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Annual Report 2009



Perfect Equilibrium **&** Growth & Stability



SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

Perfect Equilibrium

The year 2009 was a year of great significance to our nation. It was a year of hope and optimism with the dawn of peace. Our role during this time of revival was to balance the growth needs of the second fastest growing stock market in the world with stability and a reassuring hand. Finding the perfect equilibrium between growth and stability entailed being innovative, protecting investors, building confidence, balancing regulation and market forces and maintaining a fair, orderly and efficient market. In the year ahead, our goal is to build on this exceptional foundation and further strengthen investor confidence and foster capital investment in Sri Lanka.

*Growth &
Stability*



Vision

To become the benchmark regulator in Asia for effective, efficient and proactive securities market regulation.

Mission

To promote, develop and maintain a securities market that is fair, efficient, orderly and transparent.

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Operational Review

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Chairman's Review

With the dawn of peace after many decades of armed conflict, our securities market is seeing an unprecedented revival and growth. Our challenge during the past year was to maintain an effective, efficient and proactive regulation of our fast-growing securities market. Looking back, I can say that our policies and procedures for regulation, supervision, monitoring and enforcement and market development have successfully met the complex challenges we faced in 2009.

Market Integrity

Confidence in the integrity of a market is what attracts and retains investors. One of our prime responsibilities is to ensure the integrity of our securities market in terms of transparency and fairness. Good disclosure is an essential attribute of a market with integrity. The quality and quantity of disclosed information governs both the transparency and fairness of our market. Investors are more inclined to enter our market if there is no perception that insiders or strong entities can profit ahead of others.

To secure long term reinvestment in our securities market, we have taken steps to improve the quality of disclosure to investors. This is vitally important in an emerging market like ours, especially when we are trying to attract long-term foreign investment. The moment such investors sense they are not getting clear, relevant and reliable information needed to evaluate their investment options and the risks they are taking, they will exit the market.

I believe this is the main reason why foreign investors exit our market whenever there is any element of uncertainty. We have taken many steps to ensure that listed companies provide investors with important, accurate and timely information necessary for judging their financial soundness, management capability and business outlook.

Regulation

We streamlined regulation, increased regulatory capacity and aligned our regulations with international standards in order to ensure an effective and responsive regulatory framework. A complex challenge in a growing market such as ours is ensuring that the right balance is struck and maintained between regulatory efficiency and investor protection.

To provide the legal framework for the evolving needs of the securities market, three amendments were introduced in September 2009 to the Securities

and Exchange Commission Act (SEC) to facilitate the regulation of derivatives, issue directives to listed companies to protect investor interests, and include private sector representation in the Commission.

Oversight and Compliance

Our oversight system monitors the compliance of market participants with relevant laws, rules and regulations. It involves the examination of financial and operational perspectives of listed companies and market participants. Our objective is to ensure that market



participants maintain proper systems and internal controls, operate with sufficient capital, and safeguard customer funds. We ensure the financial stability and operational viability of licensed entities through on-site and off-site supervision. We have adopted a risk-based supervisory methodology focusing on different risk categories such as prudential, liquidity, operational, legal and reputational risk. This extends to unit trust funds managed by the unit trust managing companies.

Surveillance

We monitor the market in real time in order to detect any unusual or suspicious market movements. We investigated possible breaches of securities laws and initiated legal proceedings if the findings of the preliminary investigations warranted it. A sophisticated, automated surveillance system to be operational in 2010 is capable of generating automatic alerts, trading patterns, market replay, matching of databases of company insiders and spouses etc.

In recent months we have observed suspicious price and volume movements, which may have been the result of volatile market conditions. We have responded

Chairman's Review Cont.

with a series of investigations into apparent leaks and insider trading, followed by prosecutions. We need to exercise greater control over how confidential information is handled by companies both within their own organisations as well as externally with advisers and other service providers.

A more difficult challenge we face is the influence of rumours on market prices and volumes. It can be a difficult task to distinguish between a rumour spread with manipulative intent and the expression of a genuine rational opinion. Many rumours have at least an element of truth that has somehow leaked, sometimes deliberately.

Education

Our regulatory framework is based on disclosure, with mandatory requirements for the manner, timing and content of disclosure. This regulatory structure assumes financial literacy of the investors and their

ability to understand and interpret the disclosed material with respect to their investment objectives.

The bigger investors in our market are well resourced and have the expertise to interpret disclosed information and market trends for taking the best

decisions. Where does that leave the retail investor with less knowledge and less time? One of our priorities is to protect the retail investor. This is the foundation of our focus on promoting financial literacy among all major target groups including students, teachers, advisers, investors and journalists.

Market Development

Maintaining market rationality is an essential prerequisite for the sustainable development of our securities market. Instead of market rationality, what we have observed is irrational behaviour and a herd mentality that pushes up or pulls down asset prices with little regard for rationality. This situation demands greater participation by independent intermediaries such as brokers, rating agencies, auditors, accountants, asset managers and analysts who can help investors to assess risks and take meaningful decisions.

A major thrust of our work in 2009 involved enhanced market oversight on intermediaries. Through a variety of rulemaking and other initiatives, we continued to refine our regulations to promote growth and competitiveness of the market while protecting the

interests of investors.

Looking Ahead

Sri Lanka has fared better than many countries during the Global Financial Crisis (GFC) due to our low correlation with global markets and our robust regulatory system. However, there are international regulatory changes taking place in response to the GFC, many of which are still in the early stages of development.

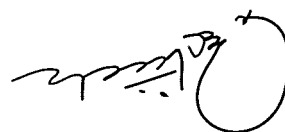
These will impact us since we are rapidly becoming a part of the global financial market, and regulatory changes in these markets can impact the flow of capital and investments to Sri Lanka from other countries. Therefore, we will have to implement necessary reforms, while maintaining the right balance between regulatory efficiency and investor protection.

For example, we have initiated the amending of the Takeovers and Mergers Code (TOM) in order to harmonise the Sri Lankan law with international norms. We have also analysed the changes in legislation needed to demutualise and regulate the Colombo Stock Exchange (CSE), and forwarded a draft Cabinet Memorandum to the Ministry of Finance and Planning. We have also prepared a draft bill on regulation of asset backed securitisation for Parliament approval.

Disclosures are essential for investors to assess risks and make meaningful decisions. To be effective, disclosures must be complete, accurate and meaningful, while investors (institutional or retail) must be able to understand and interpret such disclosed information. Therefore, in assessing regulatory changes, we are focusing not only on the disclosure but what that disclosure means to investors in terms of available options and risks.

Conclusion

Over the past year, our Commission Members and our staff have sustained their tireless efforts towards achieving our Mission: to promote, develop and maintain a securities market that is fair, efficient, orderly and transparent. Their high level of professionalism, commitment and passion, together with Government support will help us leverage the prevailing peace, investor interest and political stability in Sri Lanka to achieve our Vision: to become the benchmark in Asia for effective, efficient and proactive securities market regulation.



Udayasri Kariyawasam
Chairman

Confidence in the integrity of a market is what attracts and retains investors.

Director General's Review

The year 2009 was a remarkable year for the securities industry of Sri Lanka as our market broke all previous records including index performance, volumes and number of transactions. The All Share Price Index (ASPI) reflected an impressive growth of 125.3% during the year whilst the Milanka Price Index (MPI) grew by 135.9% making it the second best performing market in the world in terms of Index performance. This set the impetus for the growth of the capital market of Sri Lanka bringing with it a new beginning for the post war era.

It is noteworthy that the market was devoid of any major scandals and malpractices and was able to increase the confidence of investors. It is also worth mentioning that we were able to strike a balance between regulatory

framework supports capital market growth, we amended the SEC Act to facilitate the regulation of derivatives. It is envisaged that the successful implementation of derivatives will lead to a phenomenal increase in turnover levels, liquidity and increase foreign investment in Sri Lanka. Therefore we hope to initially introduce index based derivatives and derivatives based on specific sectors. The amendment to the SEC Act has also paved the way for the SEC to issue directives to all public listed companies in keeping with the objects of the Commission in protecting the investors and ensuring that professional standards are maintained in the capital market.

Additionally, in order to enable true securitisation in Sri Lanka we engaged in the introduction of a Securitisation Law. Presently securitisation is done without the proper transfer of assets and these assets are not bankruptcy remote and thereby violate the basic underlying principle of securitisation. The new law will enable the introduction of regulations for Trustees, Originators and Facilitators.

Furthermore, we are amending the TOM Code to fill certain lacuna prevalent in the current legal system. The new Code would capture indirect takeovers within its ambit and provide more clarity to rules applicable to different types of offers.

In the regulation of unit trust funds the SEC facilitated the listing of closed ended funds which will enable companies to invest on a long term

basis and enable investors to exit the market without affecting the liquidity of the underlying investments.

Monitoring and Enforcement

Surveillance plays an important role in ensuring market confidence and safeguarding investors by providing continuous, real-time monitoring of trading activity. With the aim of enhancing our surveillance function we invested significant resources to procure a state of the art surveillance system from Millennium Information Technologies Limited, a member of the London Stock Exchange Group. The new system has capacity to provide enhanced solutions that will enable us to monitor the market more effectively and eliminate misconduct in the capital market.



reforms and capital market development activities as I believe that both these aspects need to be managed concurrently to arrive at an optimal level of efficiency in the market.

It is envisaged that as we look forward to a new era of economic revival and prosperity even greater demands will be placed on the capital market in order to achieve our national aspirations and in view of this we took steps to ensure that our capital market remains efficient, fair and well regulated.

Regulation

I believe we are making good progress in aligning our regulations with international standards and best practices. In order to ensure that our regulatory

Director General's Review Cont.

Oversight and Compliance

During the year the licence of the CSE was renewed in October 2009 for a period of five years subsequent to a comprehensive audit being carried out by the SEC. The SEC plans to introduce an electronic filing system for market intermediaries to file their reports and this will increase the efficiency of submitting financial information by the regulatees.

We continued to adopt a risk-based approach in supervising our market participants in order to prevent risks crystallising. In adopting this approach we conducted regular onsite and offsite examinations to ensure that the market participants exercise high standards of compliance to safeguard the interest of investors.

We maintained our focus on improving compliance levels of listed companies in order to ensure that complete disclosure of material information is disseminated in a timely manner to the investing public. We have also amended the continuous listing requirements during this period in order to reflect market requirements and better governance.

Capital Market Development

Our capital market development initiatives were implemented after careful assessment of industry requirements. Improving liquidity in the stock market has been a matter of considerable concern with market conditions improving tremendously with the end of the war. In this light we took steps to improve the market microstructure and made arrangements to reduce transaction costs.

The dawn of peace and the resurgence of trading in the CSE prompted us to conduct an Investor Forum in Singapore together with the High Commission for Sri Lanka in Singapore to show case investment opportunities available in Sri Lanka. The event was a resounding success with over 140 fund managers based in Singapore participating in the event which was led by a Sri Lankan delegation.

We took giant strides in prosecuting directors of companies on the Default Board where the companies

continuously violated the Listing Rules of the CSE. We further envisage the initiation of prohibiting directors of any public listed company from trading in the shares in that company whilst such company is on the Default Board due to the non submission of annual report together with the audited financial statement or for the non submission of quarterly or half yearly financial statements in violation of the continuing listing requirements of the CSE.

Awareness and Education

The SEC has placed significant emphasis on encouraging undergraduates of national universities in Sri Lanka to follow capital market related subjects and introduced a gold medal and a cash prize to the most outstanding student in the subject of capital markets. This initiative proved to be immensely successful and was extended to nine national universities.

It is also worth mentioning that we were able to strike a balance between regulatory reforms and capital market development activities

We established Capital Market Information Centres (CMICs) at three more universities during the year and they are equipped with cyber café styled kiosks, computers and capital market related literature. Furthermore, these centres provide intranet facilities and a comprehensive database containing capital market information and research to tertiary

level students. Every endeavour has been made by the SEC to include capital market related subjects to the secondary level curricula as well.

We conducted awareness programmes across the country and thereby increased both the depth and breadth of our investor awareness initiatives. It is heartening to note that with the war coming to an end we were able to conduct many programmes in the northern and eastern provinces of the country. Our energy was focused on educating and making investors aware of the investment opportunities available in the capital market and encourage investor participation in the CSE.

The annual quiz programme was conducted among national universities for the first time and we also continued our Investment Day activities by holding an educational exhibition at the Bandaranaike Memorial International Conference Hall (BMICH) for Advanced

Director General's Review Cont.

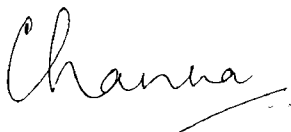
Level commerce students of the western province. The exhibition attracted over 3000 students and proved to be a great success.

We continued to develop and administer licensing examinations for investment advisors with the aim of providing competency required to perform their job functions. In the near future we plan to introduce computer based examinations to stockbrokers. During the year we were able to successfully launch the Continuous Professional Development (CPD) programmes to promote skill enhancement that would enable the market participants to keep abreast of the latest developments in the industry. Furthermore, our programme on Certificate in Financial Journalism to educate the existing financial journalists and attract potential financial journalists was an outstanding success. We expect that the education arm of the SEC will launch a diploma in financial services and also pursue our dream of commencing a Masters degree in capital market studies in the future.

Capacity Development

We strongly believe the responsibilities bestowed on the SEC can only be discharged if we facilitate capacity. This entails having competent staff, proper education, training and career building and providing opportunities to develop capabilities. Our commitment has resulted in having a competent staff at the SEC, able to shoulder the responsibilities of the market whilst fulfilling the aspirations of the people of Sri Lanka.

All our achievements could not have been accomplished without the unwavering commitment and dedication of the Chairman, Members of Commission, the enthusiastic and persevering members of the staff, CSE, all Market Intermediaries, market participants and all stakeholders. I take this opportunity to thank them all for their continued interest and support.



Channa de Silva
Director General

Members of the Commission

Mr. Udayasri Kariyawasam

(Chairman)

Mr. Udayasri Kariyawasam is a practicing Chartered Accountant by profession, a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA). He is a Member of the Certified Practicing Accountants (CPA) Australia, a Member of the Association of Certified Fraud Examiners (CFE) in the USA, and a Fellow of the Society of Certified Management Accountants Sri Lanka (FSCMA). He is also a Senior Member of the Association of Accounting Technicians of Sri Lanka (SAT).

He holds a Bachelor of Science degree in Business Administration (Special) from the University of Sri Jayawardenepura, Sri Lanka and holds a Masters Degree in Business (Accounting) from the RMIT University, Melbourne, Australia.

Mr. Kariyawasam is the Chairman of the Insurance Board of Sri Lanka, Senior Partner of Udayasri Kariyawasam & Company (Chartered Accountants), and Principal Consultant of U.K. Forensic Accountants (Forensic Accountants and Frauds Examiners).

Mr. D.K. Hettiarachchi

Mr. D.K. Hettiarachchi is an Attorney-at-Law by profession. He is a Law Graduate (L.LB) of the University of Colombo. He joined the department of the Registrar of Companies in 1986 as an Assistant Registrar and was promoted to the position of Registrar of Companies in 1997. He has been appointed as the Registrar General of companies under the new Companies Act. He is a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board.

Dr. R.H.S. Samaratunga

(Assumed duties in April 2009)

He holds a Bachelor of Arts (Hons) degree in Economics from the University of Peradeniya, Sri Lanka, Master of Science (Msc) in Agric Economics from the University of Wisconsin-Madison, USA, Master of Business Administration (MBA) from the University of Sri Jayawardenepura Sri Lanka. He also holds a Doctor of philosophy (PHD), from the La Trobe University, Australia.



Standing from left to right - Mr. Udayasri Kariyawasam (Chairman), Mr. Priyantha Jayawardana, Dr. R.H.S. Samaratunga, Mr. D.K Hettiarachchi, Mr. Lolitha Abeyesinghe

Absent - Dr. D.S. Wijesinghe, Mr. W N I C Fernando, Mr. Graetian Gunawardhana, Dr. Lalith Chandradasa

Members of the Commission Cont.

Dr. Samaratunga is a Deputy Secretary to the Treasury with over twenty five years of experience in public service in several capacities. He has previously held senior positions in the Ministry of Finance and Planning. Among them were Director, Department of National Planning, Additional Director General, Department of Fiscal Policy and Economic Affairs and Director General, Department of Trade, Tariff and Investment Policy.

He is on the Boards of several public enterprises and Government linked companies such as Bank of Ceylon, Mihin Lanka (Private)Limited, De La Rue Lanka Currency and Security Print (Private) Limited, Postgraduate Institute of Management and Ceylon Electricity Board.

Dr Ranee Jayamaha

(Ceased to be a Member upon her retirement in May 2009)

Dr Ranee Jayamaha retired in May 2009 as the Deputy Governor, CBSL after holding the post for five years from 2004. As the Deputy Governor in charge of the Financial System Stability, she supervised a number of departments and chaired the Financial System Stability Committee of the Bank. She was the Chairperson of the Credit Information Bureau of Sri Lanka, the National Payments Council and the Legal Forum. She was a member of the Bank's Monetary Policy Committee and functioned as a member of the Sri Lanka Insurance Board, Securities and Exchange Commission of Sri Lanka and the National Economic Council. She had been a member of the Working Group on General Payment System Development of the Bank for International Settlements. Dr Jayamaha was also the Chairperson of the SAARC Payments Council, and a member of the Global Payments Forum.

Dr Jayamaha has held the posts of (i) Special Advisor (Economics), Commonwealth Secretariat, London, UK; (ii) Advisor, Financial Sector Reform Committee, Ministry of Finance; (iii) Secretary, Presidential Commission on Finance & Banking; (iv) Director/Banking Development Department of the Central Bank; (v) Deputy Director, Senior Economist and Economist of the Economic Research Department of the Central Bank.

She has also held a number of important positions outside the Bank, while being on release.

She received her Ph.D in Monetary Economics from University of Bradford, UK (1989); M.Sc in Economics from University of Stirling, UK (1976) and BA (Hons) from University of Peradeniya, Sri Lanka (1970).

Dr. Uthum Herat

(Ceased to be a Member upon his demise in October 2009)

Dr. Herat served as the Deputy Governor of the CBSL overlooking the Financial System Cluster. He was an economist by training, and a career central banker. He held a number of posts in the CBSL, including those of Assistant Governor and Director, Economic Research. He also served as Alternate Executive Director for the Constituency of Bangladesh, Bhutan, India and Sri Lanka at the IMF.

He was the Chairman of the Credit Information Bureau (CRIB), the National Payments Council and served on the Governing Board of the Institute of Bankers of Sri Lanka, and was a member of the Insurance Board of Sri Lanka.

He obtained his basic degree in Mathematics and Statistics from the Sri Jayawardenapura University, Sri Lanka and a MS and Ph.D in Economics from Purdue University, USA. In addition, he is an Associate of the Chartered Institute of Management Accountants, UK. His interests are in the areas of financial stability, monetary policy and financial economics.

Dr. D. S. Wijesinghe

(Assumed duties in November 2009)

Dr. Wijesinghe, Deputy Governor of the CBSL in charge of "Economic and Price Stability", a key objective of the Bank has more than 35 years experience in Central Banking particularly in monetary policy, exchange rate policy, operations of the Bank in financial markets and economic research. As the Deputy Governor, he served as the Chairman, Monetary Policy Committee, Member, Financial System Stability Committee, Chairman, Credit Information Bureau of Sri Lanka and Member Insurance Board of Sri Lanka. He was heavily involved in policy formulation and implementation and advising the Governor and the Monetary Board on the same.

During his tenure at the Central Bank, Dr. Wijesinghe

Members of The Commission Cont.

held the posts of Asst. Governor in charge of Economic and Price Stability, (ii) Director, Domestic Operations Department; (iii) Additional Director, Centre for Banking Studies; (iv) Additional Director, Deputy Director and Senior Economist of the Department of Economic Research; (v) Additional Director, Deputy Director and Assistant Director of the Department of Statistics; (vi) Research Economist of the South East Asian Central Bank's Research and Training Centre, Malaysia; (vii) Staff Economist, Prices and Wages Division.

He received his Ph.D and MA in Economics from the University of Warwick, UK; and BA and B Phil. in Economics from the University of Colombo, Sri Lanka. He has published many papers in several professional magazines and represented the CBSL at several international seminars.

Mr. Nishan Fernando

Mr. Nishan Fernando is the President of the Institute of Chartered Accountants of Sri Lanka. He serves as a Member of the International Accounting Education Standards Board of the International Federations of Accountants (IFAC), a Member of Statutory Accounting Standards Committee and a Member of the Sri Lanka Accounting & Auditing standards Monitoring Board. He is in the governing councils of the National Institute of Business Management (NIBM) and the Postgraduate Institute of Management (PIM) of the University of Sri Jayewardenepura. Mr. Fernando is also a former Board Member of the South Asian Federation of Accountants (SAFA), former Chairman of the Accounting and Auditing Standards Committee of SAFA and the former Chairman and Member of the Urgent Issues Task Force. At present he functions in the capacity of the Group Chief Financial officer at ODEL (Private) Ltd.

Mr. Graetian Gunawardhana

Mr. Graetian Gunawardhana was educated at Thurstan College and studied up to Advanced Level and joined the Royal Ceylon Air Force as an Aircraft Engineering Technician for 02 years and thereafter served in the Police Department for 12 years.

He started his own business as the founder Chairman of Hands International (Private) Ltd., which is an export oriented company with a staff of 3000 workers. He was

elected the "Entrepreneur of the year" in 1999/2000. Mr. Gunawardhana was the recipient of the Gold Award for Exports for the Extra Large Category for many years.

Mr. Graetian Gunawardhana also served as the Chairman of the Exporters Association from 2003-2005. He was also the Chairman of the Sri Lanka Taiwan Friendship Association for five years and was a Director of the American Chamber of Commerce for two years.

Mr. Graetian Gunawardhana was adjudged the "Best Governor in the World" at the Boston Academy Awards function in 2006. Today he holds the position as Past Board Appointee of the Lions Club International.

Dr. Lalith Priyalal Chandradasa

(Assumed duties in March 2009)

Dr. Lalith Priyalal Chandradasa received his Bachelor of Medicine and Bachelor of Surgery degree (MBBS) from the University of Colombo.

He has 15 years of experience in the Ministry of Health and served in Colombo, Badulla and Ratnapura as a medical officer. His areas of expertise include community medicine, administering medical responses in emergencies and disasters, policy formulation, process and system development and advocacy.

He has served as Chairman, Sri Lanka Ports Authority, Chairman, National Aquaculture Development Authority and Chairman, Ceylon Fisheries Harbours Corporation. He has also served as the General Secretary to the Government Medical Officers Association (GMOA) for two terms.

He is currently Director, Community Health at Lanka Jathika Sarvodaya Shramadana Sangamaya and Director, Principal Recipient 2 Global Fund Against AIDS, Tuberculosis and Malaria (GFATM) Sri Lanka.

Mr. Lolitha Abeysinghe

(Assumed duties in May 2009)

Mr. Lolitha Abeysinghe holds a MBA from the University of Rockville, USA and a Diploma in Marketing from the Sri Lanka Institute of Marketing (SLIM/SLIDA). He also holds a Certificate in Intentional Trade from the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL), a Certificate in Advanced Operational

Members of The Commission Cont.

aspects of Intentional Trade and a Certificate in Optional aspects of Intentional Trade from the Export Development Board (EDB). At present he is studying law at the Sri Lanka Law College.

Mr. Abeysinghe is currently Chairman/Managing Director of Sarero International. He is a Director of Vauxhall Corporation (Private) Ltd, Managing Director of Chelina Capital Corporation (Private) Ltd and Evoke Projects (Private) Ltd. He is a Director of Lanka Light Industrial Products Import/Export (Private) Ltd, Hybrid Structures Lanka (Private) Ltd, Lanka Green Energy (Private) Ltd and Vingrows Business Solutions (Private) Ltd. He is also the Business Promotion Consultant at Laksala (Private) and Business Development Consultant of Ratna Group.

He has served as Chairman Medichack Holding (Private) Ltd, Director National Apprentice and Industrial Training Authority (NAITA), Four Seasons Hospitals (Private) Ltd, Canton Energy (Private) Ltd, AGSS International Consultant (Private) Ltd, Nobel Freight (Private) Ltd and SLN Packaging Industries (Private) Ltd. He was the Management Consultant to the Minister of State transport, Consultant to Nobel International (Private) Ltd and Focus International (Private) Ltd.

He has attended many local and international training courses, workshops and conferences. He has presented papers at several international seminars.

Mr. Priyantha Jayawardena

(Assumed duties in May 2009)

After the primary and secondary education at Nalanda College, he entered the Law College in 1985. After he completed his studies at the Law College he was called to the bar and enrolled as an Attorney-at-Law of the Supreme Court in 1988. He was engaged in private practice until he joined the Attorney- General's Department to work in the Government Institutions Division in 1991. Thereafter, he proceeded to the United Kingdom and obtained a Master's Degree in Commercial Law from the University of Aberdeen in 1993. On his return to the country he joined the Attorney- General's Department and served as a State Counsel and reverted back to the unofficial bar in 2000 and is now engaged in private practice. Whilst serving in the Attorney-

General's Department he worked as a Consultant to the Ministry of Food, Internal and International Trade and Commerce and also participated in drafting legislation. In addition to other duties he has served as a member of the Advisory Commission on Intellectual Property Law of Sri Lanka. He was an Examiner of the Council of Legal Education and a Visiting Lecturer of the University of Moratuwa.

Senior Management



Sitting - From left

Dhammika Perera

Director External Relations and Market Development

Ayanthi Abeyawickrama

Assistant Director Legal and Enforcement

Channa de Silva

Director General

Ianthie Jayaratne

Director Finance and Administration

Vajira Wijegunawardane

Director Capital Market Development and Research

Standing - From left

Chandu Epitawala

Director Investigations

Malik Cader

Director Legal and Enforcement

Surana Fernando

Director Corporate Affairs

Dr. D. B. P. H. Dissa Bandara

Director Financial Services Academy

Himani Weerasekera

Assistant Director Supervision

Namal Kamalgoda

Director Surveillance

Chandrasiri Gannile

Director Human Resources

Tharanga Kariyawasam

Director Supervision

Enforcement

Ensuring the integrity of the capital market through prompt, fair and visible enforcement.

Perfect Equilibrium **Growth & Stability**



Staff



First row from left

Miss Madhugayanie Balapitiya, Mrs Ranmini Jayathilake, Mrs Lakshmi Wickramanayake, Mrs Anula Wijesinghe, Miss Ruwanganie Gooneratne, Mrs Kanchana Kumari

Second row from left

Mr Chandran Nagendran, Miss Ranithri Molligoda, Mrs Dhanesha Rajapura, Mrs Manjula Chandraratne, Miss Shalini Perera, Mrs Nishoka Jayathunga, Miss Christobel Silva, Mr M Jayasekara

Third row from left

Mr Anura Perera, Mr S D Dharmasiri, Miss Kumari Siriwardena, Mr Anslam Dias, Mr D Pathum Niroshana, Mrs J K Priyadarshini, Miss Eranga Amarasie, Miss Joelene Karunaratne, Mr Lakshman Silva

Back row from left

Mr Buddhika Lokuliyana, Mr Nimal Kumarasinghe, Mr B Saimathavan, Mr Suneth Perera

Staff Cont.



First row from left

Ms P D Pathmarani, Miss Lakshmi Atapattu, Mrs Gayathri Weerasinghe, Miss G Sathiyatharshini, Ms Sheena Goonaratne

Second row from left

Mrs Prabashini Samarakoon, Miss P M Niroshika Udayanganie, Miss Avanthi Weerasinghe, Mrs Juliet AllegaKoen, Mrs Krishanthi Muthuthantrige, Miss Sharmila Panditaratne, Mrs Prathibhani Herath, Mr Dhanushka Perera

Third row from left

Mr Lalith Kumara, Miss Dulani Amarasinghe, Miss Mehkala Jayapala, Miss Rosheni Wickramaratne, Miss Nuala Thevathasan, Mrs Sithara Tissera, Miss Marianne Sonali Silva, Mrs Saumi Kodippily, Miss Darshika Wickramasinghe, Mr R K Wasantha Sunimal. Mrs Ashoka K Dayarathne

Back row from left

Mr Rakitha Bandara, Mr Sugath Alwis, Mrs Aeshini Bandara, Miss Dilanka Athapaththu, Mr D M G Priyantha

Absent

Mrs Sajeevani Bakmedeniya, Miss Thushara Abhayaratne, Mr W Ariyaratna, Mr P W L Piyatissa

Macroeconomic Overview

The year 2009 marked the end of the nearly 30 year war that plagued this country and will thus go down in history as one of the most significant years in Sri Lanka's modern history. The first half of the year saw intense fighting, economic depression (partly due to global recession) and little prospects for investment, exports, tourism and growth and the second half gave rise to renewed and unprecedented hope and optimism which was best reflected in the performance of the stock market. The security factors that Sri Lanka was burdened with all these years have been decisively removed and the country was faced with a new dawn.

Prior to 18 May 2009, Sri Lanka's economy was faced with the huge and wasteful war expenditure that had drained the government coffers and diverted funds from investment in productive sectors and investment in social and real infrastructure. The war exerted constant pressure on the fiscal deficit which in turn results in many other adverse economic outcomes such as inflationary pressures and higher interest rates for ordinary Sri Lankans. In 2009, partly due to the intense last phase of the war and subsequent refugee related expenses, the budget deficit exceeded the target and was 9.8% of Gross Domestic Product. (GDP) Consequently, this added to the overall national debt and increased cost of servicing such debt.

With the ending of the war, external reserves saw significant improvements, reversing a precarious position in the first half of the year when the country was forced to seek International Monetary Fund (IMF) assistance to shore up the reserves and restore confidence. At the end of 2009 the Gross Official Reserves were USD 5,097 Million (approximately 6 months of imports) though admittedly some of that comprised of borrowed funds. The positive outlook and the renewed confidence subsequent to the approval of the IMF's Stand-by Arrangements increased foreign private fund flows, especially in Government Securities. In spite of difficult economic environment in the Middle Eastern countries due to relatively low oil prices and the looming debt woes of Dubai etc., a steady increase of 14.1% in foreign remittances from the Sri Lankan workers in the Middle East was observed in 2009. These remittances reached USD 3,330 Million in 2009. This in turn helped the overall Balance of Payments record a surplus of approximately USD 2.8 billion. This was a significant achievement given that in the first quarter of 2009, the Balance of Payments was in a deficit.

Tighter monetary policies adopted by the CBSL, along with stabilisation of world commodity prices, particularly of crude oil, saw annual average inflation, as measured by the Colombo Consumers Price Index declined to 3.4%. This was among the lowest in five years. Along with the decline in inflation the yield on Government borrowing rates as represented by the 364 Treasury bill rate also declined. At the end of the 2009 the weighted average Treasury bill rate was 9.33%. This has effectively reduced the cost of borrowing for both the state as well as private sector, effectively help lowering the cost of doing business. This has also helped channel funds into the equity market. The stage was set for a significant real investments in the economy which will result in employment creation and higher incomes for many individuals.

Internationally many economies were adversely impacted by the global financial crisis and resulting economic woes. Many developed economies recorded flat or negative GDP growth. In spite of this, Sri Lanka recorded a positive growth in real terms of 3.5% in 2009. The industry sector grew by 4.2% in 2009, while the services and agricultural sectors grew by 3.3% and 3.2% respectively.

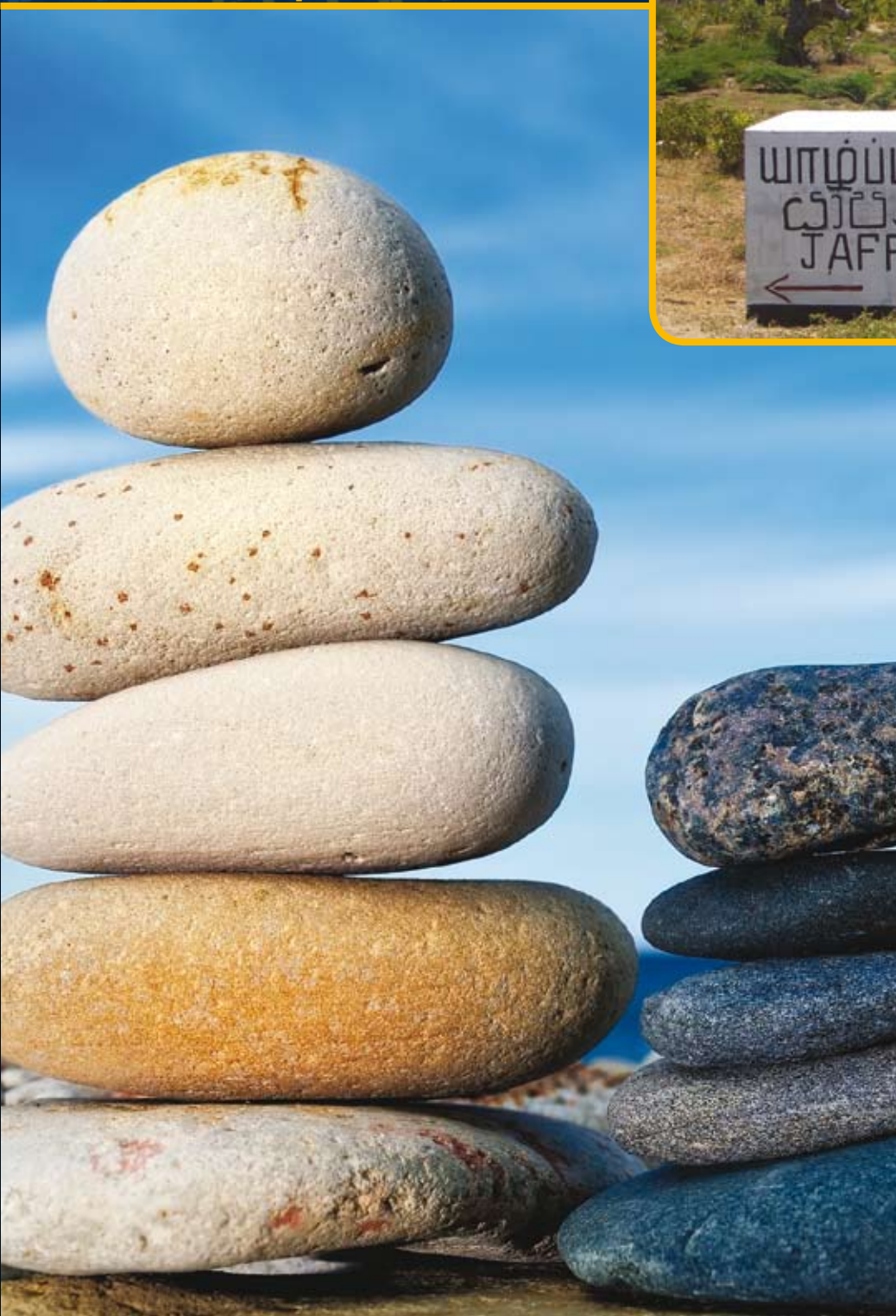
The end of the war marked a significant change in economic conditions and optimism in Sri Lanka. Greater contribution can be expected from the two war affected provinces, as efforts at reconstruction and development commence to bear fruit. This has also coincided with a rebound in the global economy specially those of the advanced economies that had been in recession. The global recovery will act as impetus to create a conducive environment for improving investor confidence, the export and tourism sectors of the Sri Lankan economy. The reintegration of the North and East provinces into the economy, coupled with renewed investor confidence, should ensure that the country will continue to make strides in the economic front. The stock market has already reflected this expectation and many companies will seek to raise funds through a listing in the stock market during 2010.

Data source: Annual Report 2009, Central Bank of Sri Lanka

Capital Market Development

Developing and promoting a healthy capital market through innovation, fairness, transparency, and integrity.

Perfect Equilibrium & Stability
Growth & Stability

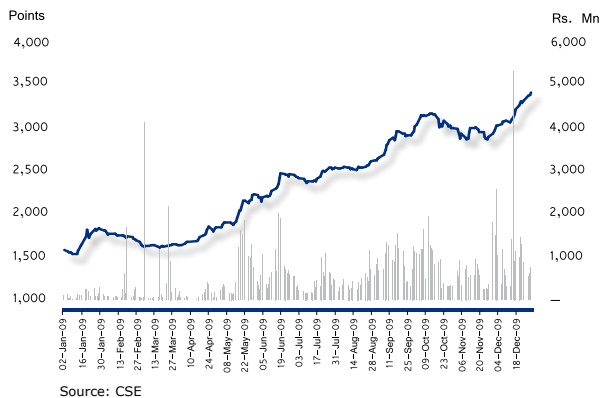


Capital Market Review

Equity Market

The end of the war was a catalyst for new beginnings and optimism in Sri Lanka, paving the way for the country to harvest its long untapped potential. The share market saw a 41% decline during 2008 when the military forces and the LTTE were locked in what seemed an unwinnable war, but as the military gained ground with a string of military victories early in 2009 investor sentiment changed for the positive.

Chart 1 : Market Turnover vs ASPI



Index Performance

The share market reacted positively when news reports emerged of the military capturing the LTTE bastion of Killinochchi leading to a 5% gain in the benchmark ASPI on the first trading day of the year 2009 at CSE. Thereafter investor sentiment at the CSE continued to be upbeat with the prospect of peace and investments returning to Sri Lanka. The CSE performed exceptionally reaching record breaking levels during the month of May 2009 when the military vanquished the entire LTTE leadership. From the beginning of the year upto the time of ending of the war in May, the ASPI witnessed a phased growth of 27%. Furthermore after the crushing of the LTTE until the end the year the ASPI recorded a huge growth of 77%. The ASPI gained 123.2 points or 6.5% whilst the more liquid MPI recorded an increase of 162 points or 7.8% on 18 May 2009, which is the sixth highest daily percentage growth recorded in the ASPI in CSE's history, surpassing 5.95% growth recorded by the ASPI in 19 November 2003. On the same day the daily turnover reached Rs. 1.2 billion, with 43.1 million shares changing hands. It is noteworthy that on 2 October 2009, the year-to-date return of the ASPI crossed the 100% mark for the first time in the history of the CSE. The approval of the IMF Stand-by Arrangement helped rebuild confidence in the Sri Lankan economy and the

declining Treasury bill yields and inflation rates led to the outstanding performance of the CSE.

The positive momentum driving the share market was however disturbed on the news of the arrest of US based founder of the Galleon Group for alleged insider dealing in the United States. The Galleon Fund held large investments in the CSE following the arrest of the founder the Galleon Fund commenced liquidating its investments in the CSE. The fact that these large divestments were easily absorbed by domestic investors without too much of an adverse price impact was an encouraging factor. The possible loss of the GSP + tariff scheme which is crucial for the apparel industry following the release of a European Union investigation report also took investor attention during the latter part of October. The CSE however reverted back to its upward momentum during the latter part of the year and continued its upward surge and crossed the important 3,000 point level while setting a new all time high record of 3,385.55 points on 30 December 2009.

The year 2009 closed with a spectacular performance by the CSE with the benchmark ASPI recording a massive growth of 125.3% or 1,882.53 points, the highest growth ever recorded. In the process the ASPI surpassed the previous record of 118% recorded way back in 1991. The massive growth in the ASPI enabled the CSE to become the second best performing stock exchange in the world in the year 2009 (according to the Bloomberg Newswire). The MPI too recorded a noteworthy increase of 2,218.04 points or 135.9% for the year 2009, which is also the highest growth recorded in MPI for a given year surpassing the previous high of 51.4% recorded in the year 2006.

On 18 June 2009 CSE created history when it recorded the highest number of transactions for a single trading day. A total number of 15,290 trades were executed during the day surpassing the previous record of 13,254 trades set on 28 July 2005.

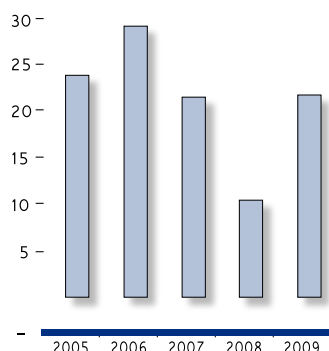
Market Capitalisation

The market capitalisation stood at Rs. 1,092.1 billion as at 30 December 2009 which is the highest ever reached in the entire history of the CSE. This is a substantial increase of over Rs. 603.3 billion in comparison to the previous year. The highest contribution of 22% towards the market capitalisation was by the Diversified Sector and the Bank Finance & Insurance Sector contributed 18%. The market represents approximately over 23%

Capital Market Review Cont.

of the GDP of the country. On 6 October 2009 the Market Capitalisation crossed the Rs. 1 trillion mark for the first time in the history of the CSE. The Market Price Earning of the CSE stood at 16.55 times at the end of the year 2009.

Chart 2 : Market Capitalisation as a Percentage of GDP



Annual Turnover

The CSE recorded the highest turnover for a given year with Rs. 142.5 billion for the year 2009 beating

Chart 3 : Turnover vs Market Capitalisation (%)

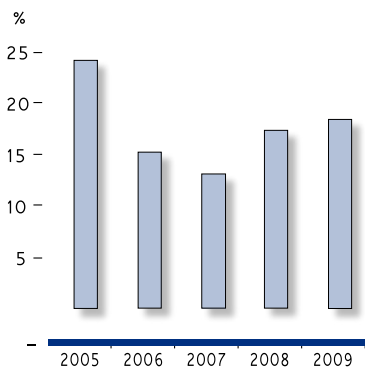
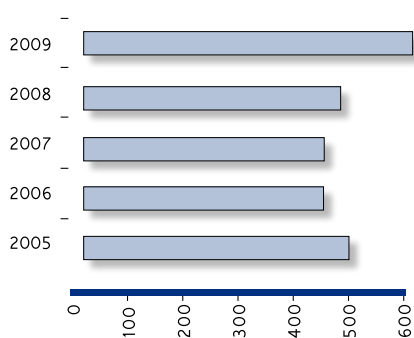


Chart 4 : Daily Average Turnover (Rs. Mn)



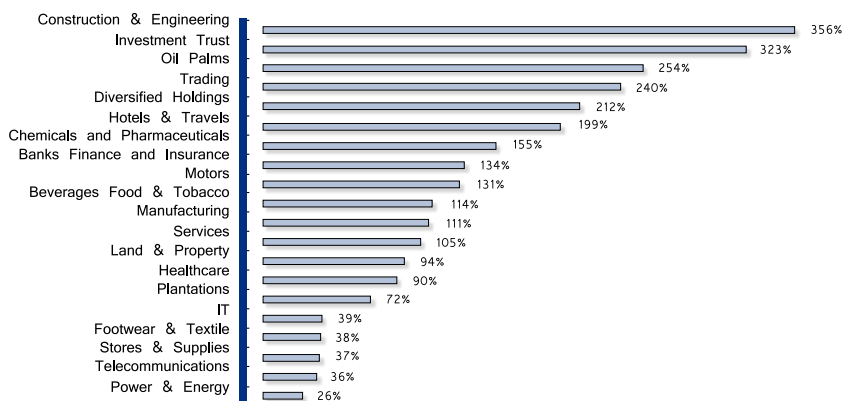
Source: CSE

the previous record of Rs. 114.6 billion recorded in year 2005. The Average daily trading volume of the CSE which was Rs.134.2 million at the start of the year reached nearly Rs. 600 million at the end of 2009 surpassing the previous high of Rs.481.5 million for the year 2005. Domestic investors were the drivers of the share market during the year 2009 and generated 70% of the annual turnover whilst foreign participation was 30%.

Sector Index Performance

Positive economic developments together with declining interest rates, higher business confidence and brightened growth prospects following the end of war resulted in all 20 business sectors in the CSE recording considerable gains during the year 2009. Construction & Engineering Sector was the highest gainer of 356%. The Investment Trust, Oil Palms and the Trading and Diversified Sectors moved up over 200% at end of the year.

Chart 5 : Sector Index Performance



Source: CSE

Capital Market Review Cont.

Foreign Inflow/Outflow

The total foreign purchases for the year 2009 was Rs. 43.0 billion whilst foreign sales was Rs. 43.8 billion resulting in a net foreign outflow of Rs. 788.9 million. This was the first net foreign outflow recorded since 2001 due largely to the divestments made by the Galleon Fund.

New Listings

Capital Reach Leasing PLC and Hemas Power PLC were entered into the official list of the CSE by way of issuing new shares to the public. NAMAL Acuity Value Fund which is the first closed-ended unit trust was listed on the CSE during the year under review.

Regional Market Performance

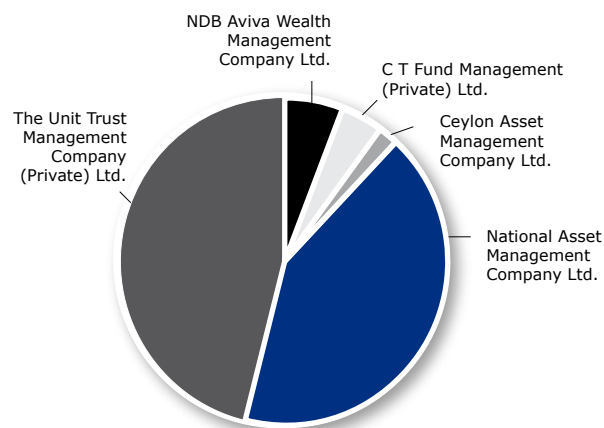
A recovery was witnessed in most of the regional stock markets with China, Indonesia and India posting annual gains of 96.71%, 86.9% and 81.03% respectively driven by relatively stronger balance sheets, higher yields and growth potential. The CSE was far ahead of other strong performers in Asia.

Unit Trust Funds

There were eighteen operative unit trust funds managed by five managing companies at the end of the year 2009. The market share of each unit trust managing

company in terms of the Net Asset Value in the year 2009 is reflected in the following chart:

Chart 6 : Market Share of Unit Trust Managing Companies



Source: Regulatory submissions by unit trust managing companies

The Overall Position of Unit Trust Funds

There were 18 unit trust funds with a Net Asset Value of Rs. 9.9 billion (approx) as at 31 December 2009 compared to 17 funds of Rs. 6.8 billion as at 31 December 2008.

Table 1 : The Overall Position of Unit Trust Funds

	As at 31 December 2008	As at 31 December 2009
Number of unit trusts	17	18
Net Asset Value of unit trusts (Rs. Mn. approx)	6,780	9,952
Number of unit holders	22,685	23,117
Number of units issued (No. Mn. approx)	638.1	564.5
Investment in equity (Rs. Mn. approx.)	2,589	6,036
Investment in treasury bills (Rs. Mn. approx.)	2,903	3,363
Investments in other instruments ¹ (Rs. Mn. approx)	1,293	1,106

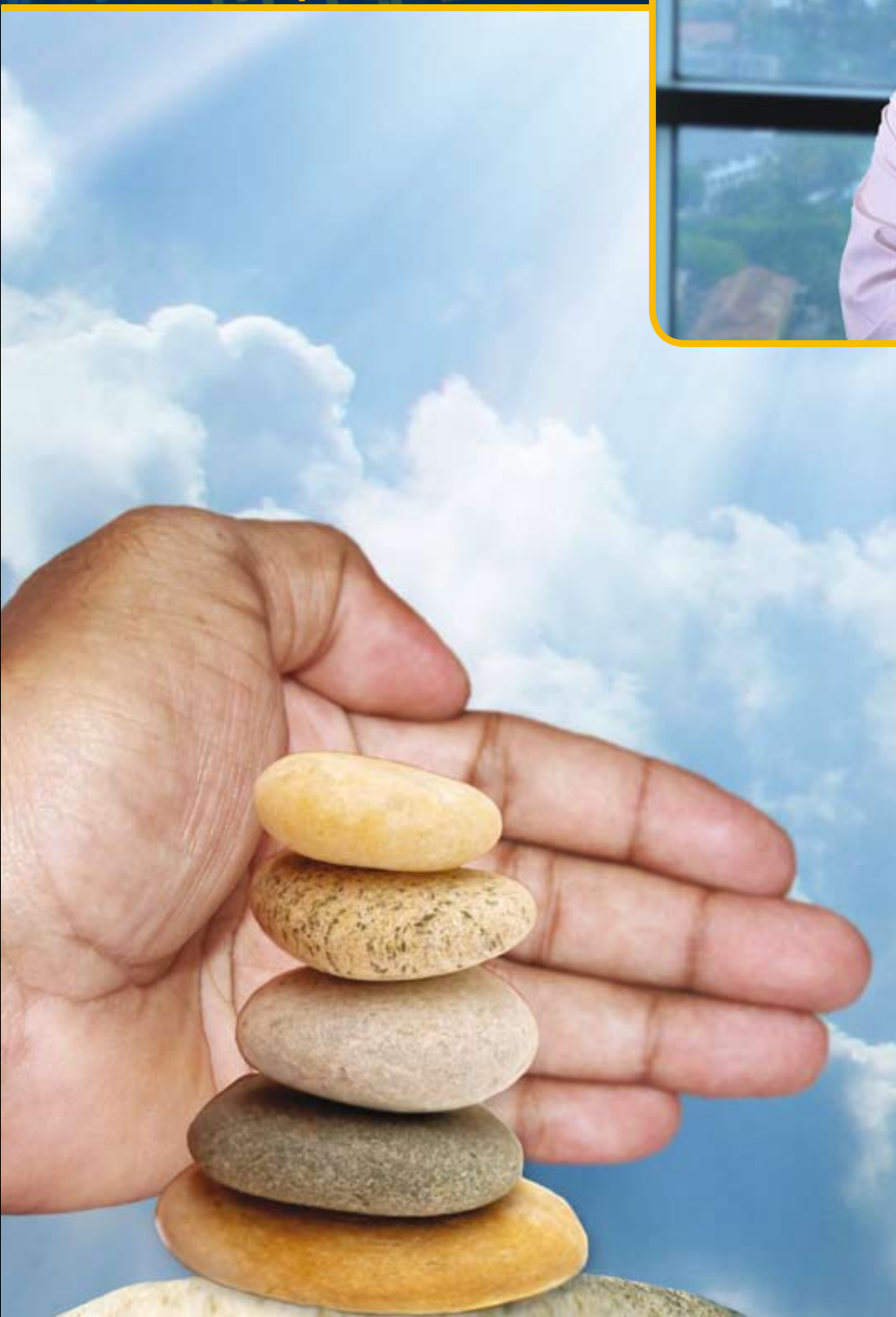
Source: Regulatory submissions by unit trust managing companies

¹ Commercial papers, trust certificates, debentures and bank deposits

Protecting Investors

Ensuring an appropriate level of regulation and supervision to facilitate capital formation and investor protection.

Perfect Equilibrium **&** Growth & Stability



Operational Review

1. Regulation

The aim of capital market regulation is to promote, develop and maintain an efficient and fair market. In order to ensure an effective and responsive regulatory framework we streamlined regulation, increased regulatory capacity and aligned our regulations with international standards. We are entrusted with the task of licensing and registering market participants and make use of laws, rules and regulations for this purpose.

1.1 Licensing and Registrations

As required by the SEC Act we grant licences to stock exchanges, stock brokers, stock dealers and managing companies of unit trusts as well as register all market intermediaries i.e. investment managers, margin providers, underwriters, credit rating agencies and clearing houses in order to carry out their respective business functions. Registrations and licences are granted by assessing the financial strength and compliance with the SEC Act, rules and regulations. The table below indicates the licences and registrations granted during the year 2009.

Table: 1.1 Licensing and Registration of Market Participants

Market Participant	No. of Licences/ Registrations
Stock exchanges	01
Stock broking companies	21
Stock dealer companies	02
Stock dealer in debt securities	02
Managing companies of unit trusts	05
Credit rating agencies	02
Investment managers	13
Margin providers	14
Underwriters	07
Clearing houses	01

Please refer page 42 to 44 for additional information

The licence of the CSE was renewed in order to carry on the business of a stock exchange for a period of 5 years from 4 October 2009 to 3 October 2014 in terms of Section 19 (2) (a) of the SEC Act No. 36 of 1987 as amended.

A company that was registered as an investment manager and margin provider made a request to discontinue their business activity. After obtaining a written undertaking from the directors of the company

that they will be settling all outstanding clients we agreed to discontinue their registration subject to the right to prosecute them in the event they failed in the undertaking.

1.2 Regulatory Developments

Amendments to the SEC Act

In ensuring the relevancy of the legal framework to meet challenges defined by the evolving needs of the capital market, three amendments were introduced to the SEC Act to facilitate:

1. Regulation of derivatives in Sri Lanka for the first time in its history;
2. Empowerment of the SEC to issue specific or general directives to all Public Listed Companies (PLCs) in keeping with the objectives of the Commission of protecting the interests of investors and ensuring that professional standards are maintained in the capital market; and
3. The Enhancement of the independence of the Commission by expressly providing for private sector representation in the Commission in order to establish a balance between private and public representation, in the Commission

Amendments to the Takeovers and Mergers Code (TOM)

We initiated the process of amending the TOM Code to remedy certain lacunae in the law in order to harmonise the Sri Lankan law relating to Takeovers and Mergers in line with international trends. This process is being spearheaded under the guidance of Justice Saleem Marsoof PC, Judge of the Supreme Court of Sri Lanka.

Central Counterparty (CCP)

During the year steps were taken to bring in a new legal framework that would facilitate the proper regulation of a CCP. The central clearing house is expected to operate on the basis of a CCP which is an entity that interposes itself between parties to contracts in an exchange by becoming the seller to the buyer and the buyer to the seller.

We worked closely with the CSE in its initiative to introduce a clearing house which will settle and clear all market transactions in the near future. The CCP is sine quo non to trading of derivatives on the exchange, as it eliminates counterparty risk. We are currently assessing the legal changes that will have to be introduced in order to facilitate the smooth running of a clearing house.

Operational Review Cont.

Demutualisation

We have analysed the changes in legislation that would be necessitated to enable the demutualisation of the CSE and the regulation of a demutualised exchange.

Demutualisation is a process by which an existing member owned, mutually operated, stock exchange is converted into a shareholder owned, commercially operated, corporate entity. It segregates ownership and management from the trading rights of the members of an exchange. International experience suggests that increasingly, demutualised structures are preferred to mutual structures as a mechanism to improve exchange performance.

A draft Cabinet Memorandum has been forwarded to the Ministry of Finance and Planning to obtain the approval of the Cabinet of Ministers for the demutualisation of the CSE by way of incorporating an act of Parliament and to commence the amendments needed to the SEC Act thereafter.

Introduction of Exchange Traded Funds (ETFs)

Technical expertise was obtained from the Securities and Exchange Board of India to introduce ETFs to Sri Lanka. A gap review of the present regulatory framework relating to unit trusts was carried out in order to assess the possibility of incorporating ETFs within the existing legal framework of unit trusts.

Minimum Public Float for Listed Companies

We have commenced a comparative study on the possibility of implementing a minimum public float requirement for all public companies listed on the exchange with a view to improve liquidity in the market.

Globally, public shareholding norms vary across markets. Stock exchanges in Hong Kong, Singapore, Malaysia and Thailand require a minimum float requirement between 10 and 25 percent. We also believe that introducing a minimum public float will pave the way for more opportunities to the general public to have a share in the wealth created on the stock market and also reduce the scope for price manipulation in the future.

Establishment of an External Advisory Panel on Financial Reporting

We have initiated the establishment of an external advisory panel on financial reporting to advise the commission, on how a breach or a violation of a Sri Lanka Accounting Standard by a public listed company would affect the capital market. We are further considering the formulation of a charter to govern the establishment and the functioning of this panel.

Rules on Outsourcing by Stock Exchanges

We commenced formulating guidelines pertaining to policies on outsourcing by exchanges in line with the International Organization of Securities Commissions (IOSCO) principles relating to same.

Dematerialising Accounts for Listed Securities

We commenced consulting relevant parties regarding the appropriateness of mandating a requirement to lodge certificates pertaining to all listed securities in the Central Depository System (CDS) in order to enhance the liquidity of the secondary market for securities.

Amendments to the Listing Rules of the CSE

During the year under review we approved the new amendments to the present Listing Rules of the CSE. Listing Rules for closed ended unit trust funds were finalised under Section 4 of the Listing Rules of the CSE.

Guidelines for Approvals Granted under Section 28A of the SEC Act

New guidelines have been introduced in respect of applications made to the SEC under Section 28A of the SEC Act.

Section 28A of the SEC Act requires all public companies that make an application for listing on a licensed stock exchange to obtain the prior written approval of the Commission where any shares of the company have been allotted to any person within a period one year prior to the date of the listing application.

Bill on Regulation of Asset Backed Securitisation

Securitisation is a process used to securitise assets belonging to institutions which have regular future cash flows, in order to increase the liquidity of the institution and the capital market. We initiated formulation of a draft Securitisation Act for Sri Lanka which will regulate the securitisation industry. At present the draft bill is awaiting due passage through Parliament.

Rules on Internet Trading

Rules will be drafted to regulate internet trading to promote confidence, efficiency and fairness in the securities market.

The CSE currently provides a gateway to facilitate electronic order routing via the brokers. We wish to introduce rules to ensure that every internet trading service provider has satisfactory arrangements in place to safeguard the integrity of the service and to prevent misappropriation of identities, impersonations (leading to unauthorized/illegal transactions) and unauthorized usage.

Operational Review Cont.

Directives issued to the CSE

- To take steps to increase the number of trading members, trading in equity and debt by five by 31 July 2010 and further stipulated a requirement that these new members admitted for trading should open a minimum of one branch office within the first year of operations and two branches within the second year of operations outside Colombo.
- To enforce the established "Fit and Proper Criteria" to all the Members and amend the Articles of Eligibility for stock brokers to reflect this directive in instances where brokers could be appointed as directors of the CSE.

Directives and Guidelines Issued to Unit Trust Funds

- We issued guidelines in relation to investment parameters in respect of listed and unlisted debt instruments to minimise the financial risks of unit holders. We also issued fit and proper criteria to managing companies of unit trust funds to ensure that persons of good financial standing, repute and integrity viz a viz the capital market are engaged in the business of managing unit trust funds.
- We issued a directive to Bank of Ceylon (BOC) to give up their trusteeship in relation to the funds managed by The Unit Trust Management Company (Pvt) Ltd an associate company of BOC in which the trustee sought the permission to increase its share holding in the managing company from that of 20% to 49.6%.

1.3 Approvals

Country and Regional Funds

During the year approvals were granted to 110 Global, Regional and Country Funds including a number of funds from the USA and Europe. Approvals were granted to Global, Regional and Country funds to invest in shares of companies listed in the CSE, subject to their compliance with the criteria given in the Gazette Extraordinary No.720/12 of 24 June 1992 pertaining to investments by non-resident companies incorporated in Sri Lanka and the law relating to securities in Sri Lanka.

These approvals are granted on the recommendation of the Central Depository Systems (Pvt) Ltd (CDS) which processes these funds in compliance with the Financial Transaction Reporting Act No 6 of 2006 and Know Your Client Rules issued by the Financial Intelligence Unit of Sri Lanka.

Mandatory and Voluntary Offers Made under the TOM Code 1995, as Amended

The TOM Code of 1995 as amended in 2003, applies to takeovers and mergers where the offeree is a Public Listed Company. The Code seeks to ensure equal treatment of all shareholders of the same class in the company sought to be taken over. The rules of the Code are aimed at ensuring dissemination of sufficient information and advice with adequate time to the shareholders of the target company in order for them to arrive at an informed decision relating to the takeover. The Code deals with three types of offers namely Voluntary offers, Partial offers and Mandatory offers. During the year under review we administered one Voluntary offer, five Mandatory offers and one Partial Voluntary offer.

Operational Review Cont.

Table: 1.2 Offers Extended under the Takeovers and Mergers Code

Offeror	Offeree	Nature of the Offer
John Keells Holdings PLC	Union Assurance PLC	Mandatory Offer
People's Leasing Company Limited	Seylan Merchant Leasing PLC	Mandatory Offer
Carson Cumberbatch PLC	Equity One PLC	Voluntary Offer
Hayleys PLC	Hayleys - MGT Knitting Mills PLC	Mandatory Offer
Gulf East Finance Limited	Singalanka Standard Chemicals PLC	Mandatory Offer
Asia Energy Management Systems Inc.	Vallibel Power Erathna PLC	Partial Voluntary Offer
Environmental Resources Investments PLC	Ceylon Leather Products PLC	Mandatory Offer

Issuance of Unlisted Securities by Listed Companies

In terms of Section 29A of the SEC Act, applications relating to issuance of unlisted securities by listed companies need to be submitted to the SEC. During the year under review, we reviewed and approved the following applications relating to the above.

Table: 1.3 Approvals Granted to Issue Unlisted Securities

Name of Issuer	Nature of the Issue	Type of Security	Amount Approved (Rs.)
Pan Asia Banking Corporation PLC	Public Issue	unlisted debentures	150,000,000/-
Nations Trust Bank PLC	Private Placement	unlisted debentures	500,000,000/-
Kelani Valley Plantations PLC	Private Placement	unlisted debentures	100,000,000/-
Kotagala Plantations PLC	Private Placement	unlisted debentures	100,000,000/-
Talawakelle Tea Estates PLC	Private Placement	unlisted debentures	95,000,000/-
Watawala Plantations PLC	Private Placement	unlisted debentures	100,000,000/-
Bogawantalawa Tea Estates PLC	Private Placement	unlisted debentures	100,000,000/-
Carson Cumberbatch PLC	Private Placement	unlisted preference shares	275,000,000/-
Aitken Spence Hotel Holdings PLC	Private Placement	unlisted preference shares	250,000,000/-

Operational Review Cont.

Unit Trust Funds

SEC grants licences to all managing companies of unit trusts to manage approved unit trust funds. We approved Deutsche Bank taking over the trustee functions of the following funds from HSBC.

1. National Equity Fund
2. Namal Growth Fund
3. Namal Amana Acuity Fund
4. Namal Gilt Edged Fund
5. Comtrust Equity Fund
6. Pyramid Unit Trust Fund
7. Ceylon Index Fund

During the year under review approval was granted to:

- National Asset Management Company Ltd to operate "Namal Acuity Value Fund" which is the first closed ended fund to be listed on the CSE and it commenced trading in October 2009.
- The Unit Trust Management Company (Pvt) Ltd to operate "Ceybank Savings Plus Money Market Fund". The fund is an open ended fund with the objective of investing in the money market.
- NDB Aviva Wealth Management Company Ltd and National Asset Management Company Ltd to manage 3rd party portfolios in terms of Rule 36 of the Unit Trust Code.
- National Savings Bank to act as Trustees of the funds managed by The Unit Trust Management Company Ltd.
- Eagle NDB Fund Management Company Ltd to change their name to NDB Aviva Wealth Management Company Ltd.

Colombo Stock Exchange

As agreed upon by both SEC and CSE we approved the proposed market halt for a period of 30 minutes in the event the MPI drops by 5%.

Market wide index based circuit breakers are imposed by stock exchanges to halt trading of equity securities in order to provide a 'cooling off' period when there is an unusual movement in an index.

Stock Brokers

- Approval was granted for the sale of 70% of the shares of Lanka ORIX Securities (Pvt) Ltd (presently known as Capital TRUST Securities (Pvt) Ltd)

as well as the change of name of the entity and the appointment of new directors to Lanka ORIX Securities (Pvt) Ltd.

- Approval was granted for the sale of 100% shares of HNB Stockbrokers (Pvt) Ltd to Environmental Resources Investment PLC and to the change of name of HNB Stockbrokers (Pvt) Ltd to DNH Financial (Pvt) Ltd.

Delisting Applications

We granted approval to the following companies to delist from the main board of the CSE in terms of rule 5 of the SEC Rules

- 1) Associated Motorways PLC
- 2) Associated Electrical Corporation PLC
- 3) Commercial Leasing PLC
- 4) Associated Property Development PLC
- 5) Land & Building PLC

Off-the-Floor Share Transactions

In terms of Section 28 (1) of the SEC Act "no person holding securities in a public company listed in a licensed stock exchange shall without the prior approval of the Commission buy, sell, gift or otherwise deal in such securities except in compliance with trading procedure adopted by such licensed stock exchange"

In terms of this section approval was granted to 181 exceptional transfers and 212 transfers by way of gifting of shares during the year under review. The exceptional transfers were in order to facilitate margin trading, fund management, delisting and restructuring of entities and portfolios, where beneficial ownership does not change.

2. Oversight and Compliance

An effective market oversight system monitors the compliance of market participants with relevant laws, rules and regulations. Our oversight system essentially involves the examination of financial and operational perspectives of listed companies and market participants. In this way, we ensure that market participants maintain reliable and efficient systems, internal controls, and operate with sufficient capital and safeguard customer funds.

2.1 Listed Companies

All listed companies are required to submit annual reports within six months from the close of the financial year to their shareholders and the CSE. We review annual reports of listed companies to enhance

Operational Review Cont.

the quality of financial reporting and dissemination of information by listed companies. Listed companies are required to disseminate material information promptly in order to establish transparency and accountability in the securities market and to ensure that professional standards are maintained.

In reviewing the annual reports we focused on the following areas:

- Compliance with CSE Rules, Sri Lanka Accounting Standards (SLAS) and relevant provisions of the Companies Act
- Financial Highlights
- Chairman's Report
- Corporate Governance Practices
- Report of Directors
- Report of Auditors
- Shareholder and Investor Information
- Financial Data

We reviewed annual reports of 100 listed companies and issued 6 Letters of Caution and 26 Letters of Comment. The responses of listed companies were extremely positive in this endeavour.

This process will contribute to improve the level of awareness of companies regarding the obligations placed upon them in the preparation and presentation of annual reports.

During the year the CSE referred several listed companies that have been transferred to the default board of the exchange for necessary action. Most of these companies have violated the Listing Rules of the CSE by not submitting their annual reports and financial statements to the market. We closely monitored the compliance of these errant companies and instituted action against one company. Since then over ten companies which were transferred to the default board have been transferred back to the main board after the default was cured.

2.2 Stock Broking Companies

The SEC Act requires all stock broking companies to obtain a licence in order to carry on the business of a stock broker. The licence is granted by assessing compliance with the CSE Member Regulations and requirements pertaining to the financial position including liquidity and net capital. We ensure the financial stability and operational viability of licensed entities through on-site and off-site supervision. The comparative statistics on the performance of the stock broking companies during

2009 and 2008 are given below:

Table: 2.1 Performance of the Stock Broking Industry

	2008 (Rs.'000)	2009 (Rs.'000)
Turnover	968,251	1,944,092
Net brokerage	926,043	1,802,967
Operating profit/loss	(130,959)	911,744
Other income	429,972	375,235
Net profit before tax	103,284	822,484
Total assets*	3,208,050	6,429,267
Total liabilities *	1,524,010	3,826,959
Net capital*	1,489,801	2,075,953

Source: Unaudited financial statements submitted to SEC

*As at 31December 2009/2008

On-site inspections were carried out on 10 stock broking companies adopting a risk based supervisory methodology focusing on different risk categories such as prudential, liquidity, operational, legal and reputational risk. Subsequent to the on-site inspection, a report on the findings was sent to the stock broking companies notifying the areas of non compliance and recommendation for implementation of a more effective risk management framework. Considering the seriousness of non compliance and the risk impact, meetings were held with requisite companies to ensure compliance.

The three main areas of focus in the off-site reviews were compliance with the net capital requirement, adequacy of client funds, and the liquidity requirement. We received financial statements and the Compliance Officer's Report of stock broking companies on a monthly basis. Compliance with the net capital requirement was monitored by reviewing the monthly financial statements of the stock broking companies. Twenty stock broking companies maintained the minimum net capital requirement throughout the year 2009. The trading activities of one stock broking company which was suspended in November 2008 due to its non compliance with the minimum net capital requirement was re-instated with effect from 15 April 2009. Hence from 15 April 2009 all 21 stock broking companies operating on the CSE were compliant with the minimum net capital requirement.

As per the off-site review one stock broking company

Operational Review Cont.

did not maintain adequate client funds in the client bank accounts to meet the creditors over T+3 consecutively from February to November 2009. However the company was able to rectify the issue during the month of December 2009 and the unaudited financial statements of the company for the month of December 2009 revealed adequate client funds and a fair liquidity position. Therefore the broking licence of the company was renewed for the year 2010.

In order to reinforce off-site supervision we commenced developing an electronic filing system and maintaining a database for stock broking companies. This project is being developed by an external IT company.

All licensed stock broking companies adhered to the liquidity requirement stipulated by the CSE during the year 2009 as per the CSE monthly report on liquidity.

2.3 Unit Trust Managing Companies

All unit trust managing companies as defined under the SEC Act are required to obtain a licence to operate a unit trust fund. We adopt an operational risk based approach to supervise the unit trust funds managed by the unit trust managing companies to ensure compliance with the provisions of the Unit Trust Code, the Trust Deed and the relevant directives issued by the Commission.

During the year we developed and issued guidelines for trustees and managing companies of unit trust funds and approved three Licensed Banks as trustees to unit trust funds.

We examined the monthly unaudited financial statements submitted by the unit trust managing companies to ensure that the managing companies were financially stable and maintained the minimum net capital requirement of Rs. 25 million as required by the SEC. In addition, the monthly returns of the unit trust funds were scrutinised to ensure that exposure levels of the unit trusts were within acceptable limits as set out in the Unit Trust Code, the relevant Trust Deeds and the directives issued by the Commission. The managing companies were informed of any deviations from requirements observed in respect of the unit trust funds, and were requested to be compliant. In addition, advertising material, press releases, interim reports and annual financial statements of unit trust funds were approved.

Several meetings were held with the unit trust managing companies to discuss the issues and concerns relating to the industry and also assess the progress of the unit trust industry.

2.4 Colombo Stock Exchange

The audit on the CSE was successfully concluded. The primary purpose of the audit was to determine compliance of the CSE with requirements and conditions stipulated under Part I of the Schedule to the SEC Act referred under Section 16. Accordingly the systems, standards and processes prevailing at the CSE, the Exchange's positioning in the capital market and the capital market developmental role in the changing environment were assessed.

2.5 Market Intermediaries

We are entrusted with the task of registering all market intermediaries and ensure that they comply with applicable rules and regulations. A major thrust of our work for the year 2009 involved heightening market oversight on market intermediaries. Through a variety of rulemaking and other initiatives the SEC continued to refine its regulations in order to promote growth and competitiveness of the market whilst protecting the interests of investors.

During the year, we integrated risk assessment practices particularly in the areas of enforcement activities and supervision of regulated entities. In addition we intensified efforts to identify potential problems of systemic concern. Hence, we continued to implement risk assessment techniques to identify and focus on firms and activities that could pose the greatest risk of failure and its impact to investors and the integrity of the markets.

We carried out on-site supervision of six investment managers and three margin providers in the year 2009. In addition to routine inspections we conducted a special audit to determine regulatory compliance and financial stability of an investment management company with the objective of ascertaining the adequacy of protection afforded to investors due to its continuous non-compliance status with the applicable Rules. The audit was based on an Agreed - Upon Procedures Engagement and its main focus was on the movement of client funds to ascertain as to whether the outflow of funds were payments to respective investors, inflow of funds sourced through encashment of investments were utilised to pay the investors and to ensure that all new receipts were invested in securities and were not utilised to repay other investors. The findings of the special audit indicated that the company has honoured client payments and is phasing out its operations. However as per the undertakings given by the Board of Directors, the company affirmed their decision to phase out its business activities and the company was able to honour the obligations of all clients.

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Regular on-site inspections were also conducted on another investment management company to ensure compliance over a period of time with the applicable Rules. Hence the renewal of registration for the company was granted upon its undertaking to comply with the Rules applicable for investment managers. The on-site inspections resulted in corrective action and improved compliance and risk management by the company.

3 Monitoring and Enforcement

Market monitoring plays a vital role in ensuring safety and integrity of the market and the effectiveness of the regulatory system. On a real time basis we monitor the market in order to detect any unusual market movements arousing suspicion. We investigate possible breaches of securities laws and initiate legal proceedings if the findings of the preliminary investigations warrant it.

3.1 Complaints

We receive and assess complaints concerning alleged misconduct in the Sri Lankan capital market. We handled and resolved 44 complaints during the year under review. The nature of the complaints is given in the table below.

Table 3.1: Details of Complaints

	Nature of the Complaint	NO.
1	Complaints Against Brokers & Unauthorized Transactions	10
2	Breach of CSE Listing Rules by Improper Conduct of Listed Companies or their Officers	17
3	Rights Issues/Bonus Issues/Dividends Payments	5
4	Market Manipulation	2
5	Policy Matters	10
	Total	44

3.2 Market Surveillance and Investigations

The aim of market surveillance is to try to maintain an orderly trading of shares in the secondary market, while enhancing market transparency and integrity. We analyse market irregularities such as unusual or suspicious price and volume movements. We also examine any referrals

received from the CSE as well as complaints from third parties. In order to handle surveillance detections we have in place a well established written procedure. This enables us to maintain consistency in decisions on detections of violations of regulatory provisions. Such detections are referred to the Surveillance/Investigations Committee comprising of senior officials who collectively determine the necessity of a full scale investigation prior to the final recommendations made to the Commission.

Surveillance

During the year under review, we detected 29 cases of possible breaches of regulatory requirements and examined these further. We further examined 15 issues relating to takeovers and mergers and referrals received from other sources. These findings were referred to the Surveillance/Investigations Committee for further examination and possible enforcement action.

Table 3.2: Surveillance Detections

Detections	No. of Issues
Insider Dealing ²	17
Market Manipulation ³	08
Front Running ⁴	04
Total	29

In order to detect a wide range of possible market misconduct and enhance the effectiveness of the surveillance function, Millennium Information Technologies Ltd, a member of the London Stock Exchange Group was selected to install a new automated surveillance system replacing the existing system. The contract was negotiated and agreed upon between the SEC and MIT. During the latter part of the year, we engaged in a gap analysis on the proposed system with MIT. It is expected that the new system will be fully installed before mid 2010. The new automated state of the art surveillance system is capable of generating automatic alerts, trading patterns, market replay, matching of databases of company insiders and spouses, trading by directors of companies on the default board etc.

² Insider Dealing: Trading in the shares of a listed company whilst in the possession of unpublished price sensitive information in respect of the securities of the said Company

³ Market/Price Manipulation: Creation of a false or misleading appearance in respect of the trading, or the price of any securities listed on a stock market.

⁴ Front Running: Trading in securities of a Company ahead of a significant purchase or sale of securities of such Company, for a client, with the intent to profit by trading in the said securities thereafter.

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Investigations

A total of 10 investigations were conducted during the year 2009.

Table 3.3: Details of Investigations

Nature of the investigation	No. of Investigations	Action Taken/Current Status
Insider Dealing	04	<ul style="list-style-type: none"> Two fully fledged investigations into suspected Insider Dealing were pending at the end of the year. The opinion of the Hon. Attorney General (AG) was sought to terminate an investigation where the trades investigated into appeared to have fallen within the exemption clause contained in Section 32(4) of the SEC Act. The advice of the Hon. Attorney General confirming that the matter falls within the above exemption clause was obtained during the year under review. Hence the matter was terminated. Subsequent to conducting a fully fledged investigation in 2008, we recommended the termination of the said matter due to the absence of evidence to legally sustain a case of Insider Dealing. However during the year under review, the Members of the Commission directed taking a new look into the matter. Consequently the investigation of the said matter was terminated after further investigations.
Market/Price Manipulation	02	<ul style="list-style-type: none"> During the year 2007 the opinion of the Hon. Attorney General was sought to determine whether we could conduct an investigation relating to a particular matter whilst there is an on-going litigation in connection with the said matter. The Hon. Attorney General advised to suspend the investigation until the finality of the pending litigation. Hence the matter was suspended in the year 2009. In the year 2008 we conducted a fully fledged investigation pertaining to Market/price Manipulation. It was concluded that a case of Market/Price Manipulation could not be legally sustained based on the material/evidence elicited during the course of the said investigation. However, we concluded that the entity concerned (a licensee of the SEC) and/or the Managing Director of the said entity was guilty of certain irregular activities/malpractices. The Board of Directors of the entity concerned was cautioned during the year under review regarding the irregular activities/malpractices.
Complaints	02	<ul style="list-style-type: none"> Deliberations relating to a complaint were suspended until the finality of certain on-going litigation since the issues pertaining to the said complaint form the subject matter of pending litigation. A fully-fledged investigation was conducted into a complaint and a letter of caution was sent to the entity concerned which is a licensee of the SEC.
Front Running	01	<ul style="list-style-type: none"> An investigation was pending at the end of the year.
Submission of Fictitious/False Financial Statements	01	<ul style="list-style-type: none"> During the year 2008 we conducted a fully fledged investigation relating to submission of fictitious/false financial statements to the CSE by a Listed Company. In the year 2009 legal action was instituted against the two individuals connected to this investigation.

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3.3 Litigation

Over the years we have built a comprehensive and facilitative legal framework to ensure adequate protection for investors and create a fair, transparent and orderly market.

For Capital Market Offences:

SEC v. Sunil Piyawardene and two others:

The accused, all members of the same family were charged with having traded in the shares of Nawaloka Hospitals PLC., on the basis of profiting from price sensitive information they possessed prior to the release of such information to the market.

The Commission having considered several appeals made by the accused with the sanction of the AG and Court, has offered to settle the matter by withdrawing the charges against Ms. C. Piyawardene subject to Mr. and Mrs. Piyawardene compounding the matter by paying a sum of Rs. 3.3 million each to the Compensation Fund of the Commission. The SEC will continue with the trial against all three accused in the event Mr. and Mrs. Piyawardene fails to pay the said sums as fines.

SEC v. B.A Jayasekera and Eight Others

The accused in this case were charged in the Colombo Fort Magistrate's Court for market manipulation in respect of the shares of Nawaloka Hospitals PLC. After the Commission compounded the offence against Mr. Jayantha Dharmadasa for a sum of Rs. 3.3 million the Court gave sanction to give an opportunity to all the accused in this case to settle this matter after considering the case against each of the accused provided they make a request.

The Commission has already compounded the offence against Mr. B. A. Jayasekera and Don Anura Samaradivakara on their making a request and paying a sum of Rs. 3.3 million each to the Compensation Fund. The Commission withdrew the charges against Mr. Harshith Dharmadasa the 3rd accused with a severe reprimand on the advice of the AG after the evidence was freshly considered by the AG on an application by Mr. Dharmadasa. The trial will continue against the other accused.

SEC v. Magpek Exports Ltd.

The SEC filed charges against the company and eight of its directors in the Colombo Fort Magistrate's Court for not immediately disclosing certain material information to the market in contravention of the SEC Rules. The learned Magistrate after summary trial fined the directors

Rs.2.5 million each on each count and sentenced them each to a two year prison term.

The accused have appealed against their conviction and sentence and the matter is now pending in the High Court of the Western Province.

SEC v. R. Navaratnam and One Other

The SEC filed action in the Colombo Fort Magistrate's Court against the chairman and a key employee of Singalanka Standard Chemicals PLC for releasing the annual report of the company with the purported audited financial statements of the company on the forged signatures of the auditors for the financial years ended 31 March 2002 to 31 March 2007.

Mr. K. Ketheeshwaran the 2nd accused pleaded guilty to 5 counts out of 15 and the Court imposed a fine of Rs.50,000/- each on four of the counts and imposed a prison sentence of six months suspended for a period of five years on the 5th count. In the meantime the first accused Mr. R. Navaratnam the chairman of the company made a request to the Commission to compound the offence against him and the Commission turned down the request and directed that trial be continued against the 1st Accused.

For the Violation of SEC Rules and the Listing Rules of the CSE:

SEC v. Tuan N. Dole and One Other

The SEC has filed charges against two directors of Alufab PLC for their failure to release the annual reports and the Audited Financial Statements of the company to the market for the years ended 31 March 2004 to 31 March 2009 in contravention of the SEC Rules and the Continuing Listing Requirements of the CSE enumerated in the Listing Rules of the CSE.

Since filing action the company has released the annual reports and the Audited Financial Statements for the years ended 31 March 2004 to 31 March 2007. The annual reports of the company for the financial years ending 31 March 2008 and 2009 are still outstanding and the matter is pending in Court.

Litigation in Respect of Directives Issued Under the Takeovers & Mergers Code:

Jetwing Hotel Management Services (Pvt) Ltd. v. SEC

The SEC by its letter dated 21 May 2009 directed the petitioner company to make a mandatory offer to all shareholders of Galle Lighthouse Hotel PLC after the

Operational Review Cont.

petitioner crossed the shareholding threshold of 30% in Galle Lighthouse Hotel PLC, in terms of Rule 31 of the company TOM Code. The petitioner company being aggrieved by the SEC directive, filed an application in the Court of Appeal seeking inter alia a writ of certiorari to quash the directive of the SEC and for a writ prohibition on the SEC from taking enforcement action against the petitioner for violating the provisions of the TOM Code. In the meantime Hayleys PLC too has filed papers to intervene in the matter. This case is now pending in the Court of Appeal.

Litigation in Respect of other Directives Issued by the SEC:

Touchwood Investments PLC. v. SEC

The SEC by its directive dated 9 March 2007 directed the petitioner company to prepare financial statements for the years ended 31 March 2005 and 2006 on a cost basis in terms of International Accounting Standards (IAS) 41. The Company was allowed to deviate from the cost basis in the preparation of financial statements only for periods commencing after 1 April 2006 provided the approval of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) was obtained in that respect.

The petitioner company filed two applications in the Court of Appeal against both the SLAASMB and the SEC seeking writs of certiorari quashing both the determination of the SLAASMB and the directive of the SEC.

The Court of Appeal recently issued a writ of certiorari in favour of the petitioner company quashing the determination of the SLAASMB made against the petitioner company. The case against the SEC is still pending before the Court of Appeal.

In Respect of Matters Arising from non Registration of Names on the Shareholders Register on the Basis of Violating Provisions under the Banking Act:

NDB v. Fast Grain International Ltd., Singapore

NDB v. Catana Ltd., of Bahamas

NDB v. Anand Prakash Jagaiya of Malaysia

The SEC and the CDS a subsidiary of the CSE have been added as respondents in 3 cases filed by the NDB Bank in the Commercial High Court seeking the Court's permission to release the economic benefits which were accrued to three parties who bought shares in the NDB Bank but whose names were not entered in the

shareholders register on the basis they violated the provisions of the Banking Act which prohibits any party individually or by acting in concert to hold more than 10% of the shareholding of a licensed commercial bank. The cases are still pending before the Commercial High Court.

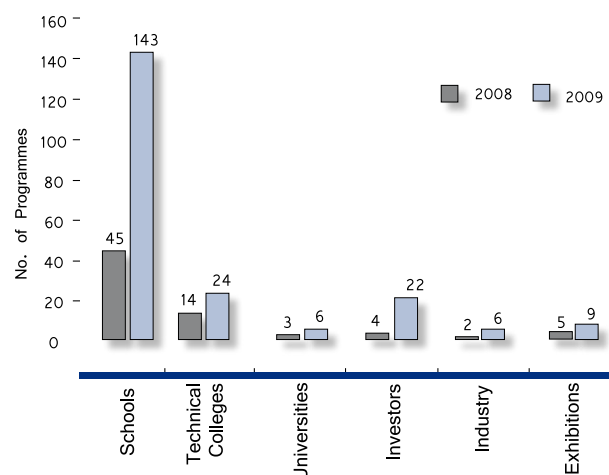
4. Awareness and Education

Imparting knowledge on capital market investments amongst all citizens is an area we have allocated a significant quantum of resources as it is our belief that opportunities in the capital market should be enjoyed by all Sri Lankans, irrespective of social, educational and cultural backgrounds.

With the ultimate objective of building a financially literate community we incorporated capital market related subjects into the primary, secondary and tertiary curriculum of the education system of Sri Lanka.

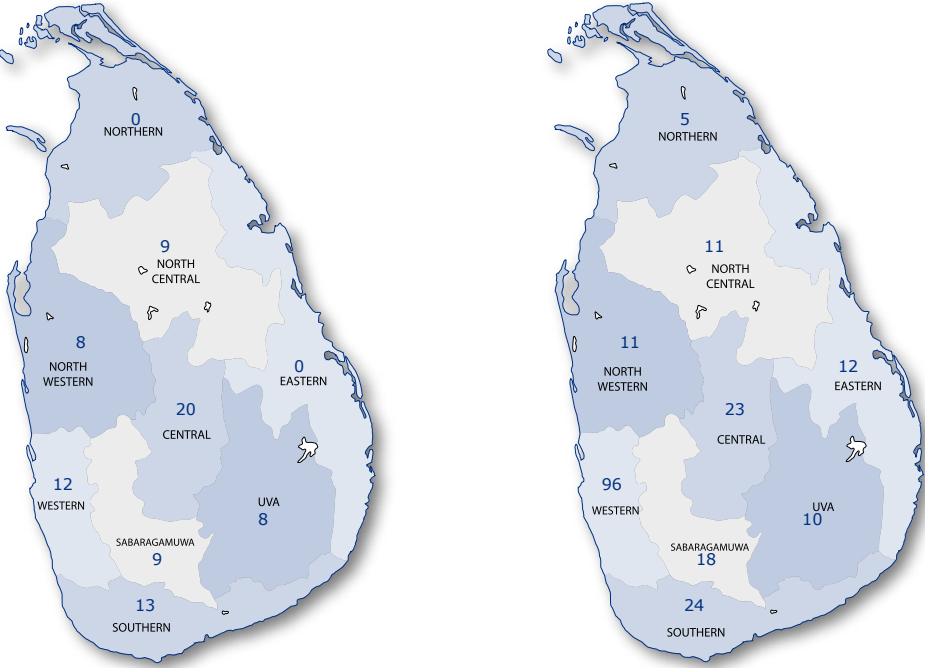
During the year we made significant improvements to the presentation material, audio visual equipment etc. with a view to cater more effectively to identified target groups in order to enhance their comprehension of the subject matter and generate an interest in capital market investments. We were also able to recruit a team member fluent in Tamil in order to impart knowledge on investing in the capital market. As a result we are now equipped with a comprehensive database of presentations in Sinhala, Tamil and English medium to cater to a wider spectrum of people at any given time. It is noteworthy that we were able to disseminate knowledge to the Northern and Eastern provinces subsequent to the establishment of peace in the country. Given below is a synopsis of initiatives carried out by us during the year 2009.

Chart 4.1: Awareness Initiatives

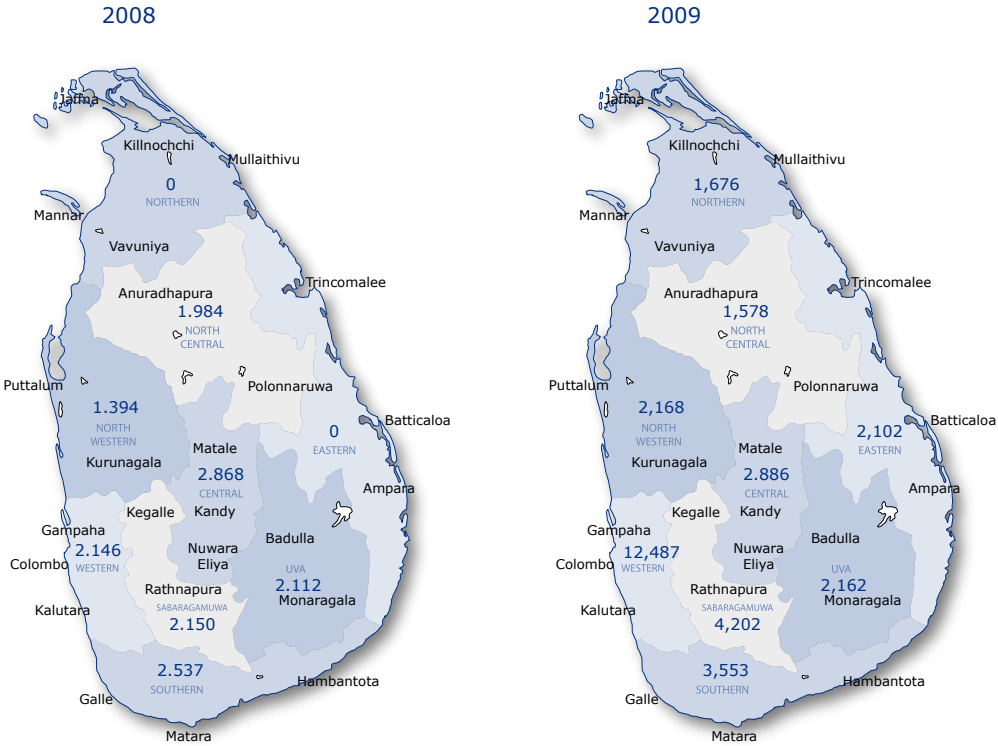


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Province wise illustration of awareness programmes conducted in 2008 and 2009



Province wise illustration of the number of persons who were educated in 2008 and 2009



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4.1 Quiz Programme

This event was conducted as an all island inter-university contest among national universities for the first time. It is noteworthy that University of Jaffna, Eastern University of Sri Lanka and South Eastern University of Sri Lanka competed in this programme. The contest was conducted in both Sinhala and Tamil and the semi-finals and finals of the contest were telecast over the Independent Television Network (ITN).

4.2 Investment Day

The Investment Day exhibition was held at the Bandaranaike Memorial International Conference Hall (BMICH) on 23 October 2009 to commemorate the 22nd anniversary of the SEC. Over three thousand Advanced Level Commerce stream students from the Western Province accepted our invitation and visited the exhibition and obtained information on the capital market of Sri Lanka. This event attracted widespread publicity through the Sinhala, Tamil and English print media as well as live coverage via the electronic media.

An inter-university debate was also organized as part of the anniversary celebrations of the SEC. The University of Sri Jayewardenepura and the University of Kelaniya participated in the debate.

4.3 Fostering Close Ties with the Media

The media has an important role to play in our endeavour to create a financially literate society. Therefore, we worked closely with various media institutions/personnel in order to nurture a healthy and a lasting relationship bearing in mind the aforesaid objectives. During the year we were able to impart knowledge on securities market investments throughout the country as well as keep the investing public informed of the latest developments/opportunities in the market.

4.4 Teacher Training on the Capital Market

In association with the National Institute of Education (NIE) we conducted programmes to educate regional master teachers and resource teachers on the capital market and its current developments. Three comprehensive two-day training programmes in Sinhala and Tamil medium enabled the participants to update their knowledge on the capital market. These programmes were held at the NIE, Maharagama with a field visit to the CSE and the SEC.

4.5 Seminar for Listed Company Directors

A specialized programme for directors of listed companies was conducted in order to disseminate

knowledge on regulatory issues. This programme was entitled "key obligations of listed companies under the new Listing Rules". The areas covered in the programme were the salient features of new Listing Rules, Corporate Governance mandatory provisions and Corporate Disclosures etc.

4.6 Facilitation of Capital Market Related Activities for Universities

A project was initiated to award a gold medal and a cash prize to the most outstanding student in the subject of capital markets each year. This is aimed at encouraging undergraduates of national universities in Sri Lanka to follow capital market related subjects during their academic career. We have extended this facility to nine national universities by signing a Memorandum of Understanding with each university for this purpose. We granted gold medals and cash awards to the students of the universities of Sri Jayewardenepura, Ruhuna, Sabaragamuwa and Rajarata.

We continued the research grant project to encourage undergraduates and graduates of national universities to undertake research on broad capital market related issues. During the year under review four researchers were offered the opportunity to proceed with their selected projects.

4.7 Capital Market Information Centre (CMIC)

In our efforts to familiarise, educate and create awareness about the capital market among the local university populace we established CMICs at three more universities in Ruhuna, Jaffna and Kelaniya. Creation of a CMIC in Jaffna University shortly after the end of the war paved the way for us to create links with the academics in the Northern part of the country. This was a successful step taken towards creating capital market awareness island-wide.

In an effort to create a brand image for the CMIC we established a cyber café styled kiosk equipped with computers and capital market related books/literature etc. in the CMICs which were launched during the year.

A project is also underway to revamp the web enabled database which is accessible via the centers to make it more user- friendly, informative and secure to keep in line with other international CMICs in the region. CMICs will be introduced to eight other identified local universities in due course.

4.8 Publications on the Capital Market

Two publications on equity and debt securities were authored by Professor Lalith Samarakoon. These

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publications are used as text books for the Certificate in Capital Market (CCM) programme conducted by the Financial Services Academy (FSA).

We also published a booklet titled "Financial Market of Sri Lanka" authored by Professor Lalith Samarakoon in Sinhala for the benefit of students and teachers. This publication is also used as a text book on the financial market of Sri Lanka and at present we are making arrangements to translate this publication into Tamil.

Arrangements were made to publish a booklet with illustrations for students in grade eight and nine with the intention of providing them with an understanding on the benefits of investing in the stock market.

4.9 Educating and Training Initiatives

We implemented the framework for trainee investment advisors of stock broking companies in order to ensure a minimum level of proficiency whilst assisting practitioners to progress to more advanced qualifications through the continuous professional development programmes.

Since financial reporting is important in the current context we formulated and conducted a course entitled Certificate in Financial Journalism (CFJ) for financial journalist attached to print and electronic media. Given below is a synopsis of initiatives carried out by us during the year 2009.

Table 4:1 Education and Training Initiatives

Programme	Module	No of Modules conducted during the Year	No of Registered Students
Certificate in Capital Markets (English medium)	Equity Securities	2	73
	Debt Securities	3	141
	Financial Regulations and Ethics	3	141
Certificate in Capital Markets (Sinhala medium)	Equity Securities	1	91
Certificate in Financial Journalism(English and Sinhala Medium)	N/A	N/A	66
Registered Investment Advisor	Training Evaluations	1	10
	Ethics and Capital Market Profession	1	173
Workshops for Continuous Professional Development	Securities Regulation, Offences and Enforcement	1	81

5. Capital Market Development

A vibrant, well-developed capital market has been shown to facilitate investment and economic growth. It is in view of this that we embarked on several significant strategies to accomplish capital market development which could lead to the attainment of our national aspirations. The following projects were implemented during the year under review.

5.1 Listing of Registered Finance Companies (RFCs)

A proposal for compulsory listing of Registered Finance Companies (RFCs) was submitted to the CBSL. The CBSL accepted the proposal in principle and directed the RFCs to get listed by June 2011.

5.2 Facilitate Introduction of Derivatives to Sri Lanka

A high level study visit was conducted to observe derivatives and clearing corporation operations in India.

The Sri Lankan delegation in the study visit comprised of SEC, CSE and stock brokerage officials. In line with the findings we issued a directive to the CSE to establish a clearing corporation in Sri Lanka.

5.3 Transaction (trading) Cost Study

A benchmark transaction cost study was undertaken and completed in the context of the Asia-Pacific region. This

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highlighted that Sri Lanka's transaction cost structure applicable for equity trading is among the highest in the region.

5.4 Foreign Exchange Inflow into Sri Lanka via the Corporate Bond Market

In order to facilitate foreign exchange inflow into the country, we made a proposal to the CBSL to relax controls on foreign participation in rupee denominated corporate bonds. The CBSL in its Road Map on monetary and financial sector policies has taken steps to relax foreign-exchange controls allowing foreigners to invest in rupee denominated debentures issued by local companies.

5.5 Investor Forum in Singapore

Together with the High Commission for Sri Lanka in Singapore, we conducted an Investor Forum in Singapore to attract portfolio investments into the Capital Market of Sri Lanka. This forum provided overseas fund managers based in Singapore an excellent opportunity to interact with a high-level Sri Lankan delegation in order to fully understand potential investment opportunities in the areas of debt and equity. The forum was a resounding success with the participation of over 140 fund managers based in Singapore.

5.6 Public Enterprises Survey

In association with the Public Enterprises Department of the Treasury, a survey of subsidiary and associate companies of commercial state owned enterprises was initiated. The findings of the survey would be used to promote capital market participation by the said companies.

5.7 Workshop/Forum for the Private Provident Funds

With an aim to enhance awareness among the trustees on the investment options available in the capital market for long term provident funds ground work was laid to conduct a workshop/forum for the private provident fund trustees.

5.8 Relaxation of Exchange Control Regulations Relating to Investments in Unit Trusts

At present a foreign resident can invest in a unit trust only if the trust deed contains a restriction that not more than 20% of the fund shall be invested in government securities. This restriction came into effect by the Gazette (Extraordinary) dated 7 March 2000. We submitted a proposal to the CBSL to consider the relaxation of controls on foreign participation in unit trust investments.

6. Our Strengths

6.1 Human Resources

Human Resource (HR) is our most vital asset. We believe that achieving our goals and objectives is largely dependent on people expertise. During the year we took the initiative to create a performance driven culture. Key Result Areas (KRAs) and Key Performance Indicators (KPIs) were developed for all divisions and employees in line with the corporate vision, mission, objectives, strategies and divisional action plans. All members of the staff were committed to achieving the performance targets assigned to them. We have infused the rudiments of good HR management, to ensure that each member aligns themselves with the goals of the organisation. We also managed to create an "open door" policy where any employee can directly address their superiors and built an environment of professionalism to attract the right people and empower them with the skills and knowledge required for the job. An improved performance appraisal was implemented successfully in 2009. A proposal to link the performance appraisal system to rewards and recognition is also being considered.

Table 6.1: Cadre Composition

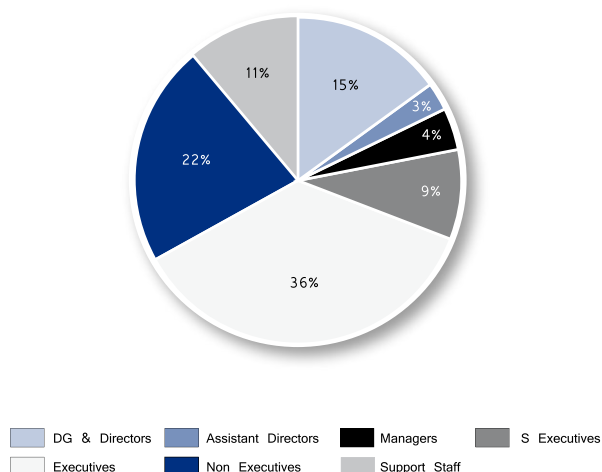
Category	Approved Cadre	In Employment	
		as at 31.12.2008	as at 31.12.2009
Director General	1	1	1
Deputy Director General	1	1	0
Directors	11	11	10
Assistant Directors	4	2	2
Managers	5	0	3
Senior Executives	37	9	6
Executives		18	26
Non Executives	17	14	16
Support Staff	8	8	8
Total	84	64	72

6.2 Employee Cadre and Recruitments

In comparison to the previous year there was a significant change in the cadre composition of the Secretariat as at 31st December 2009.

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Chart 6.1 : Cadre Information Based on Employee Grade



Since the entire success and growth of the organisation largely depends on its people we take care in ensuring that we develop, retain and manage our human resources to build organizational capacity in order to meet the current and future requirements of the SEC.

During the year we identified the structural/divisional changes required for higher efficiency and effectiveness at SEC. In order to achieve this we implemented job rotation, enrichment, enlargement, internal transfers, promotions and external recruitments. The external resourcing was carefully done since the competencies that we require at SEC are not easily available in the labour market.

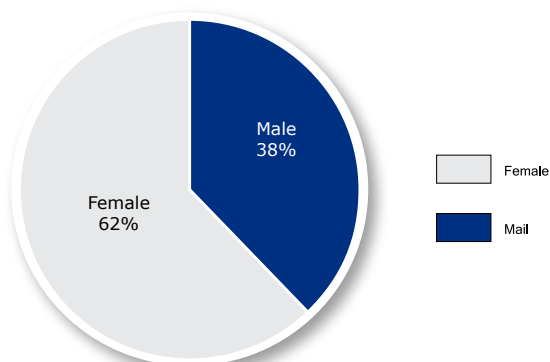
During the year three senior executives were promoted as managers, two executives as senior executives, a confidential secretary was promoted to an executive secretary and a secretary was re-designated to create a career path. We offered paid internship opportunities to three University students with on-the-job training during the year.

Table 6.2 : Age Group Analysis

Age Group	DG & Directors	Assistant Directors	Managers	Senior Executives	Executives	Non Executives	Supporting Staff	Total
25-30	-	-	-	1	13	5	1	20
31-35	-	-	-	1	6	4	1	12
36-40	1	1	3	3	6	3	-	17
41-45	6	-	-	-	-	2	1	9
46-50	3	1	-	1	1	2	3	11
51-55	1	-	-	-	-	-	2	3
Total	11	2	3	6	26	16	8	72

The Gender analysis of the staff in the permanent Cadre as at end of the year consisted of 62 % females and 38% males.

Chart 6.2: Gender Analysis



6.3 Training and Development (T & D)

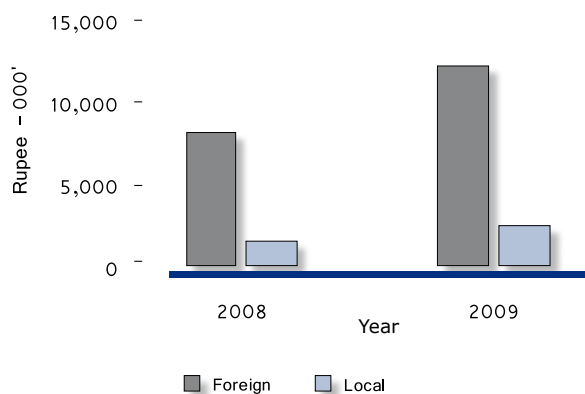
We were able to create a knowledge driven culture amongst our team through focused training and development. Our training and development initiative took into account market trends and evolving competencies to accomplish high productivity levels and enhanced performance.

Being a member of IOSCO, we are fortunate to obtain training opportunities from countries such as Japan, Hong Kong, South Korea, Malaysia, Philippines, Spain, and Australia etc. Moreover all our employees are given the opportunity to participate in training programmes conducted internally as well as those run by external agencies both local and foreign.

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In comparison to the previous year we increased our investments in T & D by 47% in 2009. During the year we encouraged staff to pursue Professional and Academic courses and Post Graduate studies with financial assistance granted by SEC.

Chart 6.3: Composition of Expenditure for Local and Foreign Training



6.4 Staff Welfare

We continued to facilitate indoor and outdoor medical schemes, personal insurance cover, vehicle and distress loan schemes, interest subsidy facilities etc. During the year the quantum of the distress loan was increased by 100%. Staff welfare activities included two pirith ceremonies to evoke blessings on the Secretariat, a sports day to foster team spirit among staff members and a Christmas party to improve employee relations. Our annual staff residential programme included an employee wellbeing programme and a discussion on the Corporate Plan for the next three years.

6.5 Information Technology

With the assistance of the University of Sri Jayawardenepura, we successfully implemented a state of the art Computer Based Testing System (CTS) to enhance the efficiency and effectiveness of conducting examinations of the FSA. Initially this system will be used for stock broker licensing examinations which will be subsequently extended to other examinations of the FSA.

The new time and attendance management system that was installed on test basis during the year will reduce the amount of time needed to prepare attendance records and improve reliability and accuracy in timekeeping during the ensuing year.

6.6 Library Development

We continued our library development programme by adding more books to the library. Additions to the library were made considering the academic requirements of staff members and current international developments in the financial sector etc.

6.7 International Relations

We maintain cordial relationships with all International Organization of Securities Commissions (IOSCO) member countries. As a member of IOSCO we responded to the surveys conducted by IOSCO Emerging Markets Committee and a number of consultations by IOSCO General Secretariat. This includes the consultation papers on the Review of the IOSCO Strategic Direction for the years 2010 – 2015.

During the year a delegation from the Securities Board of Nepal visited Sri Lanka on a study tour. They visited key securities industry participants and also got the opportunity to work with the divisions of the SEC.

7 Performance of Statutory Funds

7.1 Cess Fund

In accordance with Sections 14A and 14B of the SEC Act, No 36 of 1987 as amended by Act, No. 26 of 1991, Act, No. 18 of 2003 and Act, No. 47 of 2009 states as follows.

14A

- (1) There shall be charged, levied and paid a Cess at such rates as may be specified by the Minister by Order published in the Gazette on every purchase and sale of securities recorded in a licensed stock exchange or notified to it under its rules by both the purchaser and the seller.

Different rates may be specified in respect of different classes of securities.

- (2) The Cess imposed under this Section shall be in addition to any other tax or Cess levied under any other written law.

Operational Review Cont.

14B

- (1) There shall be established a fund called the Cess Fund to which shall be credited the proceeds of the Cess imposed under Section 14A.
- (2) There shall be paid out the Cess Fund such sums as may be authorized by the Commission for the purpose of-
 - (a) developing the securities market;
 - (b) enhancing monies lying to the credit of the Compensation Fund established under Section 38; and
 - (c) exercising, performing and discharging the powers, duties and functions of the Commission for the purpose of achieving its objects.
- (3) The money lying to the credit of the Cess Fund may be invested by the Commission in such manner as may be determined by the Commission.

The rate of Cess charged by the SEC remains the same since its last reduction from 0.1% to 0.09% per transaction which became effective on 1 December 2003. Deliberations are underway as to whether it is timely to reduce the Levy of Cess on share transactions of the CSE.

Cess on Intra day trades of clients was not charged on one side of transactions since February 2006 as set out below.

- (a) In the event the number of shares purchased does not equal the number of shares sold, the transaction fees will not be levied on the lower quantity of shares either purchased or sold.
- (b) In the event the quantity purchased is equal to the quantity sold transaction fees will not be levied from the second transaction whether it be a purchase or sales transaction.

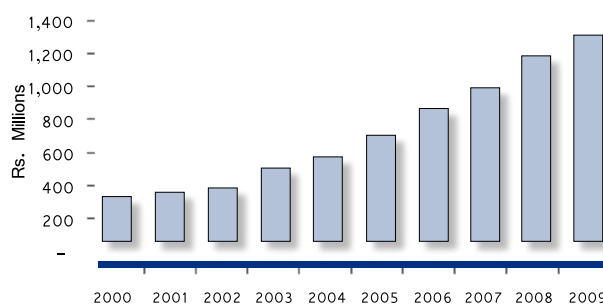
Intra day trade is where a client buys and sells or sells and buys the same security on the same day through the same broker.

During the year under review three more commercial banks licensed by the Central Bank of Sri Lanka were appointed as settlement banks for the settlement of equity and debt securities transactions of the CSE. The settlement banks are namely Sampath Bank,

Commercial Bank, Bank of Ceylon, Hongkong and Shanghai Banking Corporation.

The balance lying to the credit of Cess Fund as at 31 December 2009 amounted to Rs.1,202 million.

Chart 7.1: Growth of the CESS Fund during the Period 2000-2009



7.2 The Settlement Guarantee Fund (SGF)

The SGF was launched on 22 May 1998. The Fund was established for the purpose of guaranteeing the settlement of trades between participants of the CDS of the CSE. The operation of the SGF is described below.

- Ownership of shares traded is transferred no sooner a trade is executed. From 10 December 2007 the CSE adopted a single tier settlement cycle. The buyer is required to pay on T+3 i.e. on the 4th Market day including the day of trading and the seller to receive the settlement on T+3 i.e. on the 4th Market day. The relatively long interval between transfer of ownership and receipt of proceeds (risk of the buyer defaulting) leaves the settlement risk uncovered which in turn necessitated the establishment of the SGF.
- The Trustees of the Fund hold office of ex-officio and comprise the Chairman of SEC, the Chairman of CSE, the Deputy Secretary to the Treasury, the Director General of SEC and the Director General of CSE.
- The Government of Sri Lanka has contributed a sum of Rs 50 million to the said Fund. This money has been invested in Government securities in terms of the Trust Deed. SGF can also receive donations, gifts and endowments as replenishments. The broker/custodian banks are presently not required to contribute to the Fund.

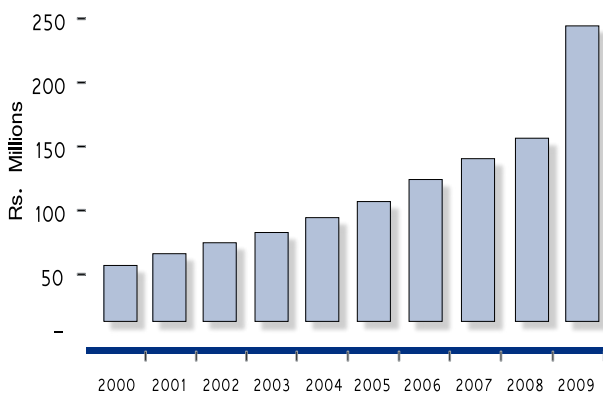
Operational Review Cont.

- With a view to strengthening the Fund a sum of Rs. 50 million was transferred from the the Cess Fund during the year under review.

However, since the SGF is found to be inadequate to properly address the issue of settlement risk the SEC is looking at the feasibility of establishing a clearing corporation to effectively address the settlement risk.

The balance lying to the credit of the fund as at 31.12.2009 amounted to Rs 253 million.

Chart 7.2: Growth of the SGF Fund during the Period 2000 -2009



7.3 Compensation Fund

The Compensation Fund came into operation along with the establishment of the SEC in 1987. Section 38 of the Securities and Exchange Commission Act No 36 of 1987 as amended states as follows:

- There shall be established a fund called the Compensation Fund, for the purpose of granting compensation to any investor who suffers pecuniary loss as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations.
- The Compensation Fund shall consist of
 - such sums of money as may be voted upon by Parliament for the purpose of the Fund.
 - Such sums of moneys as may be credited to the Fund under Section 51A; (Section 51A is on compounding offences).
 - Such sums of money as may be credited from Cess Fund under section 14B.

- Moneys belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission.

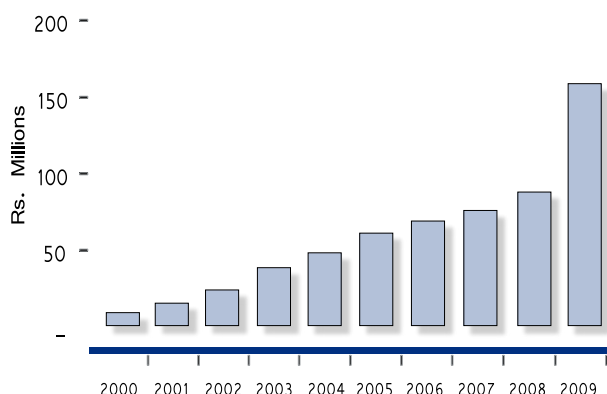
The Minister shall appoint from among the members of the Commission three members who shall comprise the Compensation Committee.

The Committee appointed shall be responsible for assessing and awarding compensation in respect of any application made under section 40 and the decision of such Committee on any such assessment or award shall be final and conclusive for the purpose of this Act.

The Act also provides for the procedure for applying for compensation. According to the Act, the Committee may, after examination of the documents and other evidence produced in support of the claim by an applicant, or in any case where an inquiry was held on the conclusion of such inquiry, allow or disallow such claim for compensation. Up-to-date there have been no claims made from the Compensation Fund.

With a view to strengthen the Compensation Fund a sum of Rs. 50 million was transferred from the Cess Fund to the Compensation Fund during the year 2009. The balance lying to the credit of the Compensation Fund as at 31.12.2009 amounted to Rs.162 million.

Chart 7.3: Growth of the Compensation Fund During the period 2000 - 2009



Additional Information

Important Initiatives taken by SEC in 2009

- Amended the SEC Act No. 36 of 1987.
- Facilitated the proper regulation of a Central Counterparty by bringing in a new legal framework.
- Granted approval to list the first closed ended fund on the Colombo Stock Exchange.
- Obtained technical expertise from the Securities and Exchange Board of India to introduce Exchange Traded Funds to Sri Lanka.
- Revised applicable fees for entities licensed/registered by the SEC.
- Formulated guidelines for trustees and managing companies of unit trust funds.
- Acquired a new automated surveillance system from Millennium Limited (MIT), a member of the London Stock Exchange Group.
- Conducted an Investor Forum in Singapore to attract portfolio investments into the Capital Market of Sri Lanka.
- Held an Investment Day exhibition at the Bandaranaike Memorial International Conference Hall to commemorate the 22nd anniversary of the SEC.
- Launched a qualification framework to train and educate existing and potential financial journalists.
- Instituted action against a company that was transferred to the default board for non submission of annual reports and financial statements to the market.
- Installed a new time and attendance management system.

Additional Information Cont.

Licensed Stock Brokers & Stock Dealers as at 31st December 2009

Stock Broker	Stock Broker	Stock Dealer	Dealer in Debt Securities
Acuity Stockbrokers (Pvt) Ltd (Formally known as DFCC Stockbrokers (Pvt) Ltd)	x		
Amana Securities Ltd.	x		
Asha Phillip Securities Ltd.	x		
Asia Securities (Pvt) Limited	x		
Bartleet Mallory Stockbrokers (Pvt) Ltd.	x		x
Capital Alliance Securities (Pvt) Ltd	x		
Ceylinco Stockbrokers (Pvt) Ltd.	x		
CT Smith Stockbrokers (Pvt) Ltd.	x		
DNH Financial (Pvt) Ltd (Formally known as HNB Stockbrokers (Pvt) Ltd.)	x		
Assetline Securities (Pvt) Ltd. (Formally known as DP Global Securities (Pvt) Ltd.)	x		
First Guardian Equities (Pvt) Ltd.	x		
JB Securities (Pvt) Ltd.	x	x	
John Keells Stock Brokers (Pvt) Ltd.	x		
Capital TRUST Securities (Pvt) Ltd (Formally known as Lanka ORIX Securities (Pvt) Ltd.)	x		
Lanka Securities (Pvt) Ltd.	x		
NDB Stock Brokers (Pvt) Ltd.	x		
SC Securities (Pvt) Ltd.	x		
SKM Lanka Holdings (Pvt) Ltd.	x	x	
SMB Securities (Pvt) Ltd.	x		x
Somerville Stockbrokers (Pvt) Ltd.	x		
Taprobane Securities (Pvt) Ltd.	x		

Additional Information Cont.

Registered Market Intermediaries as at 31st December 2009

Company	Margin Providers	Investment Managers	Under-writers
Asia Wealth Management Company (Pvt) Ltd		X	
Bartleet TransCapital Ltd		X	
Capital Alliance Securities (Pvt) Ltd		X	
Capital Reach Credit Ltd	X		
Ceylon Guardian Investment Trust PLC			X
Ceylon Investment PLC			X
Commercial Bank of Ceylon PLC	X		X
DFCC Vardhana Bank Ltd	X		
DP Capital Management (Pvt) Ltd	X	X	
First Capital Asset Management Ltd		X	
First Capital Markets Ltd	X		
Guardian Fund Management Ltd		X	
Hatton National Bank PLC	X		X
JB Financial Services (Pvt) Ltd		X	
Lanka ORIX Finance Company Ltd	X		
Merchant Bank of Sri Lanka PLC	X	X	X
National Development Bank PLC	X		X
Nations Trust Bank PLC	X	X	
National Wealth Corporation Ltd		X	
Orion Fund Management (Pvt) Ltd		X	
Pan Asia Banking Corporation PLC	X		
Sampath Bank PLC	X		X
Seylan Bank PLC	X		
Waldock Mackenzie Ltd	X	X	
WealthTrust Corporation (Pvt) Ltd		X	

Registered Market Intermediaries under the Category of Clearing House:

Central Depository Systems (Pvt) Ltd

Registered Market Intermediaries under the Category of a Credit Rating Agencies:

Fitch Ratings Lanka Ltd

RAM Ratings (Lanka) Ltd

Additional Information Cont.

The companies given below have been licensed to operate the Unit Trusts as set out below.

1. Ceylon Asset Management Company Ltd

- Ceylon Index Fund
- Treasury Savings Fund of Ceylon Asset Management (formerly known as Ceylon Income Fund)

2. CT Fund Management (Pvt) Ltd

- Comtrust Equity Fund

3. National Asset Management Ltd

- NAMAL Income Fund
- NAMAL Money Market Fund
- National Equity Fund
- NAMAL Growth Fund
- NAMAL Amana Equity Fund (closed end)
- NAMAL Gilt Edge Fund 1 (closed end)
- NAMAL Acuity Value Fund (closed end)

4. NDB Aviva Wealth Management Company Ltd

- Pyramid Unit Trust
- Eagle Gilt Edged Fund
- Eagle Fixed Income Fund
- Eagle Growth Fund

5. The Unit Trust Management Company (Pvt) Ltd

- Ceybank Unit Trust
- Ceybank Century Growth Fund
- Ceybank Gilt Edged Fund (closed end)
- Ceybank Savings Plus Money Market Fund

Fact Sheet

Year	2005	2006	2007	2008	2009
Annual Turnover (Rs Mn) Equity	114,599.2	105,153.7	104,985.4	110,453.9	142,462.65
Domestic (Rs Mn)	89,959	70,675	63,815.7	50,796.9	99,010.83
Foreign (Rs Mn)	24,640	34,479	41,169.7	59,656.9	43451.819
Market Days (No)	238	241	241	238	240
Daily Average Turnover (Rs Mn) Equity	481.5	436.3	435.6	464.1	593.6
Shares traded (No Mn) Equity	5,128.3	3,912.3	2,887.3	3,154.9	4,762.7
Domestic (No Mn)	4,313	3,178.2	2,009.9	1,934.9	3,784.2
Foreign (No Mn)	815	734.2	877.3	1,220.0	978.42
Trades (No) Equity	1,100,451	952,382	876,928	776,244	1,266,299
Domestic (No)	1,038,538	908,220	831,663	730,415	1,190,822
Foreign (No)	61,913	44,162	45,265	45,829	75477
New Listing (No)	6	2	-	3	3
Delisting (No)	9	4	2	2	6
Companies Listed	239	237	235	235	231
Companies Traded*	242	232	231	232	231
Market Capitalization (Rs Bn)	584.0	834.8	820.7	488.8	1,092.1
Market PER year end (Times)	12.4	14.0	11.6	5.4	16.6
Turnover to Market Capitalization (%)	23.7	14.8	12.7	16.9	18.0
Dividend Yield Year End (%)	2.7	2.2	2.5	5.6	3.0
Price to Book Value Year End (Times)	1.7	2.0	1.8	0.8	1.7
Market Cap. As a % of GDP	24.6	29.8	22.9	11.1	23

* Includes companies de-listed during the year

Price Indices

All Share Price Index (ASPI)	1,922.2	2,722.4	2,541.0	1,503.0	3,385.55
y-o-y Change %	27.6	41.6	(6.7)	(40.9)	125.25
Milanka Price Index (MPI)	2,451.1	3,711.8	3,291.9	1,631.3	3,849.38
y-o-y Change %	18.2	51.4	(11.3)	(50.4)	135.97
Total Return Indices					
Total Return Index on ASPI (ASTRI)	2,054.3	2,998.8	2,883.4	1,783.6	3,944.90
y-o-y Change %	30.7	46.0	(3.8)	(38.1)	121.18
Total Return Index on MPI (MTRI)	2,626.1	4,077.3	3,726.8	1,962.5	4,506.24
y-o-y Change %	21.2	55.3	(8.6)	(47.3)	129.6

Fact Sheet Cont.

Year	2005	2006	2007	2008	2009
Non-National Activity					
Annual Turnover (Rs Mn)	24,640.1	34,478.6	41,169.7	59,656.9	43,451.82
Purchases (Rs. Mn.)	27,712.4	37,167.3	46,796.8	66,632.2	43,057.32
Sales (Rs. Mn.)	21,567.9	31,789.9	35,542.5	52,681.7	43,846.32
Net Foreign Flow	6,144.5	5,377.3	11,254.3	13,950.5	(789.0)
Debt Market					
Corporate Debt					
Turnover (Rs 000)	206,857	405,211	98,903	102,639.3	129,302
No of Trades	625	321	144	27	42
No of Debentured Traded (000)	2,211	2,421	1,020	953.5	1,020
Market Cap (Mn)	N/A	N/A	N/A	N/A	N/A
Government Debt					
Turnover (Rs 000)	326,423	207,080	709,333	195,157.4	98,977
No of Trades	522	379	208	69	42
No of Debentured Traded (000)	306,955	213,242	742,736	208,182.6	102,778
Unit Trusts					
Net Asset Value (NAV)(Rs. Mn)	4,495	5,352	6,296	6,780	9,952
Unit Holders (No.)	23,654	23,417	23,191	22,685	23,117
Units Issued (No. 000)	345,528	355,553	469,853	638,112	564,500
Investment in Equity (Rs. Mn.)	2,983	3,700	3,655	2,589	6,036
Investment in Treasury Bills (Rs.Mn)	1,327	956	932	2,903	3,363
Investment in other Instruments **(Rs Mn)	185	696	1,709	1,293	1,106

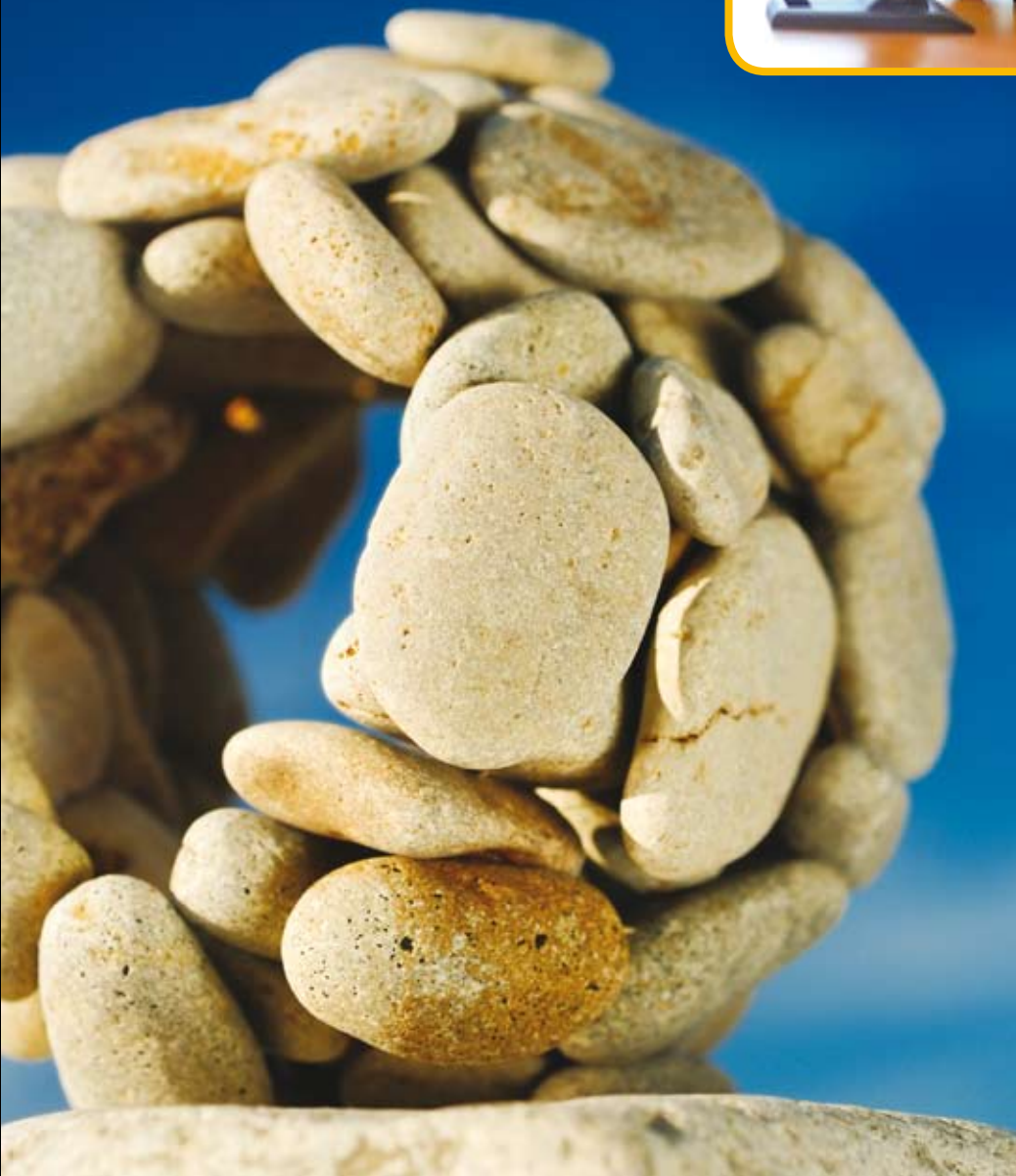
Sources: CSE, regulatory submissions by unit trust managing companies.

** Commercial papers, trust certificates, debentures and bank deposits.

Educating Investors

Enhancing capital market knowledge and building awareness across all sections of Sri Lankan society, so that all Sri Lankans benefit from the opportunities in the capital market.

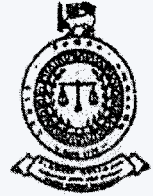
Perfect Equilibrium **Growth & Stability**



Report of the Auditor General



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கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No. } EF/J/SEC/ 2009

ඔබේ අංකය
உமது இல
Your No. }

දිනය
திகதி
Date } 24 May 2010

Report of the Auditor General

The audit of financial statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2009 was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 37(2) of the Securities and Exchange Commission Act, No.36 of 1987 and Section 13 (1) of the Finance Act, No. 38 of 1971. My comments and observations which I consider should be published with the annual report of the Commission in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of the Section 13 (7) (a) of the Finance Act had been furnished to the Chairman on 30 March 2010.

1.2 Responsibility of the Management for the Financial Statements

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

1.3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of financial statements presented to audit and substantive tests of samples of transactions. The scope and extend of such review and tests were such as to enable as wide an audit coverage as possible within the limitation of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore, believe that my audit provides a reasonable basis for my opinion. Sub sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

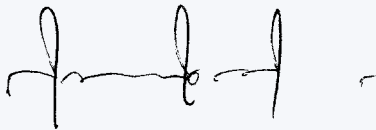
Report of the Auditor General

1.4 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Securities and Exchange Commission of Sri Lanka had maintained proper accounting records for the year ended 31 December 2009 and the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of state of affairs of the Commission as at 31 December 2009 and the financial results of its operations and the cash flows for the year then ended.

1.5 Report to Parliament

My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.



S. Swarnajothi
Auditor General

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කොළඹ 07, ශ්‍රී ලංකාව

දුරකථනය }
தொலைபேசி } 2691151
Telephone. }

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை

ලැකියේ අංකය }
பக்ஸ் இல } 2697451
Fax No. }

INDEPENDENCE SQUARE,
COLOMBO 07, SRI LANKA

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අ- මෙයාල } oaggov@sltnet.lk
E-mail. }

Financial Statements

Securities and Exchange Commission of Sri Lanka

Balance Sheet

As at 31 December	Note	2009 Rs.	2008 Rs.
ASSETS			
NON CURRENT ASSETS			
Property Plant & Equipment	1	37,356,986	44,228,075
Cess Fund	2	26,560,957	18,900,381
CURRENT ASSETS			
Investment in Treasury Bills-fsa		-	1,750,000
Inventories	4	529,902	406,719
Receivables	5	1,267,026	1,299,576
Cess Fund	2	1,176,903,241	1,069,813,093
Compensation Fund	3	162,897,363	90,113,597
Deposits, Advance and Prepayments	6	9,806,223	1,643,743
Cash & Cash Equivalents	7	11,995,845	18,704,896
TOTAL ASSETS		1,427,317,543	1,246,860,080
FUNDS AND LIABILITIES			
FUNDS EMPLOYED AND RESERVES			
Accumulated Fund	8	10,739,222	9,145,665
Cess Fund	9	1,203,464,198	1,088,677,827
Compensation Fund	10	162,897,363	90,113,597
NON CURRENT LIABILITIES			
Lease Creditor	11	4,642,275	5,510,253
Grant - Capital Expenditure from Cess Fund	12	25,337,129	28,770,718
Retirement benefit obligation	13	10,936,974	8,897,837
CURRENT LIABILITIES			
Cess Fund	2	-	35,647
Creditors & Accruals	14	4,998,313	8,082,206
Receipts in Advance		769,845	1,653,957
Current portion of Lease Creditor	11	3,532,224	5,972,373
TOTAL FUNDS AND LIABILITIES		1,427,317,543	1,246,860,080

The Accounting Policies and Notes appearing on pages 56 to 66 form an integral part of the financial statements. The Members of the Securities & Exchange Commission of Sri Lanka are responsible for the preparation and presentation of these financial statements.

FOR AND ON BEHALF OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA



Channa de Silva
Director General



Udayasri Kariyawasam
Chairman

Colombo.
22 April 2010

Securities and Exchange Commission of Sri Lanka

Income and Expenditure Statement

For the year ended 31 December	Note	2009 Rs.	2008 Rs.
INCOME			
Broker License Fees		3,420,938	2,413,863
Administration Levy		1,025,204	1,223,228
Seminar Income-FSA		4,444,870	413,842
Seminar Income-SEC		-	262,000
Interest Income		294,947	116,963
Sale of Publications		13,500	6,750
Sundry Income		106,842	55,209
Profit/(Loss) on Disposal of Fixed Assets		(34,497)	746,903
Recognition of Grants	12	9,831,172	10,956,638
		19,102,976	16,195,396
<u>Less:</u>			
EXPENDITURE			
Personnel Costs	15	98,627,823	82,803,120
Administration & Establishment Expenses	16	73,531,354	67,233,687
Capital Market Development Expenses	17	21,568,106	11,925,477
Finance Charges	18	284,554	176,357
Total Expenditure		194,011,837	162,638,641
Excess Expenditure over Income		(174,908,861)	(146,443,245)
Transfers from Cess Fund to meet operational expenses		176,502,418	163,091,162
Excess/(Deficit) for the year		1,593,557	16,647,917

The Accounting Policies and Notes appearing on pages 56 to 66 form an integral part of the financial statements.

Securities and Exchange Commission of Sri Lanka

Statement of Changes in Reserves

For the year ended 31 December	Reserves Rs.	Accumulated Fund Rs.	Total Rs.
Balance as at 1 January 2008	-	(7,860,746)	(7,860,746)
Net Surplus/(Deficit) for the period	-	17,006,411	17,006,411
Balance as at 31 December 2008	-	9,145,665	9,145,665
Balance as at 1 January 2009	-	9,145,665	9,145,665
Net Surplus/(Deficit) for the period	-	1,593,557	1,593,557
Balance as at 31 December 2009	-	10,739,222	10,739,222

The Accounting Policies and Notes appearing on pages 56 to 66 form an integral part of the financial statements.

Securities and Exchange Commission of Sri Lanka

Cash Flow Statement

For the year ended 31 December	Note	2009 Rs.	2008 Rs.
Cash Flows from Operating Activities			
Net Increase/(Decrease) after transfers from Cess Fund		1,593,557	16,647,917
Adjustment for :			
Depreciation	1	13,951,172	15,749,342
(Profit)/Loss on disposal of Property, Plant & Equipment		34,497	(746,903)
Recognition of Grant	12	(9,831,172)	(9,910,472)
Provision for Gratuity	13	2,435,137	1,781,629
Net Increase/(Decrease) before working capital changes		8,183,191	23,521,513
Change of Working Capital			
(Increase)/Decrease of Stocks		(123,183)	(53,818)
(Increase)/ Decrease of Receivable		32,550	225,158
(Increase)/Decrease of Deposits Advances & Prepayments		(8,162,480)	(575,490)
Increase/(Decrease) of Receipt in Advance		(884,112)	136,137
Increase/(Decrease) of Creditors & Accruals		(3,083,893)	1,442,178
		(12,221,118)	1,174,165
Cash generated from Operating Activities		(4,037,927)	24,695,678
Gratuity paid during the year		(396,000)	(876,133)
Net Cash from Operating Activities		(4,433,927)	23,819,545
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	1	(8,077,583)	(15,661,272)
Proceeds from sale of Property, Plant & Equipment		963,003	39,950
Investment in Treasury Bills		1,750,000	(116,964)
Net Cash from Investing Activities		(5,364,580)	(15,738,286)
Cash Flows from Financing Activities			
Capital transferred from Cess Fund	12	6,397,583	9,698,392
Increase/ (Decrease) in Finance Lease		(3,308,127)	(743,204)
Net Cash from Financing Activities		3,089,456	8,955,188
Net Increase/ (Decrease) in Cash and Cash Equivalents		(6,709,051)	17,036,448
Cash and Cash Equivalents at beginning of period (Note a)		18,704,896	1,668,448
Cash and Cash Equivalents at end of period (Note b)		11,995,845	18,704,896
Note (a)			
Cash and Cash Equivalents at beginning of period			
Cash at Bank		18,664,896	1,588,448
Cash in Hand		40,000	40,000
REPO Investments		-	40,000
		18,704,896	1,668,448
Note (b)			
Cash and Cash Equivalents at end of period			
Cash at Bank	7	11,955,845	18,664,896
Cash in Hand	7	40,000	40,000
		11,995,845	18,704,896

The Accounting Policies and Notes appearing on pages 56 to 66 form an integral part of the financial statements.

Securities and Exchange Commission of Sri Lanka
CESS Fund
Cash Flow Statement

For the year ended 31 December	2009 Rs.	2008 Rs.
Cash Flows from Operating Activities		
Net Increase of Cess Fund	114,786,371	181,956,313
Net increase before working capital changes	114,786,371	181,956,313
Change of working capital		
(Increase)/Decrease of Staff Loans	(7,174,202)	(2,785,791)
(Increase)/Decrease of Receivables	(2,795,448)	3,044,037
(Increase)/Decrease of Interest Receivable on Treasury Bills	(12,188,716)	(50,091,703)
Increase/(Decrease) of Other Payables	(35,647)	35,647
(Increase)/Decrease of Rent Deposit	(1,399,164)	(430,512)
	(23,593,177)	(50,228,323)
Net Cash from Operating Activities	91,193,194	131,727,991
Cash Flows from Investing Activities		
Investment of Treasury Bills	(96,395,338)	(128,081,239)
Net Cash from Investing Activities	(96,395,338)	(128,081,239)
Net Increase/(Decrease) in Cash and Cash Equivalents	(5,202,144)	3,646,752
Cash and Cash Equivalents at beginning of period (Note c)	6,978,375	3,331,623
Cash and Cash Equivalents at end of period (Note d)	1,776,231	6,978,375
Note (c)		
Cash and Cash Equivalents at beginning of period		
Cash at Bank	578,375	3,331,623
REPO Investments	6,400,000	-
	6,978,375	3,331,623
Note (d)		
Cash and Cash Equivalents at end of period		
Cash at Bank	(16,903,769)	578,375
REPO Investments	18,680,000	6,400,000
	1,776,231	6,978,375

The Accounting Policies and Notes appearing on pages 56 to 66 form an integral part of the financial statements.

Securities and Exchange Commission of Sri Lanka
Compensation Fund
Cash Flow Statement

For the year ended 31 December	2009 Rs.	2008 Rs.
Cash Flows from Operating Activities		
Net Increase of Compensation Fund	72,783,766	23,738,175
Net Increase before Working Capital changes	72,783,766	23,738,175
Change of Working Capital		
(Increase)/Decrease of Interest Receivable on Treasury Bills	(7,816,117)	(3,820,710)
	(7,816,116)	(3,820,710)
Net Cash from Operating Activities	64,967,650	19,917,465
Cash Flows from Investing Activities		
Investment in Treasury Bills	(64,960,511)	(19,902,137)
Net Cash from Investing Activities	(64,960,511)	(19,902,137)
Cash Flows from Financing Activities		
	-	-
Net Increase/(Decrease) in Cash and Cash Equivalents	7,139	15,328
Cash and Cash Equivalents at beginning of period (Note e)	87,513	72,185
Cash and Cash Equivalents at end of period (Note f)	94,652	87,513
Note (e)		
Cash and Cash Equivalents at beginning of period		
Cash at Bank	69,032	55,825
Call Deposits	18,482	16,360
	87,513	72,185
Note (f)		
Cash and Cash Equivalents at end of period		
Cash at Bank	68,282	69,032
Call Deposits	26,370	18,482
	94,652	87,513

The Accounting Policies and Notes appearing on pages 56 to 66 form an integral part of the financial statements.

Securities and Exchange Commission of Sri Lanka

Accounting Policies

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 STATEMENT OF COMPLIANCE

The financial statements of the Securities and Exchange Commission of Sri Lanka have been prepared in compliance with the Sri Lanka Accounting Standards and are in compliance with the said standards.

1.2 BASIS OF PREPARATION

The financial statements of the Commission are presented in Sri Lankan Rupees rounded to the nearest Rupee.

The financial statements are prepared on accrual basis under the historical cost convention. Where appropriate accounting policies are disclosed in succeeding notes.

1.3 FOREIGN CURRENCY TRANSACTIONS

Foreign exchange transactions are converted to Sri Lankan Rupees at the rate of exchange prevailing at the time of the transaction.

1.4 EVENTS AFTER THE BALANCE SHEET DATE

All material events after the Balance Sheet date are considered and appropriate adjustments or disclosures are made in the financial statements, where necessary.

1.5 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous year.

1.6 COMPARATIVE FIGURES

Comparative figures have been adjusted to conform to the changes in presentation in the current financial year.

2. ASSETS AND BASES OF THEIR VALUATION

2.1 PROPERTY, PLANT AND EQUIPMENT OWNED PROPERTY PLANT AND EQUIPMENT

Property, Plant & Equipment together with any incidental expenses thereon are stated at cost and depreciated at their respective useful lives. Fixed assets received as grants, were accounted at cost and depreciation thereof is charged against the respective reserve account. The depreciation is provided on the straight-line basis

applying following rates:

Motor Vehicles	25.00%
Furniture, Fixtures and Fittings	12.50%
Office Equipment & EDP Equipment	25.00%
Training Equipment	25.00%

Depreciation is provided for all assets purchased from the date it is available for use. In the year of disposal depreciation is provided up to the date the asset is derecognized.

2.2 LEASED MOTOR VEHICLES

The assets on finance lease which effectively transfer to the Commission substantially all risks and benefits incidental to ownership of the leased item is capitalized at the capital value of lease obtained. Depreciation and finance charges arising out of such leasehold assets are charged to the Income and Expenditure statement whilst the payments of lease rental are recognized to reduce the lease liability.

As part of the remuneration package the Assistant Directors and above are entitled to a vehicle under the contributory lease scheme. Whilst the SEC pays the lease rental the staff concerned contributes towards the lease rental. In addition the staff should bear all expenditure in full pertaining license and maintenance. The ownership of the vehicle will be transferred to the member of the staff who participated in the contributory lease scheme at the expiration of the lease period i.e. after 48 months or upon settlement of the lease liability by the staff concerned in full.

2.3 INVESTMENTS

Government Treasury bills are stated at cost.

2.4 INVENTORIES

Inventories are valued at lower of cost or net realizable value. The cost of inventories is valued on first-in, first-out (FIFO) basis.

As a policy Library Books are written off since the Capital Market related Laws and rules are subject to a rapid change due to fast evolving market conditions.

*Securities and Exchange Commission of Sri Lanka
Accounting Policies Cont.*

2.5 RECEIVABLES

Receivables are stated at the estimated realizable value.

3. LIABILITIES & PROVISIONS

3.1.1 RETIREMENT BENEFITS

In terms of Gratuity Act No. 12 of 1983 the liability to an employee arises only upon completion of 5 years of continued service. To meet the liability a provision is made, equivalent to half a month salary based on the last month of the financial year for all employees who have completed one year of service.

3.1.2 DEFINED CONTRIBUTION PLANS

All permanent employees' are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Commission contributes 12% and 3% of gross emoluments of employees to Employee's Provident Fund and Employee's Trust Fund respectively.

3.2 ACCOUNTS PAYABLE

Payables are stated at cost.

3.3 GRANT

Capital Expenditure transferred from the Cess Fund is treated as a grant and recognized in the Income and Expenditure statement as revenue on systematic basis over the useful life of the related asset.

4. INCOME & EXPENDITURE

4.1 REVENUE RECOGNITION

Revenue is recognized on accrual basis.

4.2 EXPENDITURE RECOGNITION

All expenditure incurred in maintaining the SEC has been recognized on accrual basis and charged to revenue in ascertaining the income over expenditure.

4.3 CASH FLOW STATEMENT

The Cash Flow Statement has been prepared using the indirect method. For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash and deposits held at call with banks.

Securities and Exchange Commission of Sri Lanka

Notes to the Financial Statements

1. Property, Plant & Equipment

	Motor Vehicles	Furniture, Fixtures & Fittings	Office Equipment (EDP & Others)	Training Equipment	Assets on Finance Lease Motor Vehicles	Total
COST						
Balance as at 1 January 2009	16,055,900	20,424,395	38,254,851	3,084,019	17,980,000	95,799,165
Add:FSA Assets	-	25,128	229,590	96,471	-	351,189
Additions during the Year	106,500	2,282,459	3,648,584	360,040	1,680,000	8,077,583
Disposals during the year	(80,000)	-	-	-	(4,680,000)	(4,760,000)
Balance as at 31 December 2009	16,082,400	22,731,982	42,133,025	3,540,530	14,980,000	99,467,937
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2009	16,055,900	5,229,977	20,610,003	2,161,045	7,514,165	51,571,090
Add:FSA Accumulated Depreciation	-	25,128	229,590	96,471	-	351,189
Depreciation Charge for the year	11,094	2,479,884	6,903,014	437,180	4,120,000	13,951,172
Accumulated Depreciation on Disposal of Assets	(80,000)	-	-	-	(3,682,500)	(3,762,500)
Balance as at 31 December 2009	15,986,994	7,734,989	27,742,607	2,694,696	7,951,665	62,110,951
WRITTEN DOWN VALUE AS AT 31 DECEMBER 2009	95,406	14,996,993	14,390,418	845,834	7,028,335	37,356,986
WRITTEN DOWN VALUE AS AT 31 DECEMBER 2008	-	15,194,418	17,644,848	922,974	10,465,835	44,228,075

Securities and Exchange Commission of Sri Lanka
Notes to the Financial Statements Cont.

	Note	2009 Rs.	2008 Rs.
2 CESS FUND INVESTMENTS AND OTHERS			
NON CURRENT ASSETS			
Staff Loans		13,107,457	6,846,045
Rent Deposits		13,453,500	12,054,336
		26,560,957	18,900,381
CURRENT ASSETS			
Invested in State Institutions Temporary Surplus Fund		541,024,260	468,682,449
Investment in Treasury Bills		472,537,921	448,484,393
		1,013,562,181	917,166,843
Staff Loans Receivable within 12 months		3,245,237	2,332,447
Withholding Tax Receivable		400,342	400,341
Interest Receivable on Treasury Bills		154,486,924	142,298,208
Cess Receivable		3,432,326	636,880
Balance at Bank - placed on Overnight REPO Investment		1,776,231	6,978,375
		163,341,060	152,646,250
		1,176,903,241	1,069,813,093
Total Assets		1,203,464,198	1,088,713,474
LIABILITIES			
Other Payable		-	35,647
		1,203,464,198	1,088,677,827
3 COMPENSATION FUND INVESTMENTS AND OTHERS			
ASSETS			
Investment in Treasury Bills		144,763,464	79,802,953
CURRENT ASSETS			
Withholding Tax Receivable on Call Deposit		72,445	72,445
Interest Receivable on Treasury Bills		17,966,803	10,150,686
Investment in Call Deposits		26,369	18,482
Balance at Bank		68,282	69,032
		18,133,899	10,310,644
Total Assets		162,897,363	90,113,597
4 INVENTORIES			
Stock of Stationery, Stamp & EDP Consumables		529,346	398,561
Stock of Publications		556	8,158
		529,902	406,719
5 RECEIVABLES			
Sundry Debtors including Debit Notes		382,045	293,164
Withholding Tax Receivable		5,399	5,399
Staff Recoveries		192,770	225,398
Festival Advances		679,000	732,000
Interest Receivable		7,812	43,615
		1,267,026	1,299,576

*Securities and Exchange Commission of Sri Lanka
Notes to the Financial Statements Cont.*

	Note	2009 Rs.	2008 Rs.
6 DEPOSITS, ADVANCES & PRE-PAYMENTS			
Safe Vault Deposit - Bank of Ceylon		40,000	40,000
Deposit for Cellular Phones		40,000	40,000
Fuel Deposit		60,000	60,000
Deposit for Vehicle Maintenance		500	500
Deposits with Telecom Ltd		42,125	42,125
Hot & Cold Dispenser		38,000	38,000
Employer Federation of Ceylon		19,993	19,993
University of Colombo-Library Deposit		10,000	10,000
LT Deposit-Case No. 01/347/202		329,606	-
Advance Payment to Millenium IT on Surveillance System		7,213,638	-
Advances to Suppliers		2,012,361	1,393,125
		9,806,223	1,643,743
7 CASH			
Cash at Bank		11,955,845	18,664,896
Cash in Hand		40,000	40,000
		11,995,845	18,704,896
8 ACCUMULATED FUND			
Balance at the beginning of the period		9,145,665	(7,860,746)
Net surplus/(Deficit) for the period		1,593,557	17,006,411
Balance at the end of the period		10,739,222	9,145,665
9 CESS FUND			
Opening Balance		1,088,677,827	906,721,514
Add Cess received during the year		225,576,371	196,041,284
Interest on Investment & Others		172,125,159	158,924,765
		1,486,379,357	1,261,687,562
Less Transfer to Operational & Capital Expenditure-SEC		182,900,000	173,000,000
Funds transferred to Settlement Guarantee Fund		50,000,000	-
Fund transferred to Compensation Fund		50,000,000	-
Expenses-Bank Charges		15,159	9,735
		282,915,159	173,009,735
Closing balance		1,203,464,198	1,088,677,827

*Securities and Exchange Commission of Sri Lanka
Notes to the Financial Statements Cont.*

	Note	2009 Rs.	2008 Rs.
10 COMPENSATION FUND			
Opening Balance		90,113,597	66,375,422
Compounding fees received during the year		-	10,900,000
Funds received from Cess Fund		50,000,000	-
Add : Interest on investment - Treasury Bills		22,777,978	12,843,604
Call Deposit		10,488	6,021
		162,902,063	90,125,047
Less: Bank Charges & Debit Tax		(4,700)	(11,450)
Closing Balance		162,897,363	90,113,597
11 LEASE CREDITOR			
Gross Lease Liability		9,504,844	14,061,333
Interest in Suspense		(1,330,345)	(2,578,707)
		8,174,499	11,482,626
Less: Payable within one year		(3,532,224)	(5,972,373)
Payable after one year		4,642,275	5,510,253
12 GRANT - CAPITAL TRANSFERS FROM CESS FUND			
Balance brought forward		28,770,718	28,740,266
Transfers during the year		6,397,583	10,987,090
Less: Transferred to income for Assets Depreciation		(9,831,172)	(10,956,638)
		25,337,129	28,770,718
RECOGNITION OF GRANT			
Capital Transferred from Cess Fund		9,831,172	10,956,638
		9,831,172	10,956,638
NOTE			
RECOGNITION OF GRANT			
CAPITAL TRANSFER FROM CESS FUND			
Recognition of Grant in accordance with the SLAS 24 at the following rates.			
Motor Vehicles		25.00%	25.00%
Office Equipment - Electronic Data Processing & Others		25.00%	25.00%
Training Equipment		25.00%	25.00%
Furniture, Fixtures & Fittings		12.50%	12.50%
13 RETIREMENT BENEFIT OBLIGATION			
Balance brought forward		8,897,837	7,992,341
Charge for the year		2,435,137	1,781,629
Gratuity paid during the year		(396,000)	(876,133)
		10,936,974	8,897,837

*Securities and Exchange Commission of Sri Lanka
Notes to the Financial Statements Cont.*

Note	2009 Rs.	2008 Rs.
14 CREDITORS AND ACCRUALS		
Telephone Expenses	261,498	198,657
Electricity	250,000	180,000
Staff Medical Reimbursements	468,198	270,662
Fuel Reimbursement	58,109	318,006
Staff Welfare	73,543	78,280
Leave Encashment	552,283	347,937
Office Upkeep	12,000	12,000
Overtime	107,802	50,396
External Audit Fees	600,000	400,000
Internal Audit Fees	300,000	100,000
Printing	2,000,000	3,000,000
Members Fees	7,000	7,000
Courier Charges	2,634	5,000
Christmas Party Expenses	12,408	2,052,000
VAT Payable	128,500	12,816
Stamp Duty Payable	5,700	19,025
EPF Payable	-	766,765
Advertising	-	71,963
Newspapers & Periodicals	-	8,355
Trade Tax	-	5,000
Rent Charges-FSA	-	136,800
Interest Subsidy	-	4,424
Fuel Expenses	-	37,120
Other Payable	158,638	-
	4,998,313	8,082,206
15 PERSONNEL COSTS		
Staff Salaries	55,836,093	48,567,204
Chairman's Allowance	339,642	360,000
Overtime	1,194,863	1,055,778
E P F & E T F	7,757,606	6,740,093
Staff Gratuity	2,435,137	1,797,863
Annual Bonus	3,847,322	3,421,562
Leave Encashment	676,422	457,739
Staff Medical Expenses & Insurance	3,259,089	2,542,712
Personnel Accident Insurance Cover	352,902	369,568
Staff Housing Loan Interest Subsidy	604,648	525,750
Staff Welfare	2,517,359	1,943,130
Executive Subsistence	64,000	68,000
Reimbursement of Fuel - Directors	3,250,807	2,518,846
Lease Finance Charges	965,255	1,367,602
Foreign Travel & Training	12,108,675	7,999,505
Staff Training - Local	2,360,027	1,494,211
Subscription of Membership	371,721	224,172
Sponsorship for Studies **	595,295	1,276,298
Interns Allowance	90,960	73,087
	98,627,823	82,803,120

** Sponsorship for higher studies amounting to a maximum of Rs. 250,000/- is granted to confirmed employees once in three years subject to terms and conditions including a bond to serve SEC for a period of two years upon successful completion of the examination. The cost incurred by the SEC will have to be reimbursed by the employee in full in the event the employee fails to complete the study course for whatever reason or resignation. Upon successful completion of the examination if the employee fails to serve the bonded period in full the cost incurred by the SEC will have to be reimbursed by the employee for the balance period proportionately.

*Securities and Exchange Commission of Sri Lanka
Notes to the Financial Statements Cont.*

	Note	2009 Rs.	2008 Rs.
16 ADMINISTRATION & ESTABLISHMENT EXPENSES			
Rent & Car Park Rental		29,244,938	25,922,288
Electricity Charges		2,639,796	2,148,953
Office Upkeep		211,224	147,654
Office Equipment Maintenance & Insurance		1,321,871	842,646
Telephone, Internet, E- mail & Web		2,845,091	2,074,303
Motor Vehicle Fuel, Maintenance, License & Insurance		2,336,868	1,674,576
Legal Expenses		394,687	120,280
Investigation Expenses		1,672	8,814
Inspection Expenses		6,403	-
Professional Fees		2,203,676	4,052,135
Member Fees		61,000	118,958
Meeting Expenses		366,779	351,312
Entertainment		195,475	148,741
International Membership Fees - IOSCO		1,585,397	1,624,080
Depreciation	1	13,951,172	15,749,342
Cost of Publication		16,873	13,898
Advertising		2,228,130	1,175,380
Market Surveillance Cost		2,671,552	2,232,465
Library Books		283,656	199,003
Printing & Stationery		2,554,541	1,319,614
Travelling Local		411,271	246,378
Insurance- Fire		200,509	73,714
News papers & Periodicals		153,981	186,101
Postage and Stamp Duty		92,274	154,009
Courier Charges		172,859	76,550
Audit Fees -Internal		300,000	295,000
Audit Fees -External		200,000	200,000
General Expenses		594,077	75,765
Trade Tax		5,000	5,000
VAT Expenses		6,138,370	5,996,728
Nation Building Tax		142,212	-
		73,531,354	67,233,687
17 CAPITAL MARKET DEVELOPMENT EXPENSES			
Capital Market Development		5,843,550	231,115
Public Awareness Programmes		10,438,005	10,826,900
Seminar Expenses-FSA		5,286,551	867,462
		21,568,106	11,925,477
18 FINANCE CHARGES			
Bank Charges		115,268	11,108
Debit Tax		169,286	165,249
		284,554	176,357

*Securities and Exchange Commission of Sri Lanka
Notes to the Financial Statements Cont.*

19. TAXATION

The SEC is not liable for income tax in terms of the Inland Revenue Act No. 28 of 1979 as amended.

20. CAPITAL COMMITMENTS

A sum of Rs. 22,518,645/- is committed to Millennium Information Technologies to supply and install Hardware and Software to implement a Surveillance System. An advance payment amounting to Rs. 7,213,638.49 was made for the said assignment during the year under review.

21. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2009.

22. EVENTS AFTER THE BALANCE SHEET DATE

No material events have occurred after the Balance Sheet date necessitating any adjustments to the financial statements except the following disclosure.

1. With a view to strengthen the Settlement Guarantee Fund the Securities and Exchange Commission of Sri Lanka at its 243rd Commission meeting held on 31 December 2008 decided to transfer a sum of Rs. 100 million from the Cess Fund. In line with this decision the SEC transferred Rs. 50 million from the Cess Fund during the year 2009 and the balance will be transferred early 2010.
2. Performance Bonus for the year 2009 will be paid to the staff in early 2010 equivalent to a maximum of one month basic salary taking into consideration the grading obtained at the performance appraisal, attendance etc. The cost to SEC will be approximately Rs. 3.8 million.

23. RELATED PARTY DISCLOSURES

Mr Udayasri Kariyawasam assumed duties as Chairman of SEC on 21 February 2009.

Mr D K Hettiarachchi Registrar of Companies an Ex-officio Member held office during the year 2009.

Mr Nishan Fernando President of the Institute of Chartered Accountants of Sri Lanka an Ex-officio Member served a term of two years which ended on 31 December 2009.

Dr R H S Samaratunga Deputy Secretary to the Treasury an Ex-officio Member assumed duties on 28 April 2009.

Ex-officio Member Dr D S Wijesinghe Deputy Governor of the Central Bank assumed duties on 16 November 2009.

Upon serving a full tenure in terms of the SEC Act Mr Gratian Gunawardhana was reappointed as a Member of the SEC on 31 March 2009.

The following Members assumed duties as stated below.

Dr Lalith Chandradasa	31 March 2009
Mr Lolitha Abeysinghe	15 May 2009
Mr Priyantha Jayawardena	15 May 2009

Dr Gamini Wickramasinghe served as Chairman the full tenure of three years in terms of the SEC Act and ceased to hold office in February 2009.

Dr Rane Jayamaha Deputy Governor of the Central Bank an Ex-officio Member was reappointed on 8 April 2009 and ceased to be a Member upon her retirement in May 2009.

Ex-officio Member Dr P W R B A Uthum Herat Deputy Governor of the Central Bank assumed duties on 18 June 2009 and ceased to be a Member upon his demise on 23 October 2009.

Mr C P E Gunasingham Member and Mrs Siromi Wickramasinghe Member served a full term in terms of the SEC Act and were reappointed 26 January 2009. Subsequently they resigned with effect from 19 February 2009.

The following table depicts the relationships held by the Members of the Commission during the year.

*Securities and Exchange Commission of Sri Lanka
Notes to the Financial Statements Cont.*

Name	Name of Related Institution	Relationship
Mr Udayasri Kariyawasam	Insurance Board of Sri Lanka	Chairman
	Settlement Guarantee Fund	Trustee (Since February' 09)
Mr D K Hettiarachchi	Sri Lanka Accounting and Auditing Standards Monitoring Board	Member
Mr Graetian Gunawardhana	Hands International (Pvt) Ltd	Chairman
	Poly Gloves Lanka (Pvt) Ltd	Chairman
	21st Century Homes	Chairman
	Lanka Leisure Resorts	Chairman
	Kidcare Home & Resident School Trust	Chairman
	Insurance Board of Sri Lanka	Member of the Board
Mr Nishan Fernando	Post Graduate Institute of Management (PIM) University of Sri Jayawardenapura	Member Board of Management
	National Institute of Business Management (NIBM)	Member Governing Council
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Member
	Institute of Chartered Accountants of Sri Lanka	President
Dr R H S Samaratunga	Ceylon Electricity Board	Director
	Mihin Lanka (Private) Ltd	Director
	Postgraduate Institute of Management	Director
	De La Rue Lanka Currency & Security Print (Private) Limited	Director
	Bank of Ceylon	Director
Dr Lalith Chandradasa	Transport Medical Institution	Board Member
Mr Lolitha Abeysinghe	Laksala (Sri Lanka Handicrafts Board)	Business Promotion Consultant
	Chelina Capital Corporation (Pvt) Ltd.	Managing Director
	Lanka Light Industrial Products Import/Export (Pvt) Ltd.	Director
	Hybrid Structures Lanka (Pvt) Ltd.	Director
	Sarero International (Pvt) Ltd	Chairman/Managing Director
	Lanka Green Energy (Pvt.) Ltd.	Director
	Vingrows Business Solutions (Pvt) Ltd.,	Director
	Vauxhall Corporation (Pvt) Ltd	Managing Director
	Evoke Projects (Pvt) Ltd	Managing Director
Mr Priyantha Jayawardena	-	-
Dr D S Wijesinghe	Insurance Board of Sri Lanka	Ex officio Member (w. e. f. 20.11.2009)
	Credit Information Bureau	Chairman (w. e. f. 12.11.2009)
	Api Wenuwen Api Fund	Member of the Board (w. e. f. 9.11.2009)

*Securities and Exchange Commission of Sri Lanka
Notes to the Financial Statements Cont.*

The following table depicts the relationships of the Members who ceased to be Members during the year under review.

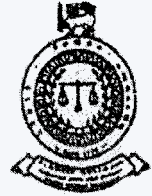
Name	Name of Related Institution	Relationship
Dr G Wickramasinghe	Informatics Group of Companies (Pvt) Ltd	Managing Director
	Bank of Ceylon	Chairman
	Property Development Ltd	Chairman
	Ceylease Financial Services Ltd	Chairman
	BoC Travels (Pvt) Ltd	Chairman
	Mireka Capital Land (Pvt) Ltd	Director
	Settlement Guarantee Fund	Trustee (up to February 2009)
Dr (Mrs) R Jayamaha	Insurance Board of Sri Lanka	Ex-officio Member(Retired May 2009)
	Credit Information Bureau	Chairperson (Retired May 2009)
	National Payments Council	Chairperson (Retired May 2009)
	Technical Committee on Regulation of Share Ownership in Banks	Chairperson (Retired May 2009)
	National Economic Council	Member (Retired May 2009)
Mr C P E Gunasingham	Jaguar (Pvt) Ltd	Director
	Insurance Board of Sri Lanka	Member of the Board (resigned)
Mrs Siromi Wickramasinghe	-	-
Mr Ravi Abeysuriya	Amba Research Lanka (Private) Ltd	Managing Director
	CFA, Sri Lanka	Public Awareness Head
	Information Technology Enabled Services Association of Sri Lanka	President

Other than the transactions in the ordinary course of business at market rates no transactions were recorded with the said institutions during the year.

Report of the Auditor General



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கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No. } EF/J/SGF/ 2009

ඔබේ අංකය
உமது இல
Your No. }

දිනය
திகதி
Date } 19 May 2010

The Chairman,
Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2009

The audit of financial statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2009 was carried out under my direction in pursuance of provisions in Article 154 (3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Paragraph 11(d) of the Deed of Trust No 1376 dated 22 May 1998 in respect of Settlement Guarantee created by the Securities and Exchange Commission Act.

1.2 Responsibility of the Management for the Financial Statements

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

1.3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of financial statements presented to audit and substantive tests of samples of transactions. The scope and extend of such review and tests were such as to enable as wide an audit coverage as possible within the limitation of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore, believe that my audit provides a reasonable basis for my opinion.

Report of the Auditor General

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka had maintained proper accounting records for the year ended 31 December 2009 and the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of state of affairs of the Commission as at 31 December 2009 and the financial results of its operations and its cash flows for the year then ended.

3. Financial and Operating Review

Financial Results

According to the financial statement presented, the activities of the Fund for the year ended 31 December 2009 had resulted in a surplus of Rs. 37,082,015 as compared with the corresponding surplus of Rs. 26,368,377 for the preceding year thus indicating an increase in the surplus by Rs. 10,713,638.

Position of the Fund

As decided by the members of the Securities and Exchange Commission at their meeting held on 31 December 2008, a sum of Rs, 50,000,000 had been transferred from the Cess Fund of the Securities and Exchange Commission during the year under review, with a view to strengthen the position of the Fund.

3.3. Functions of the Fund

Disputes between the Clearing Members of the Central Depository System, as per Paragraph 5 (a) of the Deed of Trust No.1376 dated 22 May 1998 had not been reported during the year under review.



S. Swarnajothi
Auditor General

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කොළඹ 07, ශ්‍රී ලංකාව

දුරකථනය }
தொலைபேசி } 2691151
Telephone. }

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை

பැனல் අංකය }
பக்ஸ் இல } 2697451
Fax No. }

INDEPENDENCE SQUARE,
COLOMBO 07, SRI LANKA

ඉලෙක්ට්‍රොනික් තැපෑල }
#- மெயில் } oaggov@sltnet.lk
E-mail. }

Settlement Guarantee Fund Balance Sheet

As at 31 December	Note	2009 Rs.	2008 Rs.
ASSETS			
CURRENT ASSETS			
Investment in Treasury Bills		219,208,594	141,751,603
Receivables	5	34,020,128	24,221,613
Cash at Bank		20,124	35,325
TOTAL ASSETS		253,248,846	166,008,541
RESERVES AND LIABILITIES			
RESERVES			
Capital Grants - Treasury		50,000,000	50,000,000
Grants- Cess Fund		50,000,000	-
Accumulated Fund		152,960,287	115,878,272
		252,960,287	165,878,272
CURRENT LIABILITIES			
Payables	6	288,559	130,269
		288,559	130,269
TOTAL NET ASSETS AND LIABILITIES		253,248,846	166,008,541

The notes appearing on pages 73 to 75 form an integral part of the financial statements.

The Trustees of the Settlement Guarantee Fund are responsible for the preparation of these financial statements.

FOR AND ON BEHALF OF SETTLEMENT GUARANTEE FUND



Channa de Silva
Director General
Securities and Exchange Commission of Sri Lanka
Trustee



Udayasri Kariyawasam
Chairman
Securities and Exchange Commission of Sri Lanka
Trustee

Colombo.
22 April 2010

Settlement Guarantee Fund Income and Expenditure Statement

As at 31 December	Note	2009 Rs.	2008 Rs.
INCOME			
Interest on Investments - Treasury Bills		37,290,405	26,373,646
		37,290,405	26,373,646
Less:			
Expenditure			
Audit Fees		158,290	25,000
Other Expenses		50,100	-
Total Expenditure		208,390	25,000
Add: Prior Year Over Provision of Audit Fees		-	19,731
Excess income Over Expenditure for the Year		37,082,015	26,368,377

The notes appearing on pages 73 to 75 form an integral part of the financial statements.

Settlement Guarantee Fund

Statement of Changes in Net Assets

For the year ended 31 December	2009 Rs.	2008 Rs.
Accumulated Fund		
Balance at the beginning of the period	115,878,272	89,509,895
Net Surplus for the period	37,082,015	26,368,377
Balance at the end of the period	152,960,287	115,878,272

The notes appearing on pages 73 to 75 form an integral part of the financial statements.

Settlement Guarantee Fund

Cash Flow Statement

For the year ended 31 December	Note	2009 Rs.	2008 Rs.
Cash Flow from Operating Activities			
Net Surplus for the year		37,082,015	26,368,377
Adjustment for			
Change of Working Capital			
(Increase)/Decrease of Other Receivables	5	(9,798,515)	(8,882,266)
Increase/(Decrease) of Other Payables	6	158,290	5,269
		(9,640,225)	(8,876,997)
Net Cash Flow from Operating Activities		27,441,790	17,491,380
Cash Flow from Financing Activities			
Receipts from Cess Fund		50,000,000	-
Net Cash Flow from Financing Activities		50,000,000	-
Cash Flow from Investing Activities			
Investment in Treasury Bills		(77,456,991)	(17,491,380)
Net Cash Flow from Investing Activities		(77,456,991)	(17,491,380)
Net Increase/(Decrease) in Cash and Cash Equivalents		(15,201)	-
Cash & Cash Equivalents at beginning of period		35,325	35,325
Cash & Cash Equivalents at end of period (Note a)		20,124	35,325
Note (a)			
Cash & Cash Equivalents at the end of the period			
Cash at Bank		20,124	35,325

The notes appearing on pages 73 to 75 form an integral part of the financial statements.

Settlement Guarantee Fund

Notes to the Financial Statements

1. ACCOUNTING POLICIES

1.1 STATEMENT OF COMPLIANCE

The financial statements of the Settlement Guarantee Fund (SGF) have been prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the said standards.

1.2 BASIS OF PREPARATION

The financial statements of the SGF are presented in Sri Lankan Rupees rounded to the nearest Rupee and are prepared on accrual basis under historical cost convention. Where appropriate accounting policies are disclosed in succeeding notes.

1.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous year.

1.4 COMPARATIVE FIGURES AND NARRATIONS

Comparative figures have been adjusted to conform with changes in presentation in the current financial year where necessary.

2. ASSETS & BASES OF VALUATION

2.1 INVESTMENTS

Investments are made in Government Treasury Bills only and stated at cost.

2.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Cash Flow Statement comprise cash at bank, cash in hand and call deposits.

3. LIABILITIES & PROVISIONS

3.1 RETIREMENT BENEFIT

Retiring gratuities payable under the payment of Gratuity Act No. 12 of 1983 do not arise since the Settlement Guarantee Fund is administrated by the Trustees and there are no permanent staff employed by the Fund.

3.2 ACCOUNTS PAYABLE

Payables are stated cost.

4. INCOME & EXPENDITURE

4.1 REVENUE RECOGNITION

Interest income is accounted on accrual basis.

4.2 EXPENDITURE RECOGNITION

All expenditure incurred in maintaining the Fund has been charged to revenue in arriving income over expenditure.

5. RECEIVABLES

	2009	2008
Receivable from Cess Fund	-	35,648
Treasury Bill Interest Receivable	34,020,128	24,185,965
	34,020,128	24,221,613

6. PAYABLES

	2009	2008
Audit Fees	288,559	130,269
	288,559	130,269

7. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2009.

8. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 December 2009.

9. EVENTS AFTER THE BALANCE SHEET DATE

No material events have occurred after the Balance Sheet date necessitating any adjustments in the financial statements except the following disclosure.

With a view to strengthen the SGF the Securities and Exchange Commission of Sri Lanka (SEC) at its 243rd Commission meeting held on 31 December 2008 decided to transfer a sum of Rs.100 million from the Cess Fund to the SGF. In line with this decision the SEC transferred Rs. 50 million from the Cess Fund during the year 2009 and the balance will be transferred early 2010. The Colombo Stock Exchange is also expected to transfer Rs.100 million to the SGF subject to making appropriate changes to the Trust Deed in order to accommodate such receipts.

10. RELATED PARTY DISCLOSURE

The Trustees of the Fund are the Chairman and the Director General of the Securities & Exchange Commission of Sri Lanka (SEC), the Chairman and the Director General of the Colombo Stock Exchange (CSE) and the Deputy Secretary to the Treasury.

Settlement Guarantee Fund Notes to the Financial Statements Cont.

By virtue of holding office the following Ex-officio Members were appointed as Trustees of the Fund during the year.

- Mr Udayasri Kariyawasam Chairman SEC, appointed as a Trustee on 21 February 2009.
- Dr R H S Samaratunga Deputy Secretary to the Treasury, appointed as a Trustee on 28 April 2009.

The following Trustees ceased to hold office as mentioned below.

- Dr Gamini Wickramasinghe assumed duties as a Trustee on 3 February 2006 and ceased to be a Trustee upon expiration of his term of office in February 2009.

The following table depicts the relationships held by the Trustees of the Fund who held office during the year.

Name of the Trustee	Name of Institution	Relationship
Mr Udayasri Kariyawasam	Securities and Exchange Commission of Sri Lanka	Chairman
	Insurance Board of Sri Lanka	Chairman
Mr A Nihal Fonseka	DFCC Bank	Director
	Acuity Partners (Pvt) Ltd	Chairman
	Acuity Stockbrokers (Pvt) Ltd	Chairman
	DFCC Consulting (Pvt) Ltd	Chairman
	Lanka Industrial Estate Ltd	Chairman
	Lanka Ventures Ltd	Chairman
	Synapsys Ltd	Chairman
	Colombo Stock Exchange	Chairman
	National Asset Management Ltd	Director
	Commercial Bank of Ceylon Ltd	Director
	Commercial Bank Primary Dealer Ltd	Director
	ONEZero Company Ltd	Director
	Credit Information Bureau of Sri Lanka	Director
National Institute of Business Management	Member of Governing Board	
Mr Channa De Silva	Insurance Board of Sri Lanka	Ex-officio Member
	Sri Lanka Accounting & Auditing Standards Monitoring Board	Ex-officio Member
	Construction Guarantee Fund	Trustee
	National Payment Council	Member
	Securities and Exchange Commission of Sri Lanka	Director General

*Settlement Guarantee Fund
Notes to the Financial Statements Cont.*

Name of the Trustee	Name of Institution	Relationship
Ms Surekha Sellahewa	Colombo Stock Exchange	Chief Executive Officer
Dr R H S Samaratinga	Securities and Exchange Commission of Sri Lanka	Ex-officio Member
	Insurance Board of Sri Lanka	Ex-officio Member
	Ceylon Electricity Board	Director
	Mihin Lanka (Private) Limited	Director
	Postgraduate Institute of Management	Director
	De La Rue Lanka Currency & Security Print (Private) Limited	Director
	Bank of Ceylon	Director

The following table depicts the relationships held by the Trustees of the Fund who ceased to hold office during the year under review.

Name of the Trustee	Name of Institution	Relationship
Dr G Wickramasinghe	Informatics Group of Companies	Managing Director
	Bank of Ceylon	Chairman
	Property Development Ltd	Chairman
	Ceylease Financial Services Ltd	Chairman
	BOC Travels (Pvt) Ltd	Chairman
	Mireka Capital Land (Pvt) Ltd	Chairman
	Securities and Exchange Commission of Sri Lanka	Chairman (Up to February'09)

Other than the transactions in the ordinary course of business at market rates no transactions were recorded with the said institutions during the year.

Notes

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Office Address

Level 28 and 29, East Tower,
World Trade Centre,
Echelon Square,
Colombo 01,
Sri Lanka

Telephone

+9411 2331013-6, +9411 2439144-8

Fax

+9411 2439149

E-mail

mail@sec.gov.lk

Web

www.sec.gov.lk

Legal Form

Securities & Exchange Commission of Sri Lanka (SEC)
incorporated by Act of Parliament No 36 of 1987 as amended by
Act No 26 of 1991, Act No 18 of 2003 and Act No 47 of 2009

Accounting Year

31 December

Auditors

The Auditor General

Bankers

Bank of Ceylon
Commercial Bank of Ceylon PLC
Sampath Bank
Standard Chartered Bank
Hongkong & Shanghai Banking Corporation Ltd.

