



Listing on the CSE A Mark of Distinction





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Trading Begins Today!

Listing on the Colombo Stock Exchange

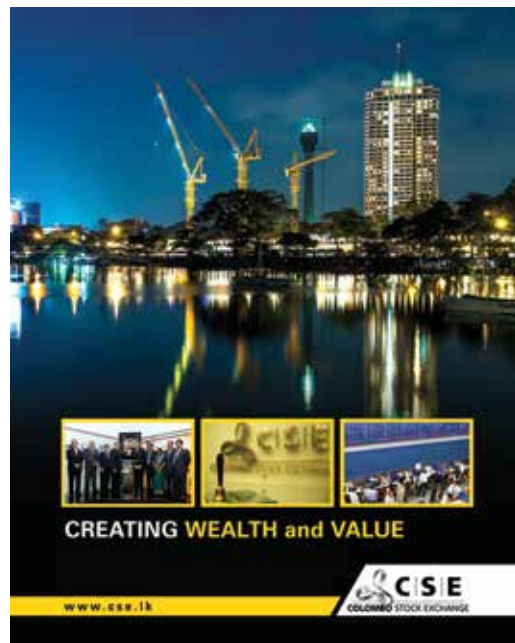
About CSE

Profile

The Colombo Stock Exchange (CSE) is the nucleus of Sri Lanka's capital market as the licensed operator of the stock market. We are regulated by the Securities and Exchange Commission of Sri Lanka (SEC) and was incorporated as a company limited by guarantee over 30 years ago.

Alongside the wider community which interact with us, our core stakeholder base constitutes of 31 Members and Trading Members, 295 issuers, 750,000 investors, over 150 employees, and other stakeholders.

As an institution of national significance, we maintain an unwavering focus and commitment towards creating conditions that support growth. Our activities are motivated by Sri Lanka's own perspective for prosperity.



A Steady Growth Trajectory

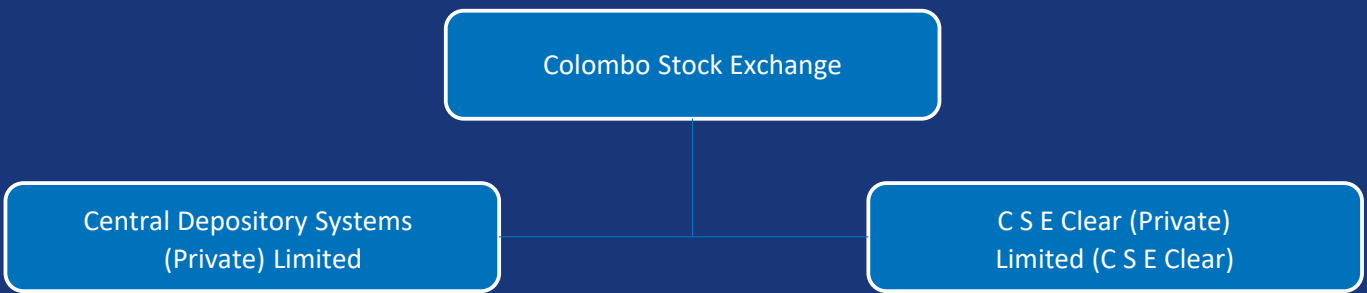
At CSE, we are focused on doing what we do best and that includes further developing the exchange and leveraging our strength to be not only a leading international marketplace for securities focused on Sri Lanka but also for the rest of the region. We are poised to diversify with the planned introduction of multi-currency markets and other new products.

In the midst of the various growth initiatives we are pursuing, what remains unchanged is our focus on maintaining our market's integrity and quality. We are fully aware that only operating an open, secure, fair, orderly and transparent marketplace will offer us the investor confidence required to make the expansion of our exchange possible.



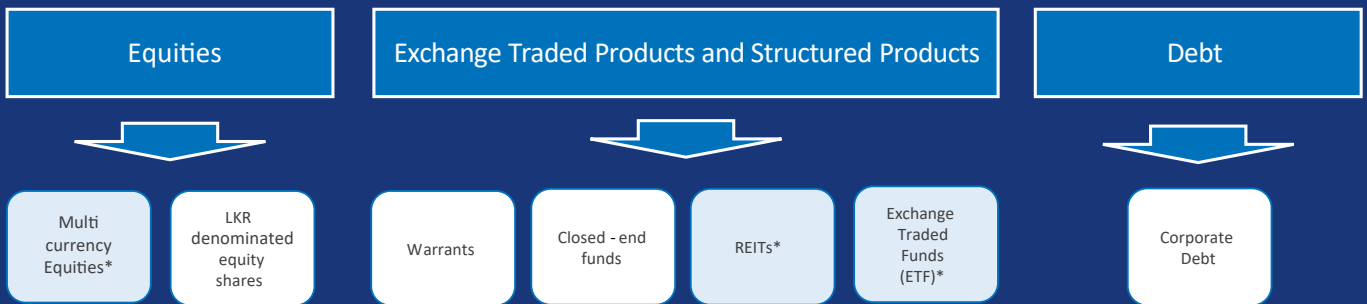
Group Structure

CDS supports the CSE in the post-trade area through the provision of securities depository services. C S E Clear (Private) Limited (C S E Clear) anticipates the provision of clearing and settlement functions as a central counterparty (CCP). The two institutions play a vital role in our bid to provide comprehensive end-to-end exchange services.



Group Markets

The CSE operates a world class, regulated trading market covering various asset classes and products.



* Initiatives to be introduced through our strategic journey

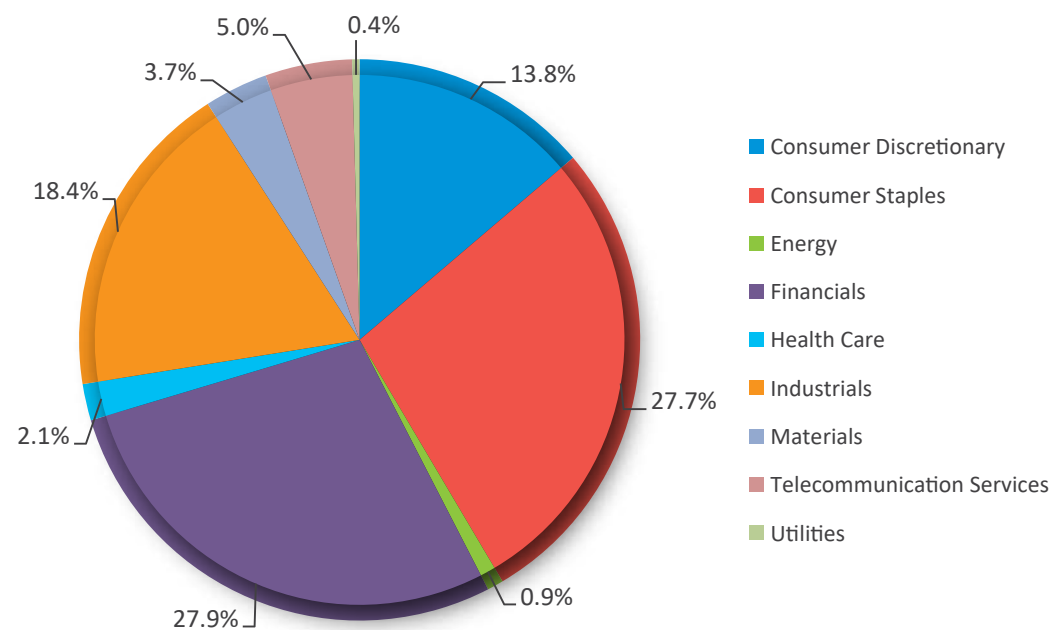


Summary

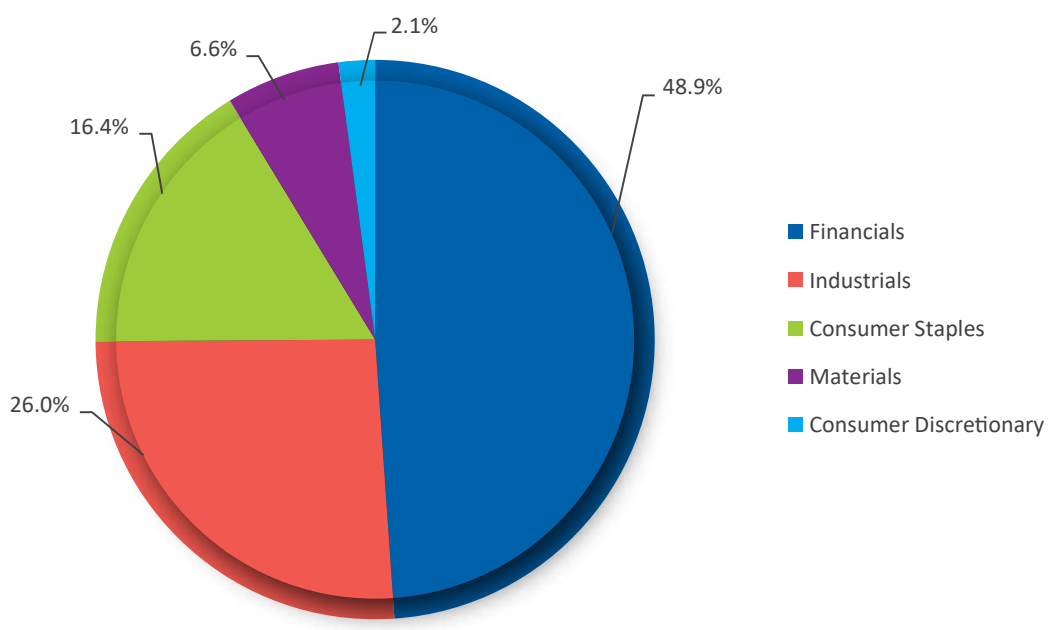
- A listing on the CSE is a hallmark of prestige - an affirmation of a company’s commitment towards ensuring the highest standards of corporate governance and transparency.
- Our current investor base has a 25% : 75% mix of foreign to domestic investment in the equities market in terms of securities held in custody.
- More than 180 instruments were listed, raising over Rs.570 Bn capital in the past 10 years.
- The CSE has the appetite to accept both large and small equity placements due to its diversity of investors, equity mandate and extensive network of advisors.
- Our Listing Rules encourage the implementation of good corporate governance practices, if they are not already in existence, and help to improve existing practices.
- IPO oversubscriptions in recent years indicate a strong appetite among our local and international investor base - indicating strong fund raising prospects for potential issuers.
- Our issuers benefit from post listing support provided through one-on-one meetings, circulars, awareness sessions, compliance monitoring reviews and public consultations.

Diversity: Breakdown of sector expertise

ASPI Sectorial Breakdown



S&P SL 20 Sectorial Breakdown



A Market for All

At the CSE, there is a place for all entrepreneurial companies that aim to be the best in their respective fields. The CSE Main Board, Diri Savi Board and the SME Board provide capital raising opportunities for companies of all types and sizes.

Endorsed by Corporate Leaders



The Stock Exchange plays a pivotal role in allowing businesses access to capital and providing the opportunity for companies to enhance their visibility and public image. Commercial Bank has benefited from the capital raising tools such as debentures, IPOs and rights issues which has allowed us access to capital whilst maintaining a reasonable control in our operational areas.

Jegan Durairatnam Managing Director of Commercial Bank of Ceylon PLC

Greater access to capital through diverse sources, both international and foreign, and shareholder centric decisions have enabled the company to sustain a good performance over a long period of time and this stance seems appropriate for JKH when looking ahead.

Susantha Ratnayake Chairman of John Keells Holdings PLC



We appreciate the regular support, guidance and willing ear given by the CSE whenever we need it, and the efforts taken to recognise the most valuable companies on the stock exchange.

Shivani Hegde, Managing Director of Nestle Lanka PLC

Listing on the CSE has allowed us to gain greater access to capital through increased investor confidence and accountability, which has played an important role in attracting our wide array of international funding partners, many of whom now utilize LOLC as their preferred conduit to fulfill their development goals.

Kapila Jayawardena, Managing Director of LOLC PLC



Issuer Engagement



Issuer Forums

Corporate Events

IPO Ceremonies

Circulars

Awareness Sessions

Public Consultations

Compliance Reviews

Investor Engagement Opportunities



Success Stories



The Transformation into a Conglomerate



Mr. Husein Esufally
Chairman

Hemas was founded in 1948 as Hemas (Drugs) Ltd. In the decades that followed the company expanded in to diverse businesses including travel and tourism, exports, industrials and apparel manufacture. A reorganization and consolidation of the business activities in the 1990's led to the formation of Hemas Holdings as the parent company under which the FMCG, Healthcare, Leisure, Transportation and Power sectors are organized.

- At the time of its listing in 2003, Hemas Holdings PLC (Hemas) had been in existence for over half a century.
- The IPO raised Rs. 400 million to help fund the company entry into the power sector and existing shareholders also realized part of their stake by selling 4m shares for Rs. 200 million.
- The group's success story provides an engaging example of how conversion to a publicly listed company enhances the profile of the organization and its owners, facilitates succession planning, and sets the stage for accelerated growth.

The public listing helped Hemas

- ✓ Obtain an objective valuation and created liquidity in shares
- ✓ Attract quality talent
- ✓ Pursue growth initiatives



Leveraging Stability for Growth



Mr. W.K.H. Wegapitiya
Chairman

LAUGFS was established as Gas Auto Lanka Pvt Ltd, an auto gas conversion company that pioneered the use of liquefied petroleum gas (LPG) as an economical alternative fuel for petrol-driven vehicles. This humble yet profitable business set the stage for management to position the company as a competitor to global giant Shell, following the liberalization of Sri Lanka's LPG industry in 2001.

- The company was listed in 2010 on the Dirige Board to raise Rs. 2.5 billion.
- The IPO set a record for the largest ever retail participation for an issue, with over 60,000 applications received and resulted in the issue being oversubscribed by about 22x.
- In the first full year after listing, the company posted a 30% increase in revenue to Rs. 9.2 billion and a 21% growth in operating profit to Rs. 968 million
- LAUGFS was able to bring in external equity to strengthen its balance sheet, consolidate operations in its core businesses, and lay the foundations for diversification into other lucrative segments.

The public listing helped after LAUGFS

- ✓ Fund growth initiatives
- ✓ Reduce debt burden
- ✓ Pursue growth initiatives



Going public: Is an IPO right for your company?

Is your company ready to go public?

Does your company have the infrastructure, management bandwidth and most importantly, a culture that is necessary for life as a public company? Here are some of the questions to help you get started.

- Is the long-term strategy I have for my company compatible with a public listing?
- Is the management ready?
- Do you possess the operational and financial capacity to cope with life in the public eye?
- Do you possess an investment case that can appeal to investors?
- Are you perceived as a good corporate citizen?
- Are there any pending financial, legal, or governance issues?
- Is it the right time to list on the market?



Key Factors In Ensuring a Successful Listing

- Consider if your company is ready to go public and if it is the right time
- Start preparations early and view an IPO as a continuing process, not a one-off financial event
- Develop a sound business plan and a compelling growth agenda
- Ensure that the company is in a position of competitive strength
- Appoint an experienced IPO team
- Start acting as a public company before listing which include putting in place strong financial, informational, operational and governance frameworks for the business

Concerned about a potential loss of control?

Are you concerned about a potential loss of control as a result of listing? A private company typically allows in outside shareholders in one of two ways.

Existing shareholders monetize their investment at the IPO/ Introductory stage and completely exit ownership of the company.

Not looked upon favourably by the investment community

A minority stake in the company is made available to the public. The company's majority shareholders continue to exercise day-to-day control over the business and act in a fiduciary capacity towards minority shareholders, who may or may not be represented by outside directors.

Investors generally prefer the continued presence of key shareholders at the helm of the company

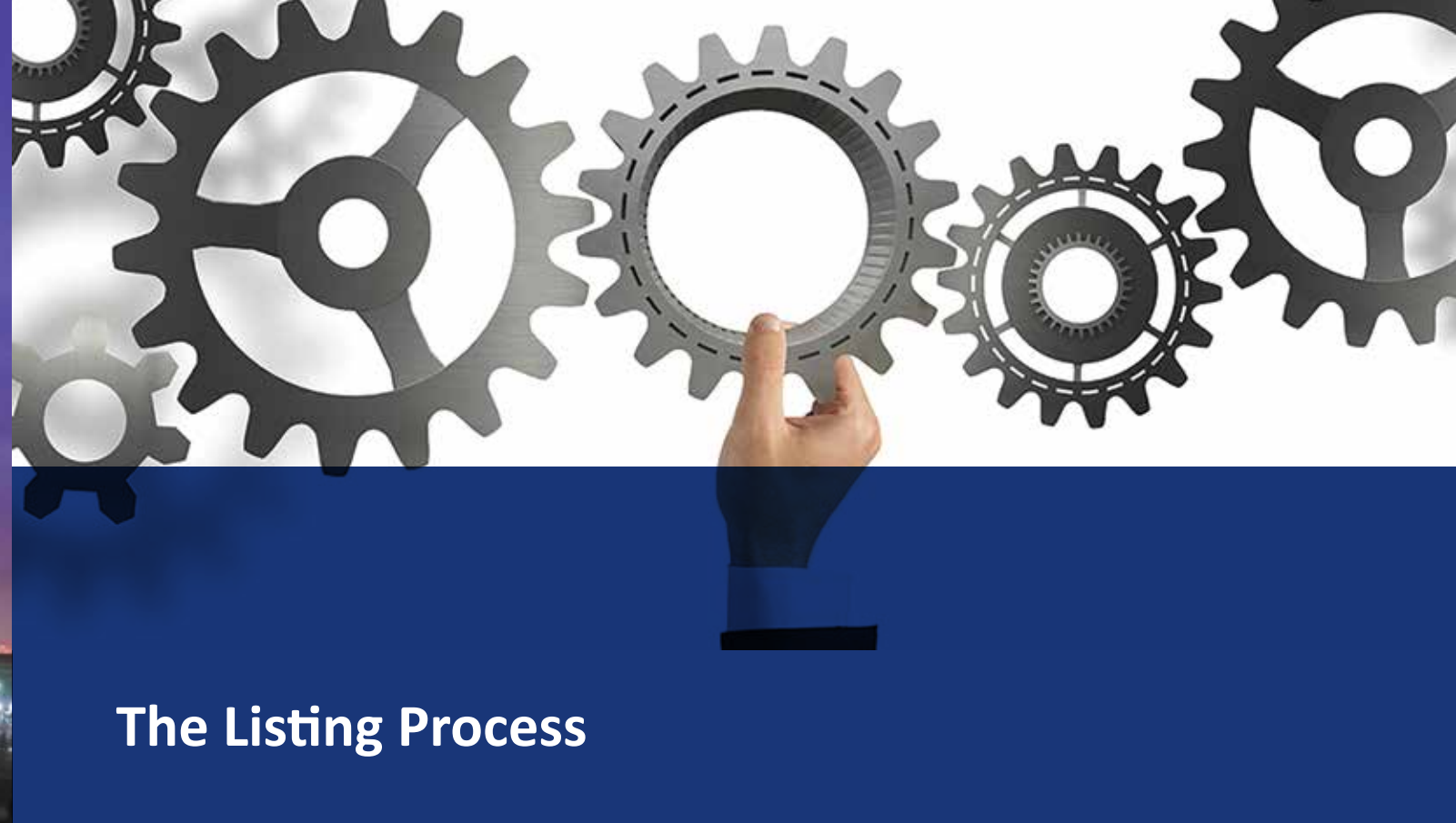
The possibility of a takeover depends on the shareholding percentage the original owners retain; the required minimum public shareholding is 25% of total shares if listed on the Main Board and only 10% of total shares if listed on the Diri Savi Board. Certain companies also invoke other forms of takeover defenses, such as issuing several classes of shares with different voting rights etc.

Benefits of Listing at CSE

Many active, successful private companies consider an Initial Public Offering (IPO) at some stage in their development as a route to accelerate growth and to open up new opportunities for their business. Listing on the CSE offers issuers a range of unmatched benefits that could be sought through the Sri Lankan capital market.



- Enhance your corporate profile
- Access to a deep pool of domestic and international capital
- Achieve an optimal capital structure
- Attribute an optimal value to your company
- Build credibility through a respected and balanced regulatory environment
- Attract strategic investors
- Return to market to fund next phase of growth



The Listing Process

A costly affair? The benefits outweigh the costs

A listed company must comply with the legal and regulatory requirements of the CSE and the Securities and Exchange Commission of Sri Lanka (SEC). These regulatory requirements are a hallmark of developed markets and are in place to ensure the protection of interests of all parties engaging in the share market transaction, including issuers and investors.

Once listed, compliance with regulatory requirements is mandatory. These conditions require substantial investments, both monetary (advisory fees, legal, banking, accountant audit, underwriting fees if applicable, listing fees, and process implementation costs) and in terms of management time and attention. These costs come as prerequisites to enjoy the multiple advantages of being a publicly listed company mentioned above.

Rather than viewing these as an onerous process, we advocate considering adherence to these requirements as it provides an opportunity to implement and streamline transparent procedures and good governance processes that lead to the company being a better corporate citizen.

Equity	Main Board	Diri Savi Board
Fully paid, freely transferable, and issued for cash only (for offer of subscription and offer for sale)		
Stated Capital	Minimum of Rs. 500 million at the time of listing	Minimum of Rs. 100 million at the time of listing
Profitability	Net profit after tax for three consecutive years immediately preceding the date of application	
Assets	Positive net assets as per the consolidated audited financial statements for the last two financial years immediately preceding the date of application	Positive net assets as per the consolidated audited financial statements for the financial year immediately preceding the date of application
Operating History	Of at least one year immediately preceding the date of application	
Minimum public holding	Refer Table 01 - Page 18	Refer Table 02 - Page 18
Number of public shareholders	Refer Table 01 - Page 18	Refer Table 02 - Page 18
If an Introduction	In the event the entity is seeking a listing on the Exchange by way of an introduction, the entity should ensure that not more than 50% of the shares in the hands of the public shareholders are held by the 3 largest public shareholders of the entity at the time of listing	

Main Board

Table 01

Option	Minimum Public Holding Requirement		
	Float Adjusted Market Capitalization	Public Holding Percentage	Number of Public Shareholders
1	Rs. 10.0 Bn.	-	500
2	Rs. 7.5 Bn.	5%	500
3	Rs. 5.0 Bn.	7.5%	500
4	Rs. 2.5 Bn.	10%	500
5	-	20%	500

Diri - Savi Board

Table 02

Option	Minimum Public Holding Requirement		
	Float Adjusted Market Capitalization	Public Holding Percentage	Number of Public Shareholders
1	Rs. 1 Bn.	7.5%	200
2	-	10%	200

Debt Listing: Government Entity or Pubic Corporation

Government Entity or Pubic Corporation	
Eligibility Criteria	<p>Applicant entity should provide an unconditional & irrevocable guarantee from; The Government of Sri Lanka;</p> <p>OR</p> <p>A bank licensed by the Central Bank of Sri Lanka and having an “A” rating or a rating equivalent or better there to obtained from a rating agency registered with the SEC</p> <p>OR</p> <p>An international multilateral or bilateral or other agency acceptable to the Exchange for the repayment of the capital and interest</p> <p>OR</p> <p>The debt security to be listed shall have an Investment Grade rating obtained from a rating agency registered with the SEC.</p>
Minimum Tenor	<p>All Debt Securities to be listed shall be issued for a minimum tenor of two years from the date of issuance.</p>
Par Value	<p>The par value of the Debt Securities to be listed on the Exchange shall be Rupees Hundred (Rs. 100).</p>
Minimum Subscription	<p>In the event of an Offer for Subscription or Offer for Sale, the minimum subscription requirement applicable for an investor applying for Debt Securities shall not exceed Rupees Ten Thousand (Rs. 10,000/-). Any application in excess of the said minimum subscription shall be in multiples of Rupees Ten Thousand (Rs.10,000/-).</p>
Prohibition	<p>An Entity shall not issue Debt securities in the event the securities of such Entity are on the Default Board.</p>

Debt Listing: Company

Company	
Eligibility Criteria	<p>Applicant entity;</p> <ul style="list-style-type: none">- To obtain a mandatory rating for the debt security to be listed; <p>AND</p> <ul style="list-style-type: none">- The rating shall have one notch above the Investment Grade, obtained from a rating agency registered with the SEC. <p>Additionally at its own discretion provide an unconditional and irrevocable guarantee from;</p> <ul style="list-style-type: none">- A bank licensed by the Central Bank of Sri Lanka and having an A rating or a rating equivalent or better thereto obtained from a rating agency registered with the SEC; <p>OR</p> <ul style="list-style-type: none">- An international multilateral or bilateral or other agency acceptable to the Exchange for the repayment of the capital and interest.
Minimum Tenor	<p>All Debt Securities to be listed shall be issued for a minimum tenor of two years from the date of issuance.</p>
Par Value	<p>The par value of the Debt Securities to be listed on the Exchange shall be Rupees Hundred (Rs. 100).</p>
Minimum Subscription	<p>In the event of an Offer for Subscription or Offer for Sale, the minimum subscription requirement applicable for an investor applying for Debt Securities shall not exceed Rupees Ten Thousand (Rs. 10,000/-). Any application in excess of the said minimum subscription shall be in multiples of Rupees Ten Thousand (Rs.10,000/-).</p>
Prohibition	<p>An Entity shall not issue Debt securities in the event the securities of such Entity are on the Default Board.</p>

Advantages of a debt listing

- Finance long-term projects
- Achieve the optimal cost of capital
- Lower financing cost in subsequent issues
- Diversify sources of liquidity
- Ability to hedge against interest rate risk
- No collateral required



Parties involved in a listing

A listing exercise involves various professional parties which have their own unique role in the process.



Investment Bank



Broker Firm



External Auditor



Legal Counsel



Bank



Independent Valuer



Registrar



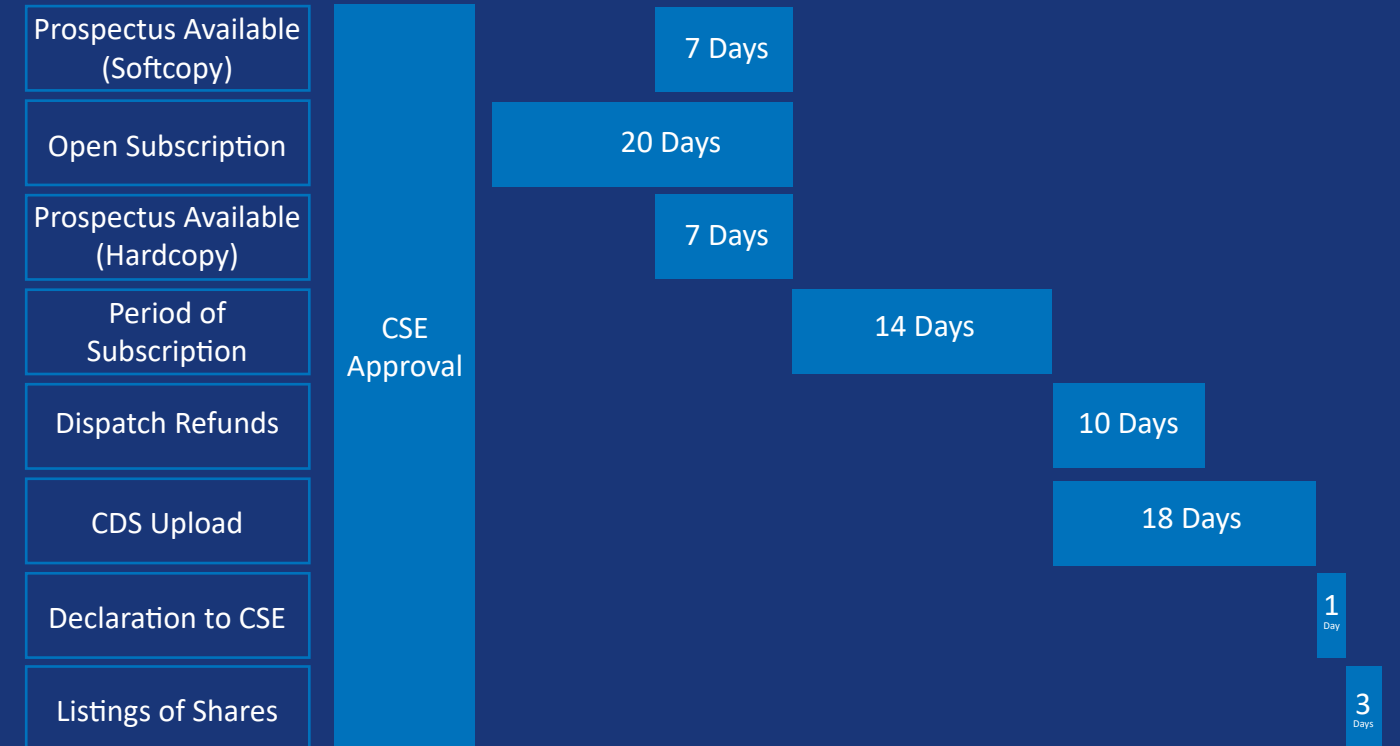
Underwriters



Rating Agency



Listing Timeline – IPOs

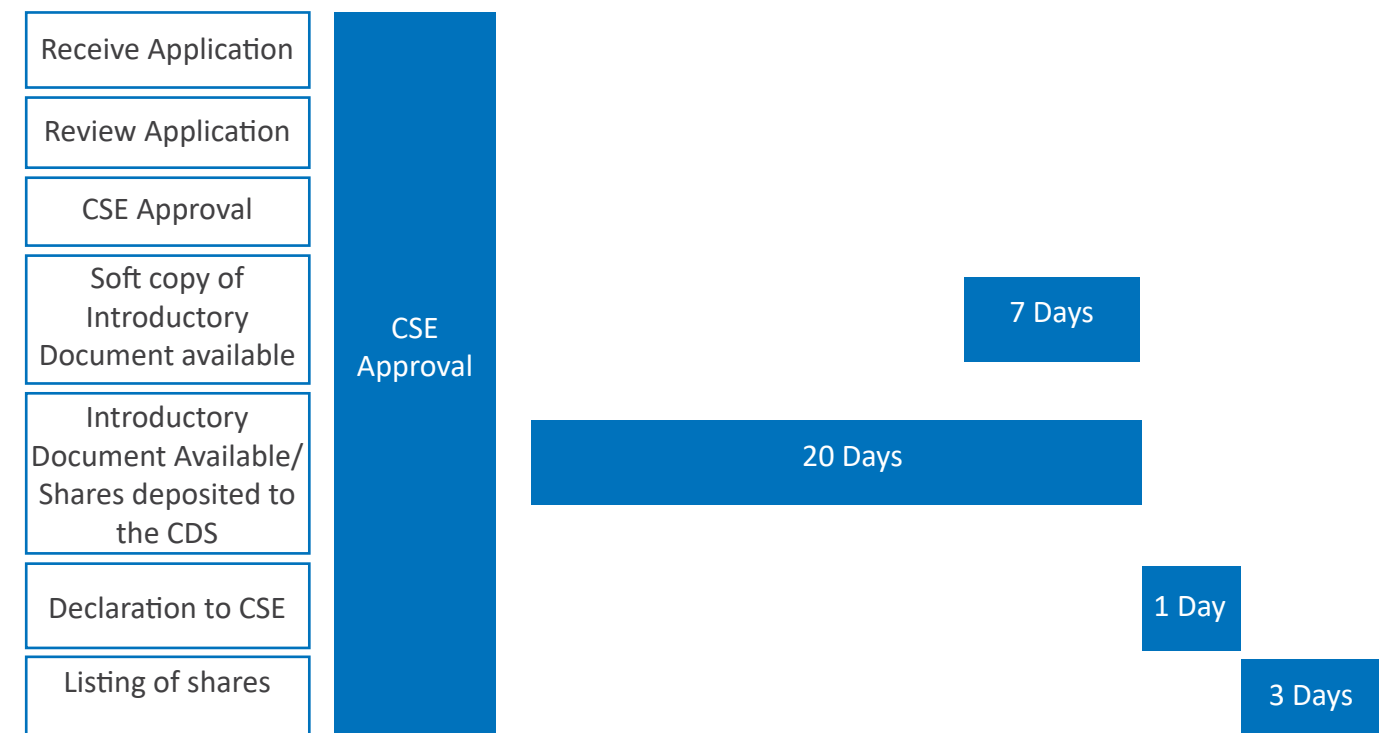


The Listing Process - IPO

Once the management and advisors are confident that the company is ready to be a listed entity, the next step in the listing process is contacting the CSE. Early contact would help avoid undue delays.



Listing Timeline – Introduction



The Cost of Listing

Listing Costs	
Equity: <ul style="list-style-type: none">Initial listing fee – Rs.150,000Annual listing fee – Rs.100,000 or 0.003% of the market capitalization of the listed entity as at 31 December of the year immediately preceding, whichever is higher, subject to a Rs.2,000,000 ceiling.	Debt: <ul style="list-style-type: none">Initial listing fee – Rs.100,000Annual listing fee – Rs.200,000 or 0.002% of the market capitalization of the listed entity as at 31 December of the year immediately preceding, whichever is higher, subject to a Rs.500,000 ceiling.
	Funds: <ul style="list-style-type: none">No initial listing fee when the units of a fund are listedAnnual listing fee – Rs.50,000
Annual CDS clearance fees	
Annual payment at the rate of Rs.15 per transaction (on the Automated Trading System), subject to a minimum of Rs.25,000 and a maximum of Rs.7500,000 per annum.	

**Above prices are excluding NBT*

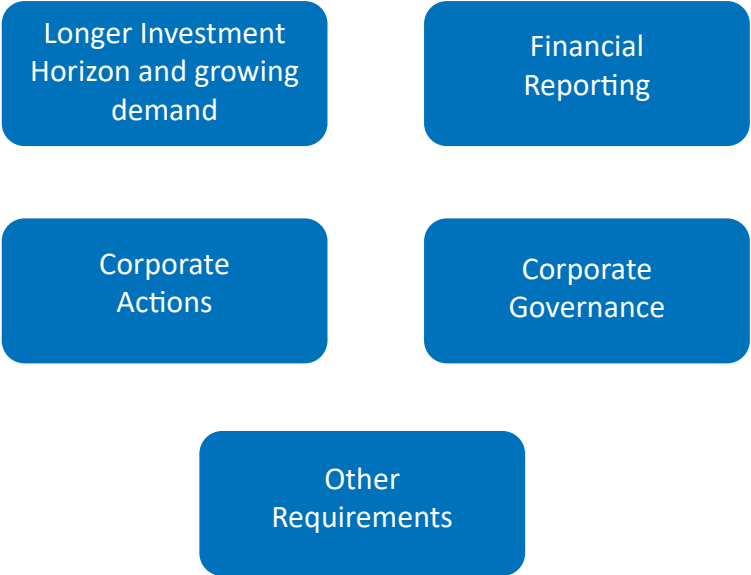


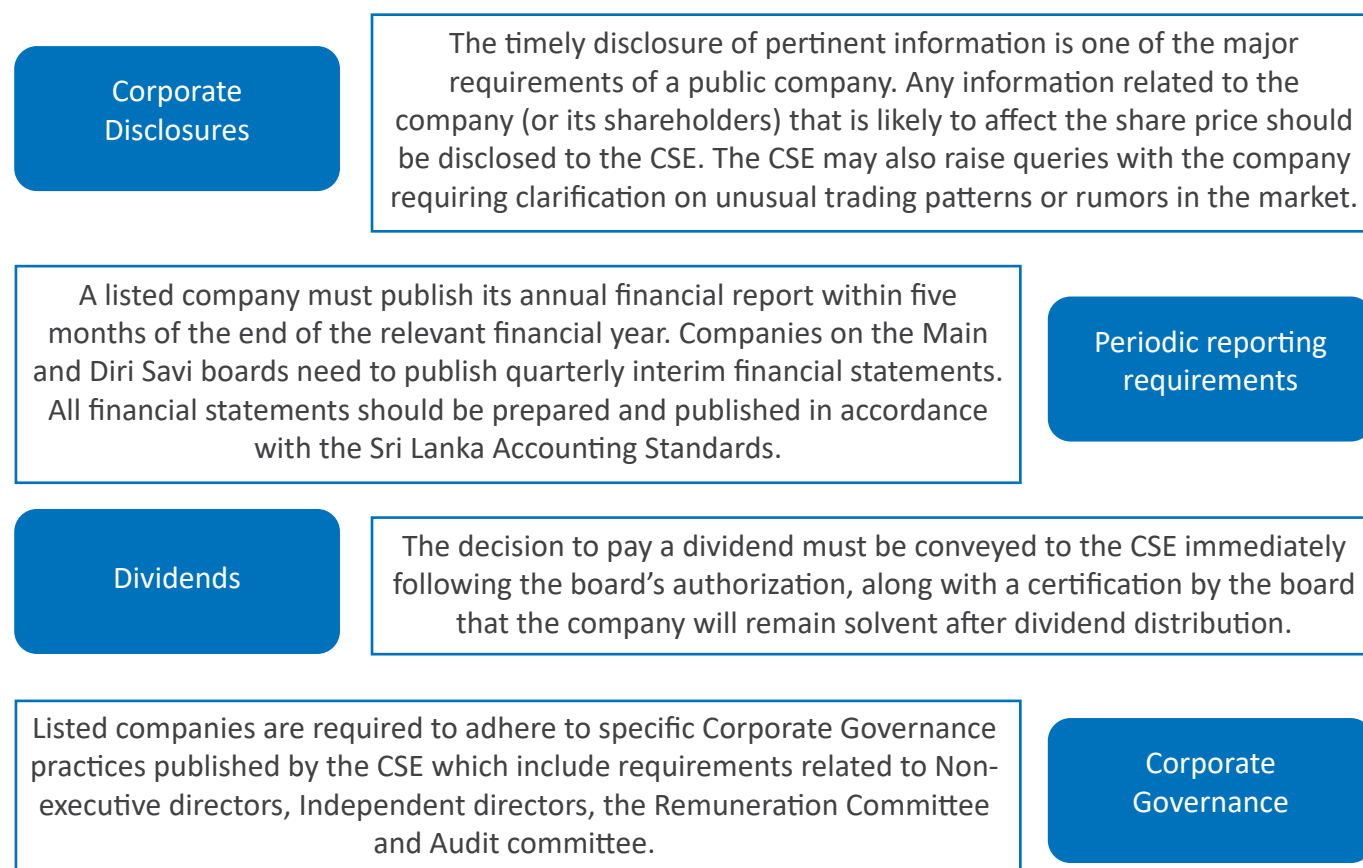
Life as a listed company

Continuing Obligations for Listed Companies

Maintaining the initial positive momentum built at the time of the public listing is critical to a company’s reputation and valuation. Therefore, an astute senior management team would ideally focus on a strategy to initiate and maintain effective communication with key internal and external stakeholders. The specific regulatory requirements, to be fulfilled periodically, provide an opportunity for the company to engage media and investor attention with updates on the progress made since the listing.

A majority of these requirements enable the protection of minority shareholders’ interests and also form part of the fiduciary duty requirements of a company’s board of directors. The company’s directors are responsible for ensuring that the continuing listing requirements are met.





The Regulatory and Legal Framework



The Securities and Exchange Commission of Sri Lanka (SEC) – with the overall authority to regulate all market participants – is the apex regulator of the country's capital market. A company listed on the CSE must operate within the legal and regulatory framework mandated by the SEC and comply with the CSE's Listing Rules, in addition to the legal framework set in place by the Companies Act.

The role of the SEC

The SEC, in its role as the regulator, specifies the rules and regulations necessary to ensure 'fair, efficient, orderly and transparent' capital markets. It is also the regulatory body that oversees key market participants: listed companies, licensed stock exchanges, market intermediaries and licensed stock brokers, stock dealers, and management companies of unit trusts.

Legal/regulatory requirements to be considered

A listed company must comply with certain specific laws and regulations in addition to the requirements of the Companies Act:

- CSE Listing Rules, CDS rules and circulars
- The SEC of Sri Lanka Act of 1987 and any amendments
- The Takeovers and Mergers Code of 1995 as amended in 2003
- SEC Rules and Regulations



What would attract high-quality shareholders to my company at the IPO and thereafter?

The valuation attributed to your company will reflect the current consensus among market participants of risk associated with it and the growth outlook. Although past performance is not necessarily considered an indicator of future profitability, a historical track record of consistent revenue and profits would create positive sentiment and set the stage for an optimistic outlook.

A company may also command a higher valuation when there is an impending change in the outlook for the company/ industry, heralding a significant increase in revenue and earnings. Of course, there should be high certainty of such an inflection point in the near future. Such companies on the cusp of significant growth and profitability would initially be listed on the Diri Savi Board where track record requirements are less stringent.

Will my company be expected to pay regular dividends?

Whether your policy is to pay out dividends or to re-invest in projects that generate returns higher than the cost of equity, the critical need is to clearly convey your dividend policy to shareholders. The company's ability to pay a regular stream of dividends is the key factor controlling the dividend decision, and therefore, it is mature companies with steady and predictable cash flows that usually choose to create shareholder returns via dividends.

Companies in the high-growth phase of the business cycle generally choose to re-invest and create shareholder returns via share price growth and capital gains. A dividend is usually not expected from such companies; if a company wishes to pay out a dividend to share the benefits of a specific gain (for example, profit from a disposal of a segment), it could be paid in the form of a special dividend.

FAQs...

Will the share price fall if my company misses earnings estimates?

Market participants form expectations of future earnings based on industry conditions and the business prospects companies disclose during regular investor updates. Estimates formed by sell-side analysts (research analysts at investment banks/brokerage houses) are widely disseminated, and a summary of these forecasts are collated into consensus estimates.

Exceeding these estimates usually causes a surge in the share price, while minor misses are rarely disastrous since seasoned investors understand cyclical variations in business. At the same time frequent missed estimates do establish a negative precedent that could adversely affect the share price. It is uncommunicated declines in earnings that surprise investors and precipitate share price collapses.

What would attract high-quality shareholders to my company at the IPO and thereafter?

Investors who buy company shares with the intention of participating in the risks and rewards of its long-term growth would be considered high-quality shareholders. These investors usually include institutional investors (for example, asset managers, pension funds, long-only hedge funds, and insurance companies) and strategic stake holders. Their investment horizons are usually a few years, in contrast to the hours/days investment horizons of day-traders and short-term investors.

High-quality shareholders usually focus on factors that drive a company’s strategic direction and long-term growth. They look for businesses with competitive advantages in their industry, and potential to derive strong growth using that advantage. Another key attribute these investors look for is stable management focused on investing in projects that generate returns higher than cost of capital.

Is it correct to consider that there is no cost to equity?

There is a widely-held misconception that equity is equivalent to zero-cost debt. In fact, the cost of equity is usually greater than the cost of debt as an equity investor demands an additional premium to account for the risk of holding the share instead of debt that generates defined and certain interest payments.

The return a shareholder expects is the company’s cost of equity and is reflected in the valuation of the company. We can illustrate this using an example: Company A has a share price equal to 10x net profit per share (EPS) while its peer company B trades at 15x EPS. Company A has higher cost of equity than peers’, that is, investors believe that holding company A’s shares is riskier. The impact of this is practically illustrated at a further listing. To raise the same amount of funds, Company A would have to issue more shares and suffer greater dilution to EPS.

Are there any advantages to a public listing versus a private placement?

Everything else held equal, the company with greater free float will command a higher valuation than the company with a lower free float. A low free float leads to a vicious cycle where your company will not fall within the investment universe of most institutional investors due to the difficulty of entry and exit. This leaves the majority of the company’s public holding in the hands of retail investors, who generally have shorter investment horizons. As a result, the share price is subject to high volatility, further discouraging longer-term investors, leading to lower demand for the shares and hence, a decreased valuation.

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Disclaimer

This book is intended to provide some general information relating to the CSE. Whilst reasonable efforts have been made to include accurate and up-to-date information in the booklet, the CSE does not make any warranties or representations regarding the accuracy, adequacy, reliability and completeness of the information.

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