each Balance Sheet date and reduced by the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

### Withholding tax on dividends distributed by subsidiary

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

### 3.16 Revenue

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

### 3.17 Expenses

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

### 3.18 Comparative information

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

As at 31st December 2009	Furniture and Fittings Rs.	Computers and Office Equipment Rs.	Motor Vehicles Rs.	Telephones Rs.	Total 31.12.09 Rs.	Total 31.12.08 Rs.
<b>4 PROPERTY and EQUIPMENT - CONSOLIDATED :</b>						
Cost as at 01.01.2009	59,590,673	188,296,880	21,387,056	10,736,446	280,011,055	270,309,493
Additions	7,257,412	5,739,695	-	1,700	12,998,807	9,923,024
Disposals / Transfers	(1,220,311)	(4,834,960)	(2,303,246)	(2,758,205)	(11,116,722)	(1,722,664)
Transfer from Development cost	-	-	-	-	-	1,501,202
Cost as at 31.12.2009	65,627,774	189,201,615	19,083,810	7,979,941	281,893,140	280,011,055
Accumulated Depreciation						
as at 01.01.2009	37,706,131	146,099,517	9,344,149	6,903,346	200,053,143	163,863,462
Charge for the year	6,276,618	20,708,641	3,816,435	1,686,041	32,487,735	36,411,141
Disposals / Transfers	(1,171,628)	(4,752,690)	(1,963,952)	(2,755,908)	(10,644,178)	(1,722,661)
Transfer from Development cost	-	-	-	-	-	1,501,201
Accumulated Depreciation						
as at 31.12.2009	42,811,121	162,055,468	11,196,632	5,833,479	221,896,700	200,053,143
Written Down Value						
as at 31.12.2009	22,816,653	27,146,147	7,887,178	2,146,462	59,996,440	-
Written Down Value						
as at 31.12.2008	21,884,542	42,197,363	12,042,907	3,833,100	-	79,957,912
<b>PROPERTY and EQUIPMENT - CSE :</b>						
Cost as at 01.01.2009	59,199,356	185,299,724	21,387,056	10,675,596	276,561,732	266,860,170
Additions	7,257,412	5,739,695	-	1,700	12,998,807	9,923,024
Disposals / Transfers	(1,220,311)	(4,834,960)	(2,303,246)	(2,758,205)	(11,116,722)	(1,722,664)
Transfer from Development cost	-	-	-	-	-	1,501,202
Cost as at 31.12.2009	65,236,457	186,204,459	19,083,810	7,919,091	278,443,817	276,561,732
Accumulated Depreciation						
as at 01.01.2009	37,314,837	143,102,380	9,344,149	6,842,498	196,603,864	160,414,183
Charge for the year	6,276,618	20,708,641	3,816,435	1,686,041	32,487,735	36,411,141
Disposals / Transfers	(1,171,628)	(4,752,690)	(1,963,952)	(2,755,908)	(10,644,178)	(1,722,661)
Transfer from Development cost	-	-	-	-	-	1,501,201
Accumulated Depreciation						
as at 31.12.2009	42,419,827	159,058,331	11,196,632	5,772,631	218,447,421	196,603,864
Written Down Value						
as at 31.12.2009	22,816,630	27,146,128	7,887,178	2,146,460	59,996,396	-
Written Down Value						
as at 31.12.2008	21,884,519	42,197,344	12,042,907	3,833,098	-	79,957,868

## Notes to the Financial Statements (Contd.)

	Consolidated		CSE	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>5 INTANGIBLE ASSETS</b>				
Cost				
Balance as at 01.01.2009	108,039,545	104,019,684	108,039,545	104,019,684
Acquired during the year	12,203,661	4,019,861	12,203,661	4,019,861
Balance as at 31.12.2009	120,243,206	108,039,545	120,243,206	108,039,545
Amortisation				
Balance as at 01.01.2009	85,748,152	73,086,044	85,748,152	73,086,044
Provision for the year	8,328,801	12,662,108	8,328,801	12,662,108
Balance as at 31.12.2009	94,076,953	85,748,152	94,076,953	85,748,152
Net Book Value	26,166,253	22,291,393	26,166,253	22,291,393
Intangible assets are the application software used in the trading, clearing, settlement, surveillance, accounting, mail systems and the web site of the Colombo Stock Exchange.				
<b>6 CAPITAL WORK IN PROGRESS</b>				
Cost as at 01.01.2009	11,151,267	-	11,151,267	-
Incurred during the year	6,650,477	11,151,267	6,650,477	11,151,267
Transfers	(11,151,267)	-	(11,151,267)	-
Cost as at 31.12.2009	6,650,477	11,151,267	6,650,477	11,151,267
<b>7 INVESTMENTS IN SUBSIDIARY</b>				
Central Depository Systems (Pvt) Ltd. 10,000,000 Ordinary Shares (5,000,000 Ordinary Shares in 2008)	-	-	25,000	25,000
5,000,000 Redeemable Preference Shares	-	-	-	50,000,000
	-	-	25,000	50,025,000
<b>8 INVESTMENTS IN UNIT TRUSTS</b>				
Long Term Investments				
NAMAL- Gilt Edge Fund	600,000,000	600,000,000	600,000,000	600,000,000
CEYBANK- Gilt Edge Fund	200,000,000	200,000,000	200,000,000	200,000,000
	800,000,000	800,000,000	800,000,000	800,000,000
Current Investments				
NAMAL- Money Market Fund	387,645,125	203,120,779	387,645,125	203,120,779
	387,645,125	203,120,779	387,645,125	203,120,779

As at 31st December 2009	2009			2008		
	Units No.	Cost Rs.	Market Value/ Net Asset Value Rs.	Units Rs.	Cost No.	Market Value/ Net Asset Value Rs.
<b>8.1 UNIT TRUSTS</b>						
NAMAL- Gilt Edge Fund	60,019,368	600,000,000	770,648,686	60,019,368	600,000,000	623,601,235
CEYBANK- Gilt Edge Fund	20,000,000	200,000,000	249,400,000	20,000,000	200,000,000	201,600,000
NAMAL- Money Market Fund	38,165,448	387,645,125	391,577,491	20,034,181	203,120,779	208,155,149
Total Investments in Unit Trusts- CSE		1,187,645,125	1,411,626,177		1,003,120,779	1,033,356,384
Total Investments in Unit Trusts- Consolidated		1,187,645,125	1,411,626,177		1,003,120,779	1,033,356,384

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

As At 31st December 2009	Consolidated		CSE	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>9 INVESTMENT IN LFSB</b>				
Ordinary Shares	1,000,000	1,000,000	-	-
	1,000,000	1,000,000	-	-

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

#### 10 TRADE AND OTHER RECEIVABLES

Trade Debtors	6,615,424	6,680,108	2,430,492	4,249,584
Provision for Doubtful Debts	(1,059,002)	(1,136,613)	(724,511)	(813,678)
CSE and CDS Fees Receivable	5,246,272	955,792	4,004,355	712,833
Prepayments	23,904,687	24,069,877	23,904,687	24,069,877
Advance Payments	135,855	5,398,451	135,855	5,398,451
Refundable Deposits	16,507,066	14,875,162	16,507,066	14,875,162
Sundry Debtors	2,262,921	3,366,691	2,262,921	2,366,691
Other Receivable	2,044,497	3,052,717	2,044,497	3,052,717
Staff Loans	10,424,608	10,929,849	10,424,608	10,929,849
	66,082,328	68,192,034	60,989,970	64,841,486

#### 11 CASH AND CASH EQUIVALENTS

Treasury Bill Overnight Repos	46,000,102	15,905,009	28,669,847	15,905,009
Cash at Bank	1,677,416	8,263,745	1,409,301	8,202,601
RTGS Account	15,440	13,560	-	-
Cash in Hand	160,000	170,000	155,000	165,000
Cash and Cash Equivalents	47,852,958	24,352,314	30,234,148	24,272,610
Bank Overdraft	(887,797)	(9,224,914)	(887,797)	(9,224,914)
Net Cash and Cash Equivalents	46,965,161	15,127,400	29,346,351	15,047,696

## Notes to the Financial Statements (Contd.)

### 12 RESERVES AND FUND

#### Capital Reserve

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

#### Capital Redemption Reserve

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

#### Conference Fund Account

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

	Consolidated		CSE	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>13 BROKER DEPOSITS IN LIEU OF BANK GUARANTEE</b>				
Broker Deposits (Note 13.1)	60,750,000	54,500,000	60,750,000	54,500,000
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
	<b>61,689,970</b>	<b>55,439,970</b>	<b>61,689,970</b>	<b>55,439,970</b>

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

### 14 RETIREMENT GRATUITY OBLIGATION

Balance as at 01.01.2009	14,512,570	17,511,897	14,512,570	17,511,897
Provision made during the year	15,375,952	(2,764,127)	12,712,320	(2,922,935)
Transfer to CDS	-	-	2,663,632	158,808
Payments made during the year	-	(235,200)	-	(235,200)
Balance as at 31.12.2009	<b>29,888,522</b>	<b>14,512,570</b>	<b>29,888,522</b>	<b>14,512,570</b>

### 15 DEFERRED GRANTS

Grant Received from USAID for Capital Market Development				
Received in 1992	9,100,113	9,100,113	9,100,113	9,100,113
Received in 1995	38,176,645	38,176,645	38,176,645	38,176,645
Received in 1996	81,880	81,880	81,880	81,880
Received in 1997	340,000	340,000	340,000	340,000
Grant Received from Brokers				
Received in 1992	340,384	340,384	340,384	340,384
Computers from MIT (Note 14.1)				
Received in 1998	1,980,000	1,980,000	1,980,000	1,980,000
Grant Received from SEC for Trade Automation				
Received in 1996	20,000,000	20,000,000	20,000,000	20,000,000
Received in 1997	12,862,590	12,862,590	12,862,590	12,862,590
Received in 1999	12,602,392	12,602,392	12,602,392	12,602,392
Grant Received from SEC for Trade Automation Audit				
Received in 2000	967,347	967,347	967,347	967,347
Grant Received from SEC for Video Documentary				
Received in 2004	400,000	400,000	400,000	400,000

	Consolidated		CSE	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>15 DEFERRED GRANTS (Contd.)</b>				
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 and New Zealand Road Show Received in 2005	3,500,000	3,500,000	3,500,000	3,500,000
Grant Received from SEC for Kurunegala Branch Received in 2006	2,880,000	2,880,000	2,880,000	2,880,000
Grant Received from SEC for ITN Data Ticker Received in 2007	2,173,333	2,173,333	2,173,333	2,173,333
Grant Received from SEC for ITN Data Ticker Received in 2008	200,000	200,000	200,000	200,000
	108,666,275	108,666,275	108,666,275	108,666,275
Amortisation of Deferred Grant				
Balance brought forward	(107,630,263)	(106,863,163)	(107,630,263)	(106,863,163)
Write back during the year	(504,578)	(767,100)	(504,578)	(767,100)
	(108,134,841)	(107,630,263)	(108,134,841)	(107,630,263)
Balance carried forward	531,434	1,036,012	531,434	1,036,012

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

	Consolidated		CSE	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>16 DEFERRED TAX LIABILITIES</b>				
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:				
Deferred tax liabilities	(11,035,875)	(11,927,326)	(11,035,875)	(11,927,326)
Deferred tax assets	10,349,074	5,323,392	10,349,074	5,323,392
	(686,801)	(6,603,934)	(686,801)	(6,603,934)
The gross movement on the deferred income tax account is as follows.				
Balance as at the beginning of the year	(6,603,934)	(9,249,506)	(6,603,934)	(9,249,506)
Recognized in the Income Statement (Note 22)	5,917,133	2,645,572	5,917,133	2,645,572
Balance as at the end of the year	(686,801)	(6,603,934)	(686,801)	(6,603,934)

## Notes to the Financial Statements (Contd.)

As at 31st December 2009	Consolidated		CSE	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>16 DEFERRED TAX LIABILITIES (Contd.)</b>				
Net Deferred Tax Liability arise Due to the Following Temporary differences				
Deductible temporary difference on plant and equipment	(4,608,390)	(3,232,069)	(4,608,390)	(3,232,069)
Deductible temporary difference on retirement gratuity obligation	(29,888,522)	(14,512,570)	(29,888,522)	(14,512,570)
Taxable temporary difference on plant and equipment	36,786,250	39,757,753	36,786,250	39,757,753
<b>Total taxable temporary difference</b>	<b>2,289,339</b>	<b>22,013,115</b>	<b>2,289,339</b>	<b>22,013,115</b>
Deferred tax liability	(686,801)	(6,603,934)	(686,801)	(6,603,934)
Deferred tax liabilities are attributable to following items				
Property, plant and equipments	9,653,358	10,957,705	9,653,358	10,957,705
Employee retirement benefits	(8,966,557)	(4,353,771)	(8,966,557)	(4,353,771)
	686,801	6,603,934	686,801	6,603,934
<b>17 OTHER PAYABLES</b>				
Interest payable to brokers	273,541	1,684,296	268,286	1,684,296
Current account with CDS (Pvt) Ltd.	-	-	169,448,752	188,681,232
Payments received in advance	640,547	402,991	640,547	402,991
Sundry creditors and accrued expenses	22,310,063	23,348,450	21,580,879	22,809,191
	23,224,151	25,435,737	191,938,464	213,577,710
<b>18 REVENUE</b>				
CSE and CDS fees	341,674,434	296,547,373	263,239,932	228,715,120
Listing fees	15,332,397	15,281,250	15,332,397	15,281,250
Quotation fees	1,817,603	779,041	1,817,603	779,041
Brokers fees	14,487,500	16,458,000	14,487,500	16,458,000
Trading member fees	-	25,000,000	-	25,000,000
Charges for remote data link	756,000	741,000	756,000	741,000
Charges for computer information	1,486,695	1,823,430	1,486,695	1,823,430
Listed company fees	18,995,115	11,644,065	-	-
Custodian bank fees	4,233,675	2,707,600	-	-
	398,783,419	370,981,759	297,120,127	288,797,841
<b>19 OTHER INCOME</b>				
Interest income	2,477,566	55,912,411	2,477,566	55,912,411
Dividend income - Unit trusts	123,988,665	41,307,135	123,988,665	41,307,135
Dividend income - CDS	-	-	1,510,062	2,646,562
Dividend income - LFSB	135,000	-	-	-
Gain on redemption of money market unit trusts	48,305	1,123,781	48,305	1,123,781
Amortization of deferred grant	504,578	767,100	504,578	767,100
Profit/(Loss) on disposal of property and equipment	1,478,804	1,277,714	1,478,804	1,277,714
Miscellaneous income	16,139,469	18,199,636	15,965,442	17,925,894
	144,772,387	118,587,777	145,973,422	120,960,597

As at 31st December 2009		Consolidated			CSE
		2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>20 STAFF COST</b>					
Salaries	75,062,500	68,384,548	64,626,077	58,742,481	
Staff bonus	15,202,022	10,793,054	13,043,118	9,183,910	
Terminal benefits (Gratuity)	15,424,839	(2,740,305)	12,712,320	(2,922,935)	
Staff welfare	2,796,553	3,334,590	2,360,721	2,796,878	
Medical expenses	1,767,025	1,781,942	1,449,591	1,486,580	
Transport and traveling	2,436,759	3,090,501	2,300,081	2,913,615	
	112,689,698	84,644,330	96,491,908	72,200,529	
<b>21 OTHER OPERATING EXPENSES</b>					
Other operating expenses include the following;					
Directors' expenses	204,000	167,000	204,000	167,000	
Auditors' remuneration	395,000	350,000	230,000	205,000	
Fees paid to auditors for non-audit services	366,258	321,665	223,441	230,292	
Legal fees	1,815,834	2,382,873	1,535,834	1,480,248	
Professional charges and subscription	20,264,998	20,592,037	20,211,442	18,923,640	
Write off / provision for bad debts	13,566	555,977	2,010	295,067	
<b>22 TAXATION</b>					
Current tax expenses :					
Current year	35,375,967	43,445,076	21,214,064	38,530,971	
Under / (Over) provision in prior years	2,052,877	1,307,940	(59,236)	1,234,800	
	37,428,844	44,753,016	21,154,828	39,765,771	
Deferred tax expenses					
Origination and reversal of temporary differences	(5,917,133)	(2,645,572)	(5,917,133)	(2,645,572)	
Total income tax expense	31,511,711	42,107,444	15,237,695	37,120,199	
Reconciliation of Effective Tax Rates					
Accounting Profit	190,132,472	162,709,423	156,711,103	153,951,412	
Tax at the domestic rate (22.1)	59,239,332	50,177,024	47,013,331	46,185,423	
Tax effect of expenses that are not deductible for tax purposes	23,461,815	18,965,714	21,646,447	18,401,192	
Effect of tax on capital allowances	(9,064,048)	(11,559,721)	(9,064,048)	(11,559,721)	
Disallowed provisions	(38,428,917)	(14,432,003)	(38,381,666)	(14,495,923)	
Dividend tax	167,785	294,062	-	-	
Tax on profits for the period	35,375,967	43,445,076	21,214,064	38,530,971	
Effective tax rate (%)	19	27	14	25	

**22.1** Tax has been provided at the rate of 30% in respect of CSE (as per the Inland Revenue ruling) and 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. 247,757/- ( Rs. 4,766,082/- in 2008).

## Notes to the Financial Statements (Contd.)

### 23 Contingencies and Commitments

#### 23.1 Litigation against the CSE

- 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 judgment of this case is to be delivered on 14th May 2010.
- 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. The case has been fixed for 12th May 2010 further trial (for cross examination of a witness for the Plaintiff).
- 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. The case has been fixed for 4th May 2009 for further trial (for re-examination of the Plaintiff).

Based on the above information available on the current status of the above cases, the CSE is not in a position to quantify the potential financial impact, if any, as at the Balance Sheet date.

#### 23.2 Tax assessments against the CSE

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

### 24 CAPITAL COMMITMENTS

There are no capital commitments as at the Balance Sheet date.

### 25 RELATED PARTY TRANSACTIONS

#### 25.1 Transactions with Key Management Personnel

Key management personnel include all the members of the Board of Directors of the Company and 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.204,000/- during the year as Directors' Expenses. ( Rs. 167,000/- in 2008.)

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

	2009 Rs.	2008 Rs.
Short term employee benefits	30,990,896	25,961,952
Long term employee benefits	1,463,920	791,724

#### 25.2 Transactions with Group Companies and Director related entities

Central Depository Systems (Pvt) Ltd is a fully owned subsidiary of the Colombo Stock Exchange. CSE apportioned Rs.55,553,531/- to Central Depository Systems (Pvt) Ltd as expenses during the year.

Company	Relationship	Nature of Transaction	Amount (Rs.)
<b>(a) Mr. Nihal Fonseka</b> National Asset Management Ltd	Director	Investment in Unit Trust	184,524,346
		Investment in Unit Trusts as at year end	987,645,125
		Dividends received from Unit Trusts	89,988,665
Acuity Stockbrokers (Pvt) Ltd	Director	Member fees, data communication charges and other charges received	1,083,552
		Member fees, data communication charges and other charges receivable as at year end	217,789
		Interest paid for Member Firms' liquidity deposits	538,053
		Member Firms' liquidity deposits and entrance deposit as at year end	3,540,000
		Interest payable for Member Firms' liquidity deposits as at year end	10,404
DFCC Bank	Director / CEO	Annual listing fees, fees for provision of computer information received	98,107
		Fees receivable for provision of computer information as at year end	3,516
Lanka Ventures PLC	Chairman	Annual listing fees, fees for provision of computer information received	87,493
		Fees receivable for provision of computer information as at year end	1,155
<b>(b) Mr. Krishan Balendra</b> John Keells Stockbrokers (Pvt) Ltd	Director	Member fees, data communication charges and other charges received	807,475
		Member fees, data communication charges and other charges receivable as at year end	17,961
		Interest paid for Member Firms' liquidity deposits	721,669
		Member Firms' liquidity deposits and entrance deposit as at year end	3,540,000
		Interest payable for Member Firms' liquidity deposits as at year end	10,404
Union Assurance PLC	Director (Appointed with effect from 01st April 2009)	Rent and electricity charges paid for Kurunegala branch premises	2,640,461
		Electricity charges payable for Kurunegala branch premises as at year end	74,471
		Fees for provision of computer information received	5,392
		Fees receivable for provision of computer information as at year end	981
Nation Trust Bank PLC	Director (Appointed with effect from 01st April 2009)	Fees for provision of computer information received	21,944
		Fees receivable for provision of computer information as at year end	7,136
<b>(c) Mr. Vajira Kulatilaka</b> (Appointed with effect from 05th October 2009)	Director	Member fees, data communication charges and other charges received	185,394
		Member fees, data communication charges and other charges receivable as at year end	3,880
		Interest paid for Member Firms' liquidity deposits	68,068
		Member Firms' liquidity deposits and entrance deposit as at year end	2,290,000
		Interest payable for Member Firms' liquidity deposits as at year end	6,688

## Notes to the Financial Statements (Contd.)

### (d) Mr. M.M Udeshi

(Ceased to be a Director with effect from 15th May 2009)

Asha Phillip Securities Ltd	Director	Member fees, data communication charges and other charges received	1,102,350
		Interest paid for Member Firms' liquidity deposits	116,866
Richard Pieris PLC	Director	Annual listing fees, fees for provision of computer information received	85,131
CT Land Development PLC	Director	Annual listing fees, fees for provision of computer information received	84,000

### (e) Mr. Murtaza Jafferjee

(Ceased to be a Director with effect from 13th August 2009)

JB Securities (Pvt) Ltd	Director	Member fees, data communication charges and other charges received	500,397
		Interest paid for Member Firms' liquidity deposits	149,434

### (f) Mr. Paul Ratnayake

(Ceased to be a Director with effect from 13th August 2009)

Asia Securities (Pvt) Ltd	Chairman	Member fees, data communication charges and other charges received	800,375
		Interest paid for Member Firms' liquidity deposits	306,643
Asian Alliance Insurance PLC	Chairman	Annual listing fees, fees for provision of computer information received	85,579
Kegalle Plantations PLC	Deputy Chairman	Annual listing fees, fees for provision of computer information received	85,997
Maskeliya Plantations PLC	Deputy Chairman	Annual listing fees, fees for provision of computer information received	86,099
Asia Capital PLC	Director	Annual listing fees, fees for provision of computer information received	84,889
Namunukula Plantations PLC	Director	Annual listing fees, fees for provision of computer information received	85,997
Nuwara Eliya Hotels Co. PLC	Director	Annual listing fees, fees for provision of computer information received	67,489
Richard Pieris PLC	Director	Annual listing fees, fees for provision of computer information received	85,997
Richard Pieris Exports PLC	Director	Annual listing fees, fees for provision of computer information received	85,997
Sierra Cables PLC	Director	Annual listing fees, fees for provision of computer information received	86,009

## 26 SUBSEQUENT EVENTS

No circumstances have arisen since Balance Sheet date which would require adjustments to or disclosure in the Financial Statements

## 27 DIRECTORS RESPONSIBILITY STATEMENT

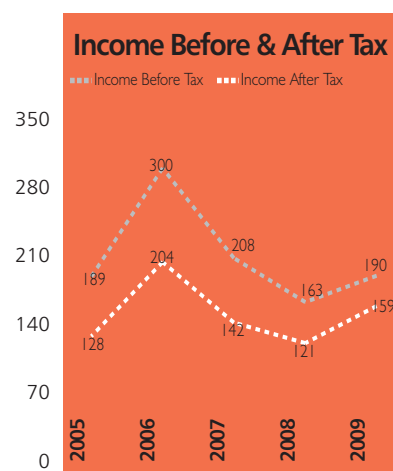
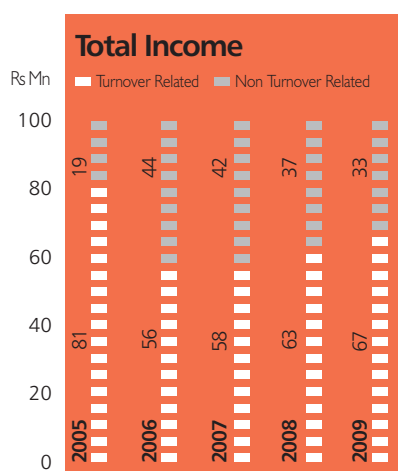
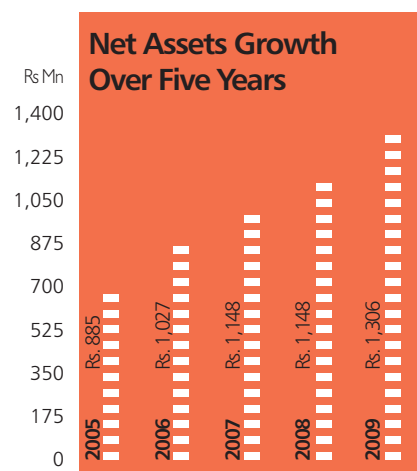
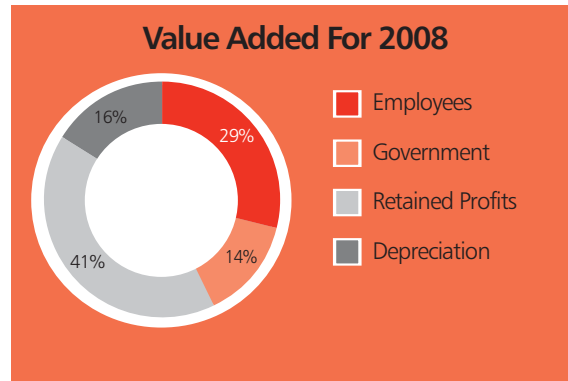
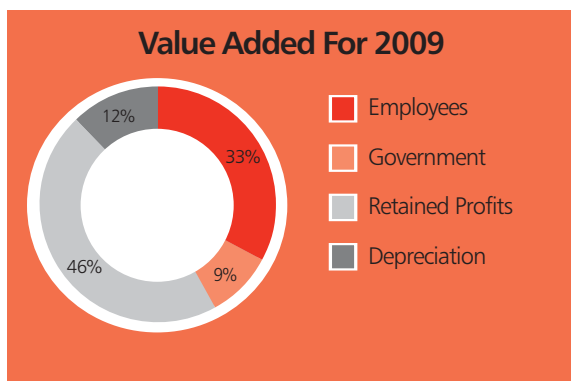
The board of Directors are responsible for the preparation and presentation of Financial Statements in accordance with Sri Lanka Accounting Standards.

## 28 COMPARATIVE INFORMATION

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

# Key Financial Indicators

	2009	%	2008	%
<b>Value Added</b>				
Gross Income	543,555,806		489,569,536	
Less: Cost of Providing Services	(199,917,100)		(193,142,536)	
	343,638,706		296,427,000	
<b>Distribution of Value Added</b>				
<b>To Employees</b>	112,689,698	32.8	84,644,330	28.6
<b>To Government</b>				
Taxation	31,511,711	9.2	42,107,444	14.2
<b>Retained in the Organisation</b>				
Retained Profits	158,620,761	46.2	120,601,979	40.7
Depreciation	40,816,536	11.8	49,073,247	16.5
	343,638,706	100	296,427,000	100





# 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

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

## SECRETARIES

Secretarial Services Ltd.

## AUDITORS

KPMG Ford, Rhodes, Thornton & Co.

## BANKERS/SETTLEMENT BANKS

Bank of Ceylon  
Commercial Bank of Ceylon PLC  
Sampath Bank PLC  
The Hongkong - Shanghai Banking Corporation Ltd

## COLOMBO STOCK EXCHANGE

Tel: +94-11- 2356456

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

Finance: +94-11-4627566

Administration: +94-11-2325804

Information Technology: +94-11-2440162

Regulatory Affairs: +94-11-2448925

Business Development: +94-11-2445279

Listing & Corporate Affairs: +94-11-2391128

Human Resource: +94-11-2440163

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

### Jaffna Branch

1st Floor, 398/1, Hospital Road, Jaffna

Tel: +94-21-2221455

Fax: +94-21-2221466

## Vision

- To be the preferred choice for creation of wealth and value

## Mission

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

## Strategic Objectives 2009-2013

- Turnover Velocity to be increased from 12% to 25%
- Number of new companies (equity) listed each year through IPOs to be increased from 2 to 5 companies
- Rating for the Depository and the capital market infrastructure risk to be increased from BBB to A+

BUY SELL  
LS 1.50 149.00 144.50 115.00  
0.00 460.00 430.00 28.1KSI6  
80.75 92.75 92.50 2.8KSIHF.N MA  
94.25 100.00 100.00 31.4KTAJ.N MA  
70.00 72.00 0.00 67.2KTRAN.N MA  
33.50 34.25 34.25 39.7K  
92.75 96.00 93.00 41.3KINFORMATIO  
44.75 45.00 44.75 655.6KECL.N DI  
36.00 36.75 36.75 1.3K  
142.25 150.00 150.00 66.9KINVESTME  
59.00 62.00 60.00 5.7KASCO.N  
52.50 57.00 55.00 2.1KCFI.N  
141.50 150.00 0.00 2.1KMCINU.N  
20.50 20.50 20.25 21.5KCIT.N  
2.00 2.00 2.75 305.6KGREG  
OGUAR