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Consolidated Sri Lanka Securities Regulations

A Supplement to

IMPROVING COLOMBO STOCK EXCHANGE REGULATION

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A Project Financed by USAID/SRI LANKA

for the Colombo Stock Exchange

U.S. and Overseas Offices

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Arlington, Virginia * Lewes, Delaware * Dakar, Senegal * Colombo, Sri Lanka *
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Consolidated Sri Lanka Securities Regulations December, 1990

USING THIS BOOK

Securities industry regulations for Sri Lanka have previously existed in 20 separate documents of Parliament, the Securities Council of Sri Lanka and the Colombo Stock Exchange. Some have never been published. Compliance with regulation is thus severely inhibited by exchange members, their employees and agents and listed companies. Education of professionals and customers is also handicapped. Further, properly presented exchange rules constitute contractual terms between customers, brokers, and contra brokers.

This Consolidation has been produced as part of the Capital Markets Development Project of USAID/Sri Lanka in December 1990 executed by the International Science and Technology Institute, Inc. of Washington, DC. It was produced by and is the product of two studies by the undersigned, retired Senior Vice President and Chief Regulatory Officer of the New York Stock Exchange.

The first was for the Asian Development Bank in December 1989 on "Implementing the Compensation Fund: Recommendations to the Sri Lanka Securities Council." The second was the present project for USAID/Sri Lanka on "Improving Colombo Stock Exchange Regulation" in October-November 1990. Both projects were administratively managed by ISTI.

This volume is divided into 10 major subject Chapters. Each chapter is then sub-divided into subject sections with the various rules on each subject gathered together and identified under their numbers in the originating document. The recommended additions and changes from the two studies are included numbered with a "P" for "proposed."

Two indices are printed at the end of the volume, both referring to page numbers. The first index is by Originating Document and the second by Name of Regulation. The names of the Originating Document have been abbreviated in the Indices but not in the text. These abbreviations and the originating document are listed at the beginning of each Index.

Each Chapter has 100 numbers assigned but only a few are used initially for the topical sub-divisions. The Chapter and Sub-division topics with

their numbers may be quickly viewed in the Table of Contents above. Also, duplicates of all of the Definitions in the volume have been brought together for an initial Chapter immediately following.

The Chapters and their numbers are:

-1. Definitions
- 100. Organization and Governance
- 200. Registration and Listing of Securities
- 300. Exchange Trading
- 400. Settlement of Contracts
- 500. Qualification of Entities and Personnel
- 600. Ethical Conduct
- 700. Supervision and Control
- 800. Financial and Operational Responsibility
- 900. Discipline
- 1000. Arbitration

This document was produced in New Jersey, USA, on a Macintosh computer using the Microsoft Word and Excel programs. The sections on CSE listing rules and recommended new rules were the only parts previously computerized. Those at the Colombo Stock Exchange were on Word Perfect for IBM and the recommended rules were on Microsoft Works for IBM. The remaining texts were reproduced in Westfield, NJ, by optical scanning and manual input on Word Perfect, and all were then translated to Macintosh/Word for organization and editing. After initial printing, the document will be reconverted to Word Perfect for future changes in Colombo.

Four small parts of the copy available in New Jersey could not be read and are indicated as "Text Missing" in the following document at CSE Articles 4, 5, 14, and 34.

The need to work in both Macintosh and IBM necessitated manual rather than computerized construction of the Contents and Index in both Word and Microsoft Excel in order to later translate to Word Perfect. But spreadsheet translations are not successful - future editions in Sri Lanka will need reconstruction of the Contents and Indices.

by Robert M. Bishop
at Westfield, NJ, USA, December 18, 1990

1 - CONSOLIDATED DEFINITIONS

Act 55. - Definitions - In this Act, unless the context otherwise requires-

"investor" means a person who invests in securities purchased or transacted through a licensed stock broker of a licensed stock exchange;

"listed public company" means any public company which has its securities listed or quoted on a licensed stock exchange;

"listed securities" means securities of any listed public company;

"securities" means debentures, stocks and shares in a public company or corporation, funds or bonds of any government or of any body, corporate or unincorporated, including any right or option in respect thereof or any other certificate or interest bought or sold on a stock exchange;

"stock exchange" means a market, exchange or other place at which securities are regularly offered for sale, purchase or exchange, including any services connected with such business;

"stock broker" means any individual or body corporate engaged in the business of buying or selling of securities on behalf of investors in return for a Commission;

"stock dealer" means any individual or body corporate engaged in the business of buying or selling of securities or in the dealing or jobbing or trading of securities, or the underwriting or retailing of securities.

SC Guidelines 2. - Definitions - (f) "Advertisement" means any material for use in any newspaper or magazine or other public medium or by radio, telephone, recording or television.

(g) "Sales Literature" means printed or processed material detailing the facilities and services offered by a member company or its personnel to the public.

Act 34 - Definitions, Insider Trading

Connected with a Company - (1) For the purposes of this Part of this Act, an individual is connected with a company if, and only if-

(a) he is a director of that company or a related company; or

(b) he occupies a position as an officer (other than director) or employee of that company or a related company or a position involving a professional or business relationship between himself (or his employer or a company of which he is a director) and the first company or a related company which in either case may reasonably be expected to give him access to information which, in relation to listed securities of either company, is unpublished price sensitive information and which it would be reasonable to expect (a person in his position not to disclose except) for the proper performance of his function.

Unpublished Price Sensitive Information (2) Any reference in this Part of this Act to "unpublished price sensitive information" in relation to any listed securities of any company is a reference to information which-

(a) relates to specific matters relating, or of concern, (directly or indirectly) to that company that is to say, is not of a general nature relating or of concern to that company; and

(b) is not generally known to those persons who are accustomed or would be likely to deal in those listed securities but which would if it were generally known to them be likely to affect materially the price of those securities.

(3) In this Part of this Act except where the context otherwise requires-

"company" means a listed public company within the meaning of this Act;

"related company", in relation to any company means any body corporate which is that company's subsidiary associate or holding company, or a subsidiary of that company's holding company;

"take-over offer for a company" means an offer made to all the holders (or all holders other than the person making the offer and his nominees) of the shares in the company to acquire those shares or a specified proportion of them, or to all the holders, or all the holders other than the person making the offer and his nominees, of a particular class of those shares to acquire the shares of that class or specified proportion of them.

SC Rules 90 21. Definitions - In these rules, unless the context otherwise requires -

(1) 'Act' means the Securities Council Act, No.36 of 1987.

(2) 'Council' means the Securities Council established under the section 2(1) of the Securities Council Act, No.36 of 1987.

(3) 'Company' means a company incorporated under the Companies Act, No.17 of 1982 or any other legislation relating to companies.

SC Rules 5/18/90 2. - Definition, Act - In these regulations- "Act" means the Securities Council Act, No. 36 of 1987.

SC Guidelines 2. - Definitions - (f) "Advertisement" means any material for use in any newspaper or magazine or other public medium or by radio, telephone, recording or television.

(g) "Sales Literature" means printed or processed material detailing the facilities and services offered by a member company or its personnel to the public.

CSE Article 2. - Definitions - In these Articles if not inconsistent with the subject or context, the words standing in the first column of the table next hereinafter contained shall bear the meanings set opposite to them respectively in the second column thereof -

Words - Meanings

The Exchange - "Colombo Securities Exchange (Guarantee) Limited"

The Office - The Registered Office of the Exchange for the time being and from time to time

The Statutes - The Companies Act No. 17 of 1982 and every other Act for the time being in force concerning companies and affecting the Exchange

The Act - Has the same meaning assigned thereto as "the statutes"

These Presents - These Articles of Association including any alterations thereto by special resolution from time to time

Special Resolution - Has the meaning assigned thereto by the Act

Broker - Any company incorporated in Sri Lanka carrying on the business of a Broker in stocks and/or shares and all of whose directors are licensed to carry on the business of Brokers

The Executive Committee - The Members of the Executive Committee for the time being and from time to time and the requisite quorum of the Committee where any act is required to be done by the Committee

General Meeting - Annual General Meeting and/or an Extraordinary General Meeting

Seal - The Common Seal of the Exchange

Month - Calendar Month

Year - Calendar Year

In Writing - Written or produced by any substitute for writing, or partly one and partly another

Words importing the singular number only shall include the plural and vice versa and words importing the masculine gender shall include the feminine gender and words importing persons shall include corporations and companies.

Save as aforesaid, any words or expressions defined in the Act shall if not inconsistent with the subject or context, bear the same meaning in These Presents.

P210A, Definitions, Securities - The term "security" or "securities" shall have the common meaning of stocks, bonds and similar financial instruments.

The term "stock" includes voting trust certificates, certificates of deposit for stocks, rights, warrants, and other securities of a type classified for trading as stocks by the Exchange.

The term "bond" includes debentures, notes, certificates of deposit for bonds, debentures or notes and other securities of a type classified for trading as bonds on the Exchange.

P210B, Definitions, Orders - Cash - a transaction for settlement the same day between brokers directly,

Regular Way - a transaction for settlement on the Settlement Date as established by the Board. Any default in settlement by a broker creates a new contract for a fail-to-deliver vs, a fail-to-receive.

Delayed delivery - a transaction fixed by contract of the parties for settlement directly between brokers at a date later than regular way settlement.

Market - an order to timely buy or sell a specific quantity of a security at the best price available in the exchange market pursuant to the procedures of the exchange.

Limit - an order to buy or sell all or part of a specified quantity of a security at a stated limit price or better as soon as possible pursuant to the procedures of the exchange.

All or None - An order to buy or sell a specific amount of a security larger than one trading unit simultaneously and not partially - but the total may be to more than one broker.

Not-held - An order to buy or sell all or part of specific amount of a security using the broker's judgement as to timing, and not holding the broker responsible to acquire or dispose of the maximum quantity for which without timing judgement he might compete in the market.

P606B - Definitions, Research Reports - Research reports are generally defined as an analysis of individual companies, industries, market conditions, securities or other investment vehicles which provide information reasonably sufficient upon which to base an investment decision.

P212, Short Sales - Orders to sell securities not beneficially owned by the seller .

P403B - Definition - The terms "employee representative, agent, agent representative" refer to persons engaged in the solicitation of orders for the purchase or sale of securities or similar instruments for the accounts of customers or members or in the solicitation of management investment service on a fee basis by a member.

Chapter One - Organization and Governance

101. SECURITIES COUNCIL ORGANIZATION

Act 1. - Securities Council, Short Title - This Act may be cited as the Securities Council Act, No. 36 of 1987, and shall come into operation on such date (hereinafter referred to as the "appointed date") as may be appointed by the Minister by Order published in the Gazette.

Act 2. - Securities Council Establishment - (1) There shall be established a Council which shall be called the Securities Council (hereinafter referred to as "the Council") consisting of the persons who are members thereof under Section 3.

(2) The Council shall, by the name assigned to it by sub-section (1), be a body corporate and shall have perpetual succession and a common seal and may sue and be sued in such name.

Act 3. - Securities Council Membership - (1) The Council shall consist of:

(a) The following members to be appointed by the Minister (hereinafter referred to as "appointed members").

(i) a Deputy Governor of the Central Bank nominated by the Governor of such Bank; and

(ii) six other persons who appear to the Minister to have wide experience and shown capacity in legal, financial, business or administrative matters;

(b) the following ex officio members:-

(i) the person for the time being holding the office of Deputy Secretary to the Treasury;

(ii) the person for the time being holding the office of Registrar of Companies; and

(iii) the person for the time being holding the office of President Institute of chartered Accountants, established by the Chartered Accountants Act. No. 23 of 1959.

(2) The Minister shall nominate from amongst the members of the Council, one member to be the Chairman of the Council.

Act 4. - Securities Council Term of Office - Every appointed member of the Council shall, unless he vacates office either by death, resignation or removal, hold office for a term of three years and shall be eligible for reappointment.

Act 5. Securities Council, Member Removal and Resignation - (1) Any appointed member of the Council may at any time resign his office by letter to that effect addressed to the Minister and such resignation shall take effect upon it being accepted by the Minister in writing.

(2) The Minister may, by Order published in the Gazette, remove, any appointed member from office without assigning any reason therefor and such removal shall not be question any court.

(3) In the event of the vacation of office by death, resignation or removal of any appointed member, the Minister may appoint another person, having regard to the provisions of paragraph (a) of subsection (1) of section 3 hold office for the unexpired period of the term of office the member whom he succeeds.

(4) If any appointed member of the Council is temporarily unable to perform the duties of his office during any period due to ill-health or absence from Sri Lanka or for any other cause, the Minister may appoint some other person to act in his place during such a period having regard to the provisions of paragraph (a) of subsection (1) of section 3.

Act 6. - Securities Council, Remuneration - The members of the Council may be paid such remuneration out of the fund of the Council as may be determined by the Minister.

Act 7.- Securities Council Meetings - The Chairman of the Council shall if present, preside at all meetings of the Council. In the absence of the Chairman from any such meetings, the members present shall elect one of the members to preside to such meeting.

(2) The quorum for any meeting of the Council shall be five members and the Council may subject to the requirement as to quorum, regulate the procedure in regard to the meetings of the Council and the transaction of business at such meetings.

(3) All questions for decision at any meeting of the Council shall be decided by the vote of the majority of the members present. In the case of an equality of votes the member presiding shall have a casting vote.

Act 8. - Securities Council Chairman - (1) If the Chairman of the Council is by reason of illness or absence from Sri Lanka temporarily unable to perform the duties of his office the Minister shall nominate another member of the Council to act in his place.

(2) The Minister may, without assigning any reason therefor, terminate the appointment of the Chairman.

(3) The Chairman may at any time resign from the office of Chairman by a letter addressed to the Minister. Such resignation shall take effect upon it being accepted by the Minister in writing.

(4) Subject to the provisions of subsections (2) and (3) the term of office of the Chairman shall be his period of membership of the Council.

Act 9. - Securities Council Disclosure of Interest - A member who is directly or indirectly interested in any decision that is to be taken on any matter by the Council shall disclose the nature of such interest at the meeting of the Council where such decision is being taken. The disclosure shall be recorded in the minutes of the meetings of the Council and such member shall not take part in any deliberation or decision of the Council with regard to that matter, and shall withdraw from such meeting while such deliberation is in progress or such decision is being made.

Act 10. - Securities Council Vacancy Effect on Decisions - No act or decision or proceeding of the Council shall be invalidated by reason only of the existence

of a vacancy among its members or any defect in the appointment of a member thereof.

Act 11. - Securities Council Seal -

(1) The seal of the Council shall be in the custody of the Council.

(2) The seal of the Council may be altered in such manner as may be determined by the Council.

(3) The seal of the Council shall not be affixed to any instrument or document except in the presence of the members of the Council who shall sign the instrument in token of their presence.

Act 42. - Securities Council, Director

General - (1) The Minister shall, in consultation with the Council, appoint a Director-General of the Council, who shall be its chief executive officer. The conditions of employment including remuneration of the Director-General shall be determined by the Minister.

(2) The Director-General shall, subject to the general direction and control of the Council, be charged with the direction of the affairs and transactions of the Council, the exercise, discharge and performance of its power, actions and duties, and the administration and control of the employees of the Council.

(3) The Director-General may, with the approval of the Council, whenever he considers it necessary to do so, delegate to any employee any power, function or duty conferred or imposed on or assigned to him by this Act and such employee shall exercise, discharge and perform such power, function or duty subject to the general or special directions of the Director-General.

(4) The Minister may remove from office the Director-General appointed under subsection (1) and such removal shall not be called in question in any Court.

Act 43. - Securities Council Staff -

(1) The Council may appoint such other

officers and servants as it considers necessary for the efficient discharge of its functions.

(2) The officers and servants appointed under subsection (1) shall be remunerated in such manner and at such rates and shall be subject to such conditions of service as may be determined by the Council.

(3) At the request of the Council any officer in the public service may, with the consent of the officer and the Secretary to the Ministry of the Minister in charge of the subject of Public Administration, be temporarily appointed to the Council for such period as may be determined by the Council with like consent, or be permanently appointed to such staff.

(4) Where any officer in the public service is temporarily appointed to the staff of the Council, the provisions of subsection (2) of Section 13 of the Transport Board Law, No. 19 of 1978, shall mutatis mutandis, apply to and in relation to him.

(5) Where any officer in the public service is permanently appointed to the staff of the Council, the provision of subsection (3) of section 13 of the Transport Board Law, No. 19 of 1978, shall, mutatis mutandis, apply to and in relation to him.

(6) Where the Council employs any person who has agreed to serve the Government for a specified period, any period of service to the Council by that person shall be regarded as service to the Government for the purpose of discharging the obligations of such agreement.

(7) At the request of the Council any member of the Local Government Service or any other officer, or servant of a local authority, any , with the consent of such member, officer or servant and the Local Government Service Commission, or the local authority, as the cause may be, be temporarily appointed to the staff of the Council for such period as may be determined by the Council with like consent or be permanently appointed to such staff on such terms and conditions including

those relating to pension or provident fund rights as may be agreed upon by the Council and the Local Government Service Commission or that local authority.

(8) Where any member of the Local Government Service or any officer or servant of any local authority is appointed temporarily under subsection (7) to the staff of the Council, he shall be subject to the same disciplinary control as any other member of such staff.

Act 44. - Securities Council Temporary Staff - (1) At the request of the Council any officer or servant of a public corporation may, with consent of such officer or servant and the governing board of such corporation, be temporarily appointed to the staff of the council for such period as may be determined by the Council with like consent or with like consent be permanently appointed to the staff of the Council for such period as may be determined by the Council with like consent or with like consent be permanently appointed to the staff of the Council on such terms and conditions, including those relating to pension or provident fund rights, as may be agreed upon the Council and the governing board of such corporation.

(2) Where any person is appointed whether temporarily or permanently under subsection (1) to the staff of the Council he shall be subject to the same disciplinary control as any other member of the staff.

Act 47. - Securities Council, Public Servants - All members, officers and servants of the Council shall be deemed to be public servants within the meaning and for the purposes of the Penal Code.

Act 48. - Securities Council & Bribery Act - The Council shall be deemed to be a Scheduled institution within the meaning of the Bribery Act, and the provisions of the Act shall be construed accordingly.

Act 54. - Securities Council & Companies Act - The Companies Act, No. 17 of 1982 is hereby amended by the

repeal of sections 220, 221, and 223 of that Act.

102. SECURITIES COUNCIL OBJECTS, POWERS

Act 12. - Securities Council Objects

- The objects of the Council shall be-

(a) the creation and maintenance of a market in which securities can be issued and traded in an orderly and fair manner;

(b) the protection of the financial interest of investors;

(c) the operation of a Compensation Fund to protect investors from financial loss arising from the failure of a licensed stock broker or licensed stock dealer to meet his contractual obligations; and

(d) the regulation of the securities market and to ensure that professional standards are maintained in such market.

Act 13. - Securities Council Powers, Duties and Functions - For the purpose of carrying out its objects the Council may exercise, perform and discharge all of any of the following powers, duties and functions: -

(a) to grant a license to a body corporate to operate as a stock exchange and ensure the proper conduct of its business;

(b) to grant a license to any person to operate as a stock broker or a stock dealer as the case may be, and ensure the proper conduct of their business;

(c) to give directions to a licensed stock exchange from time to time;

(d) to grant compensation to any investor who suffers pecuniary loss resulting from the failure of a licensed stock broker or a licensed stock dealer to meet his contractual obligations;

(e) to advise the Government on the development of the securities market;

(f) to employ such officers and servants as may be necessary for the purpose of carrying out the work of the Council;

(g) to frame rules on matters in respect of which rules are required to be made under this Act;

(h) to suspend or cancel the listing of any securities or the trading of any given securities, for the protection of investors;

(i) to inquire into the business affairs of a licensed stock exchange, stock broker or stock dealer and public companies listed with a licensed stock exchange;

(j) to publish findings of malfeasance by any licensed stock broker or stock dealer or any public company listed with the licensed stock exchange;

(k) to implement the policies and programmes of the Government with respect to the market in securities;

(l) to acquire in any manner whatsoever and hold, take or give on lease or hire, mortgage, pledge, sell or otherwise dispose of any immovable or movable property; and

(m) to do all such other acts as may be incidental or conducive to the attainment of the objects of the Council or the exercise of its powers under this Act.

Act 53. - Securities Council Rules - Without prejudice to the generality of the powers conferred upon it by section 13, the Council shall formulate the following rules as may be required from time to time for the purpose of ensuring orderly and fair trading in securities and protection of investors interest-

(a) listing of securities in a licensed stock exchange;

(b) disclosures by dealers about share transactions, by persons who acquired or disposed of securities and by a licensed stock exchange about security transactions;

(c) Proper maintenance of books, records, accounts and audits by licensed stock dealers and licensed stock brokers and regular reporting by such licensed stock dealers and licensed stock brokers to the council of their affairs.

Act 14. - Securities Council Powers of Inspection - The Council shall in addition to the powers specified in section 13 also have the power to-

(a) conduct regular inspections of the activities of licensed stock exchanges, stock brokers and stock dealers in order to determine whether they are operating in conformity with the rules and regulations made under the provisions of this Act; and

(b) require licensed stock brokers and stock dealers to file with the Council, annual balance sheet and income statements, certified by a qualified auditor in the form and manner specified by the Council.

Act 24. - Securities Council Approval of Rules of an Exchange -

(1) The rules of a licensed stock exchange, in so far they have been approved by the Council, shall not be amended, varied or rescinded without the prior approval of the Council.

(2) Where the Board of Directors of a licensed stock exchange wish to amend its rules it shall forward by written notice to the Council the amendments, whether by rescission, alternation or addition, to such rules which such licensed stock exchange wish to make.

(3) The Council shall, after hearing the licensed stock exchange, and within twenty-one days of receipt of a notice under subsection (2) give written notice to the stock exchange stating whether such amendments to the rules are allowed or disallowed.

In case such rules are disallowed, the Council shall give reasons for such disallowance.

(4) Upon receipt of notice under subsection (3), the stock exchange, shall give immediate effect to such notice.

(4) An individual shall not, by reason only of having information relating to a particular transaction, be prohibited by any provision of this section from doing anything, if he does that thing in order to facilitate the completion or carrying out of the transaction.

103. SECURITIES COUNCIL FINANCE

Act 35. - Securities Council Fund -

(1) The Council shall have its own Fund-

(2) There shall be paid into the Fund-

(a) all such sums of money as may be voted upon from time to time by Parliament for the use of the Council;

(b) all sums of money as may be paid as fees under section 15 and section 20;

(c) all such sums of money as may be received by the Council by way of donations, gifts or grants from any source whatsoever, whether in or outside Sri Lanka.

(3) There shall be paid out of the Fund all such sums of money required to defray the expenditure incurred by the council in the exercise, discharge and performance of its powers functions and duties.

Act 36. - Securities Council Financial Year - The financial year of the the Council shall be the period of twelve months commencing on the first day of January each year.

Act 37. - Securities Council Audit -

(1) The Council shall cause proper books of accounts to be kept of the income and expenditure, assets and liabilities and all other transactions, of the Council.

(2) The provisions of Article 154 of the Constitution relating to the audit of accounts

of public corporations shall apply to the audit of the accounts of the Council.

Act 38. - Compensation Fund - (1)

There shall be established a fund called the Compensation Fund, for the purpose of granting compensation to any investor who suffers pecuniary loss resulting from the failure of a licensed stock broker or licensed stock dealer to meet his contractual obligations.

(2) The Compensation Fund shall consist of such sums of moneys as may be voted upon by Parliament for the purpose of the Fund.

(3) Moneys belonging to the Compensation Fund may be invested by the Council in such manner as may be determined by the Council.

Act 39. - Compensation Committee -

(1) The Minister shall appoint from among the members of the Council, three members who shall comprise the Compensation Committee (hereinafter referred to as the "Committee") of the Council.

(2) The Committee appointed under subsection (1) 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 for all purposes be final and conclusive.

Act 50. - Securities Council, Indemnity - (1)

No suit or prosecution shall be instituted against any member of the Council or against any of the officers or servants of the Council for any act which in good faith is done or purported to be done by such person under this Act or on the direction of the Council.

(2) Any expenses incurred by the Council in any suit or prosecution brought by or against it before any court, shall be paid out of the Fund of the Council, and any costs paid to, or recovered by, the Council in any such suit or prosecution shall be credited to the Fund of the Council.

(3) Any expenses incurred by any such person as is referred to in subsection (1) in any suit or prosecution brought against him before any court in respect of any act which is done or purported to be done by him under this Act or on the direction of the Council shall, if the court holds that such act was done in good faith be paid out of the Fund of the Council, unless such expenses are recovered by him in such suit or prosecution.

(3) The Council shall make rules relating to the assessment of compensation payable and the assessment of compensation by the Committee under subsection (2) shall be in accordance with such rules.

104. AUTHORITY OF MINISTER

Act 49. - Minister, Reports to - The Minister may, from time to time, direct the Council to furnish to him in such form as he may require returns, accounts and other information with respect to the work of the Council and the Council shall carry out any such direction.

Act 52. - Minister, Regulations Made by - (1) The Minister may make regulations in respect of matters required by this Act to be prescribed or in respect of which regulations are authorized to be made.

(2) Every regulation made by the Minister shall be published in the Gazette and shall come into operation on the date of such publication or on such later date as may be specified in the regulation.

(3) Every regulation made by the Minister shall, as soon as it is convenient after its publication in the Gazette, be brought before Parliament for approval. Any regulation which is not so approved shall be deemed to be rescinded as from the date of such disapproval, but without prejudice to anything previously done thereunder.

(4) Notification of the date on which any regulation deemed to be rescinded shall be published in the Gazette.

SC Rules 1990, 21. - Definitions of Act, Council, Company - In these rules, unless the context otherwise requires -

(1) 'Act' means the Securities Council Act, No.36 of 1987.

(2) 'Council' means the Securities Council established under the section 2(1) of the Securities Council Act, No.36 of 1987.

(3) 'Company' means a company incorporated under the Companies Act, No.17 of 1982 or any other legislation relating to companies.

105. ORGANIZATION OF COLOMBO STOCK EXCHANGE

CSE Memorandum 1. - CSE Name - The name of the Company is "COLOMBO SECURITIES EXCHANGE (GUARANTEE) LIMITED" (the Exchange").

CSE Memorandum 2. - CSE Registered Office - The Registered Office of the Exchange will be situated in the District of Colombo.

106. CSE OBJECTS AND POWERS

CSE Memorandum 3. - CSE Objects - The Objects for which the Exchange is established are:

A. PRIMARY OBJECTS

(1) To provide, regulate, control and maintain facilities for conducting the business of a Stock Exchange in Sri Lanka.

(2) To provide, regulate and maintain a suitable building, room or rooms for a Stock Exchange in Sri Lanka.

(3) To establish a Stock Exchange Trading Floor and to admit to such floor members and such other class of members as the Executive Committee of the Exchange may in its discretion determine to admit and to regulate and supervise their conduct thereafter and deal with any improper conduct in such manner as shall be thought fit.

- (4) To regulate and control the methods in which the business of stock and share "brokers" are to be carried on and to make and enforce rules and regulations for that purpose.
 - (5) To promote and protect the interest and welfare of such brokers and to promote and enforce honourable practices and to discourage and suppress malpractices.
 - (6) To record transactions between such brokers and to furnish reliable quotations of market prices.
 - (7) To act if so desired as arbitrator in the settlement of all disputes and differences between brokers or between brokers and their clients, arising in the course of their business.
 - (8) To establish an exchange or place of meeting for such brokers.
 - (9) To make and amend Rules, Regulations and Bye-Laws for any of the above purposes and to make and from time to time to alter if necessary a scale of charges for brokerage and other standard charges in all transactions.
- B. ANCILLARY POWERS**
- (1) To lend or otherwise deal with the monies of the Exchange in such manner as may from time to time be determined by the Members of the Executive Committee of the Exchange.
 - (2) To invest the monies of the Exchange not immediately required by the Exchange in Savings Accounts and/or Fixed Deposits with any Bank or Banks operating in Sri Lanka and such other Government Securities as the Executive Committee may determine.
 - (3) To borrow or raise and in any manner secure the payment of monies for the purposes of or in connection with the business of the Exchange.
 - (4) To mortgage and charge the undertaking and all of the movable and immovable property assets, present or future, and all or any of the uncalled capital for the time being the Exchange, and to issue at par or at a premium or discount, and for such consideration and with and subject to such rights, powers, privileges and conditions as may be thought fit, debentures or debenture-stocks either permanent or redeemable or repayable and to make and issue other forms of security and collaterally or further to secure any securities of the Exchange by a Trust Deed or other assurance.
 - (5) To draw, make, accept, endorse, negotiate, discount and execute promissory notes, bills of Exchange and other negotiable instruments and commercial or trading documents.
 - (6) To purchase, take on leased or in exchange hire or otherwise acquire and hold for any estate or interest any lands, buildings, easements, rights, privileges, concessions, patents, patent rights, trade marks, trade names, licenses, secret processes, machinery plant, stock-in-trade, and movable or immovable property of any kind whatsoever, necessary or convenient for the purpose of or in connection with business of the Exchange or any branch or department thereof and also to purchase or otherwise acquire or undertake the whole or any part of the business undertaking, property rights, assets liabilities and transactions of any other company, corporation, firm or person carrying on in Sri Lanka or elsewhere business with this Exchange is authorized to carry on, or possessed of any property or rights suitable for the purposes of this Exchange for such consideration and on such terms as the Exchange may determine.
 - (7) To sell, improve manage, develop, exchange, mortgage, dispose of, turn to, account, let, lease or demise (whether on rent, royalty or with share of profits or otherwise) and in any other manner to deal with all or any part of the undertaking, property, assets and rights of the Exchange, and to grant licences, easements and other

rights in or over the same, and to sell or dispose of the business, undertaking, property rights, assets, liabilities and transactions of the Exchange and in any of such cases to accept payment for the same either in cash, by installments or otherwise, or in fully or partly paid up shares of any other company or corporation with or without preferred or deferred or guaranteed rights in respect of dividend or repayment of capital or otherwise or in debentures or mortgage debentures or debenture stock, mortgages or other securities of any company or corporation or partly in one mode and partly in another, or for such other consideration and generally on such terms as the Exchange may determine and to hold, dispose of or otherwise deal with any shares, stock, or securities so acquired.

(8) To erect, construct, lay down, enlarge, alter and maintain any roads, offices, buildings and such other structures necessary or convenient for the business of the Exchange and to contribute to or subsidize the erection, construction and maintenance of any of the same.

(9) To grant pensions, allowances, gratuities, bonuses and other benefits to officers, ex-officers, employees and ex-employees (including Members and Ex-Members of the Executive Committee) of the Exchange or its predecessors in business or the dependents or connections of any such persons to establish, contribute to and maintain or concur or join with any other companies, corporations, firms or persons in establishing, contributing to and maintaining trusts, funds, or schemes (whether contributory or non-contributory) with a view to providing pensions, provident fund benefits, sickness or compassionate allowances, life assurances or other benefits for any such persons as aforesaid, their dependents or connections and to support or subscribe to any charitable funds or institutions, the support of which may, in the opinion of the Members and Ex-Members of the Executive Committee, be calculated directly or indirectly to benefit the Exchange or its officers or employees and to institute and maintain any club or other establishment or profit sharing scheme calculated to

advance the interests of the Exchange or its officers or employees.

(10) To enter into any partnership arrangement or arrangements for sharing profits, union of interests reciprocal concession, or co-operation with any company, firm or person carrying on or proposing to carry on any business within the objects of this Exchange and to attend to and deal with any ancillary function in connection therewith and generally to subsidize or otherwise assist any such company.

(11) To establish or promote or concur in establishing or promoting any other company whose objects include the acquisition and taking over of all or any part of the business, undertaking, property rights, assets, liabilities and transactions of this Exchange or the promotion of which shall be in any manner calculated to advance directly or indirectly the objects or interests of this Exchange.

(12) To amalgamate with any other company whose objects are or include objects similar to those of this Exchange whether by sale or purchase (for fully or partly paid up shares or otherwise) of the undertaking, subject to the liabilities of this or any such other company as aforesaid with or without winding-up or by sale or purchase (for fully or partly paid up shares or otherwise) of all or a controlling interest in this or any other company as aforesaid, or by partnership, or any arrangement of the nature of partnership, or any other manner.

(13) To undertake and execute any trusts the undertaking whereof may seem desirable, and either gratuitously...**Missing Text**

(14) To adopt such means of making known the business of the Exchange and of others as may seem expedient and in particular by advertising in the press, on the radio and or television by circulars, by purchase and exhibition of works of art or interest by publication of books and periodicals and by

granting prizes, rewards and donations and by propaganda of all kinds.

(15) To appoint, engage, employ, maintain, provide for, dismiss, and terminate officers, managers and other employees of every description and to remunerate any such at such rate and in such manner as shall be thought fit.

(16) To promote freedom of contracts and to resist, insure against, counteract, discourage interference therewith and to subscribe to any Exchange or fund for any such purposes.

(17) To aid peculiarly or otherwise, any Exchange body or movement having for an object the solution settlement or surmounting of industrial or labour problems, troubles or disputes or the promotion of industry or trade.

(18) To enter into any arrangement with any Government or other authorities supreme, municipal, local or otherwise and to obtain from any such Government or Authority, all rights, concessions and privileges that may seem conducive to any/all objects of the Exchange.

(19) To procure the Exchange to be registered, incorporated or otherwise empowered or represented in any country or place outside Sri Lanka.

(20) To pay all expenses incidental to the formation or promotion of this Exchange.

(21) To do all such other things as are incidental or conducive to the above objects or any of them.

C. STATEMENT OF OBJECTS

Generally to carry on any other business which may seem capable of being conveniently carried on in connection with the primary objects and/or ancillary powers aforesaid as may be calculated directly or indirectly to enhance or otherwise render profitable the business of the Exchange.

CSE Article 3. - CSE Objects - The Exchange is established for the purpose specified in Clause 3A of the Memorandum of Association.

107. CSE MEMBER FINANCIAL OBLIGATIONS

CSE Memorandum 4. - CSE Member Liability - The liability of members is limited.

CSE Memorandum 5. - CSE Member Guarantee on Winding Up - Every member of the Exchange undertakes to contribute to the assets of the Exchange in the event of its being wound up while he is a member, or within one year after he ceases to be a member for the payment of the debts and liabilities of the Exchange contracted before he ceased to be a member, and of the costs, charges and expenses of winding up and for the adjustment of the rights of the contribute among themselves such amount as may be required not exceeding Rupees Fifty Thousand (Rs.50,000/-)

108. CSE EXEMPTION FROM COMPANIES ACT

CSE Article 1. - CSE Exemption from Companies Act - The Rules contained in Table "C" of the First Schedule to the Companies Act No. 17 of 1982 shall not apply to the Colombo Securities Exchange (Guarantee) Limited which shall be governed by the Rules contained in these Articles but subject to repeal alteration or addition by Special Resolution.

DEFINITIONS

CSE Article 2. - Definitions - In these Articles if not inconsistent with the subject or context, the words standing in the first column of the table next hereinafter contained shall bear the meanings set opposite to them respectively in the second column thereof -

Words - Meanings

The Exchange - Colombo Securities

The Office - The Registered Office of the Exchange for the time being and from time to time.

The Statutes - The Companies Act No. 17 of 1982 and every other Act for the time being in force concerning companies and affecting the Exchange

The Act - Has the same meaning assigned thereto as "the statutes."

These Presents - These Articles of Association including any alterations thereto by special resolution from time to time

Special Resolution Has the meaning assigned thereto by the Act.

Broker - Any company incorporated in Sri Lanka carrying on the business of a Broker in stocks and/or shares and all of whose directors are licensed to carry on the business of Brokers

The Executive Committee - The Members of the Executive Committee for the time being and from time to time and the requisite quorum of the Committee where any act is required to be done by the Committee

General Meeting - Annual General Meeting and/or an Extraordinary General Meeting

Seal - The Common Seal of the Exchange

Month - Calendar Month

Year - Calendar Year

In Writing - Written or produced by any substitute for writing, or partly one and partly another.

Words importing the singular number only shall include the plural and vice versa and words importing the masculine gender shall include the feminine gender and words importing persons shall include corporations and companies.

Save as aforesaid, any words or expressions defined in the Act shall if not inconsistent

with the subject or context, bear the same meaning in These Presents.

109. DEFINITIONS

SC Rules 90 21. - Definitions - In these rules, unless the context otherwise requires -

(1) 'Act' means the Securities Council Act, No.36 of 1987.

(2) 'Council' means the Securities Council established under the section 2(1) of the Securities Council Act, No.36 of 1987.

(3) 'Company' means a company incorporated under the Companies Act, No.17 of 1982 or any other legislation relating to companies.

110. CSE GENERAL MEETINGS

CSE Article 27. - CSE Annual General Meetings - The Exchange shall in each year hold a general meeting as its annual general meeting in addition to any other meeting in that year and shall specify the meeting as such in the notice convening it and not more than fifteen months shall elapse between the date of one annual general meeting of the Exchange and that of the next.

Provided that so long as the Exchange holds its first annual general meeting within eighteen months of its incorporation, it need not hold it in the year of its incorporation or in the following year. The annual general meeting shall be held at such time and place as the Committee shall appoint.

CSE Article 28. - CSE Extraordinary General Meetings - All general meetings other than annual general meetings shall be called extraordinary general meetings. **Article 29.** The Committee may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on a requisition as provided by Section 128 of the Act, or in default, may be convened by such requisitionists, as provided by the said Act.

CSE Article 30. - CSE Notice of General Meetings - An annual general meeting and a meeting called for the passing of a special resolution shall be called by twenty one days' notice in writing at the least. A meeting other than an annual general meeting or a meeting for the passing of a special resolution shall be called by fourteen days' notice in writing at the least. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given and shall specify the place, the day and the hour of the meeting and, in case of special business, the specific resolution pertaining thereto shall be given to such persons as are, under the Articles of Association entitled to receive such notice from the Exchange.

Provided that a meeting of the Exchange shall notwithstanding that it is called by shorter notice than that specified in this Article be deemed to have been duly called if it is so agreed.

(a) in the case of a meeting called the annual general meeting by all the members entitled to attend and vote thereat, and

(b) in the case of any other meeting by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent of the total voting rights at the meeting of all the members.

CSE Article 31. - CSE Accidental Omission of Notice - The accidental omission to give notice of a meeting to or the non receipt of notice of a meeting by any person entitled to receive notice shall not invalidate the proceedings at that meeting.

CSE Article 32. - CSE Proceedings at General Meetings - All business shall be deemed special that is transacted at an extraordinary general meeting, and also all that is transacted at an annual general meeting, with the exception of the consideration of the accounts balance sheets, the reports of the Committee and

Auditors, the election of Members in place of those retiring and appointment of and the fixing of the remuneration of the Auditors.

CSE Article 33. - CSE Quorum - No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business, save as herein otherwise provided, four members of the Exchange present in person or in the case of a body corporate by its representative as provided for in Article 46 shall be a quorum.

CSE Article 34. - CSE Adjournment for Lack of Quorum - If within half an hour from the time appointed...Missing Text

CSE Article 35. - CSE Chairman to Preside - The Chairman, if any, of the Committee shall preside as Chairman at every general meeting of the Association, or where there is no such Chairman, or if he shall not be present within fifteen minutes after the time appointed for the holding of the meeting or is unwilling to act, the Members present shall elect one of their number to be Chairman of the meeting.

Where at any meeting no Member is willing to act as Chairman or where no Member is present within fifteen minutes after the time appointed for holding the meeting, the members present shall choose of their number to be Chairman of the meeting.

CSE Article 36. - CSE General Meeting Adjournment - The Chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the Meeting) adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of an adjournment or of the

business to be transacted at an adjourned meeting.

CSE Article 37. - CSE Method of Voting - At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands.

A declaration by the Chairman (with the approval of those present at the meeting) that a resolution has been carried unanimously, or by a particular majority or lost and an entry to that effect in the book containing the minutes of proceedings of the Exchange shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

CSE Article 38. - CSE Casting Vote - In the case of an equality of votes, the Chairman of the meeting at which the show of hands takes place shall be entitled to a second or casting vote.

CSE Article 39. CSE Resolutions - Subject to the provisions of the Act, a resolution in writing signed by all the members for the time being entitled to receive notice of and to attend and vote at general meetings, should be as valid and effective as if the same had been passed at a general meeting of the Exchange duly convened and held.

CSE Article 40. - CSE Member Votes - Every member shall have one vote which shall be given in person or by proxy or in the case of a body corporate by its representative as provided for in Article 46.

CSE Article 41. - CSE Proxies - The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorized in writing. A proxy shall however be in favour of another member of the Exchange.

CSE Article 42. - CSE Proxy Filing - The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Registered Office of the

Exchange not less than forty eight hours before the time of holding the meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.

CSE Article 43. - CSE Proxy Form - An instrument appointing a proxy may be in the following form or any other form which the Committee shall approve:

Colombo Securities Exchange (Guarantee) Ltd

We.....
.....of.....
.....being a member of the Colombo Securities Exchange (Guarantee) Limited hereby appoint.....
.....of.....
.....as our proxy to vote for us and on our behalf at the (ordinary or extraordinary as the case may be) General Meeting of the Exchange to be held on the day of and at any adjournment thereof.

Signed this day of 19...

CSE Article 44. - CSE Incompetent Member Vote - A member of unsound mind or mentally deficient or in respect of whom an order has been made by any Court having jurisdiction in cases relating to persons of unsound mind or mentally deficient may vote by his Manager or curator appointed by that Court.

CSE Article 45. - CSE Vote, Ineligibility for Debt to Exchange - No member shall be entitled to vote at any general meeting unless all monies presently payable by him to the Exchange have been paid.

CSE Article 46. - CSE Corporate Member Voting Representative - Any company which is a member of the Exchange may, by resolution of its Committee or other governing body, authorize such person as it think fit to act as

its representative at any meeting of the Exchange and the person so authorized shall be entitled to exercise the same powers on behalf of the body corporate which he represents as that body corporate could exercise if it were an individual member of the Exchange.

CSE Article 64. - CSE Article Amendment - Alteration of these Articles from time to time may be made by Special Resolution (which shall have the same meaning assigned thereto as in the statutes)

111. CSE EXECUTIVE COMMITTEE

CSE Article 47. - CSE Executive Committee - The Executive Committee also referred to in These Presents as the "Committee" shall consist of not less than 3 in number and not more than 8 in number and provided always that the Executive Committee may at its absolute discretion increase the number of its members from eight to twelve but only for the purposes of ensuring that any interest not represented in the Executive Committee may be represented by such members. Such additional members shall initially be appointed by the Executive Committee at their absolute discretion.

CSE Article 48. - CSE First Executive Committee - The Members of the first Executive Committee shall be the signatories to the Memorandum and Articles of the Exchange. A member of the Executive Committee shall nominate its Chairman, Deputy Chairman or such other officer as it may think fit to function in its place as Executive Committee.

CSE Article 49. - CSE Executive Committee Term - (a) The members of the First Executive Committee shall hold office until the conclusion of the Annual General Meeting next held after the expiration of a period of 6 years from the date of incorporation of the Exchange, at which Annual General Meeting one of the Members of the Committee shall retire from office.

(b) The member of the Committee to retire in each year shall be agreed amongst themselves or failing such agreement shall be determined by lot. A retiring member shall, however, be eligible for re-election as a member of the Committee.

Provided that any additional members appointed by the Executive Committee under the proviso to Article 47 shall retire from office at each Annual General Meeting and shall then be eligible for re-election if recommended by the Executive Committee.

P1, CSE Governance - (This concept to be substituted as appropriate for differing provisions of Articles 47-50 of CSE Articles of Association) Governance of the Exchange shall be by a Executive Committee of between 6 and 14 persons elected by majority vote of the membership composed half of Chief Executives of Members, and the other half representatives of listed companies and individual and institutional investors, each category in such proportion as determined from time to time by the Committee, plus a Chief Executive Officer elected by the Committee who shall not be associated with a Member or listed company or other financial institution. The Committee may elect a Chairman and Vice Chairman of the Committee from among its number, but if so these offices shall rotate in alternate years between a representative of Members and a representative of Non members. Each Executive or Nominating Committee Member not associated with a Member shall be deemed to have agreed to uphold the rules of the Exchange.

P4, CSE Nominating Committee - The Executive Committee shall appoint a Nominating Committee for a two year term, representative of the constituencies of the Exchange in the same proportion as that for the Board. Current Executive Committee members shall be ineligible for this committee. The Nominating Committee shall solicit suggestions for nominees to the Executive Committee, and select nominees for the next annual election of the Executive Committee and to fill the unexpired term for any vacancy occurring on the Executive Committee between elections. The Committee insofar as possible shall provide for orderly rotation of one third of Executive

Committee members at each election. Nominations may also be made by petition of 10 or more Members, or 10 or more Institutional Investors, or 10 or more individual investors for vacancies in those categories of Committee membership.

P5. CSE Committee term of office - Committee Members shall be elected for two year terms and shall be ineligible to serve as such for more than six consecutive years.

CSE Article 34A. - CSE Chairman of Executive Committee - The Executive Committee shall by a majority vote appoint one of its members to be the Chairman of the Executive Committee but no such appointee shall hold office for more than two years from the date of his appointment unless specially re-elected thereafter and upon his retirement from the office of Chairman he shall be designated Immediate Past Chairman and in that capacity become a member of the Executive Committee and be entitled to participate and vote at meetings of the Executive Committee in that capacity unless he is already a member of the Executive Committee as a representative of a Broking Member in which event he shall only be entitled to a single vote. Any person designated Immediate Past Chairman shall ipso facto cease to be a member of the Executive Committee upon the retirement of the Chairman who succeeded him but nothing herein contained shall affect his right to continue on the Executive Committee as representative of a Broking Member.

CSE Article 60 A. - CSE Committee Alternates - Any member of the Executive Committee may at any time by notice in writing left at the registered office of the Exchange appoint any director or other Senior Executive of the organization or company whom he represents and who is acceptable to a majority of the Executive Committee to be his Alternate (hereinafter referred to as "the Alternate") on the Executive Committee. The Alternate may attend the meetings of the Executive Committee and participate at such meetings (irrespective of whether his appointer is or is not present at the meeting) but he shall not

be entitled to vote thereat except when his appointer is not personally present at the time of voting at the meeting.

An Alternate shall not be entitled to receive any remuneration as such alternate from the Exchange nor be required to hold any share qualification but the Executive Committee may repay the Alternate such reasonable expenses as he may incur in attending and returning from meetings of the Committee attended by him or as he may otherwise properly incur in or about the business of the Exchange or may pay in lieu thereof such allowances as the Committee may think fit. An Alternate shall (on giving an address for service of notice) be entitled to receive notice of all meetings of the Committee and generally to perform all the functions of his appointer in the absence of such appointer. An Alternate may also be appointed to serve on any Sub-Committee or special Committee of the Executive Committee and in such event he shall be entitled to be present at the meetings and to participate thereat but he shall have no vote thereat unless at the time of voting his appointer is not personally present. An Alternate shall ipso facto cease to be an alternate in any of the following events that is to say:

- a) if his appointer ceases for any reason to be a member provided that if his appointer retires by rotation but is re-elected at the meeting at which such retirement took effect, any appointment made by him pursuant to this Article which was in force immediately prior to his retirement shall continue to operate after his re-election as if he had not so retired;
- b) if the Alternate shall have a receiving order made against him or compounds with his creditors or is adjudicated an insolvent;
- c) if the Alternate be lunatic or of unsound mind;
- d) if the appointment of the Alternate is revoked by his appointer by notice in writing left at the office;
- e) if the Executive Committee resolve that the appointment of the Alternate be

terminated but no such termination shall take effect until the expiration of thirty days after the date of the resolution of the Executive Committee.

CSE Article 60 B. A member of the Executive Committee shall not vote on the question of approval of an Alternate to act for him or on the question of termination of the appointment of the Alternate and if he do so his vote shall not be counted nor for the purposes of any resolution for either of these purposes shall he be counted in the quorum present at the meeting.

SC Guidelines 3. - CSE Committee, Conflict with Company Interest Prohibited - The Executive Committee may not without the approval of the Council include persons who are also on the Boards of listed companies where they are in a position, directly or indirectly, covertly or overtly, to direct the affairs of such companies or influence the decision-making of these companies, or have directly or indirectly a substantial interest in them.

Every member of the Executive Committee shall declare to the stock exchange and to the Council their direct or indirect shareholdings in companies listed or otherwise and shall forthwith declare any changes in their shareholdings. Direct or indirect shareholdings include nominee holdings, connected person holdings and holdings by companies in which such member has a substantial interest.

CSE Article 51. - CSE Committee Expenses - The Exchange shall repay to any member of the Executive Committee all such reasonable expenses as he may incur in connection with or about the business or management of the Exchange or may pay to such member such allowances as the Executive Committee thinks proper in respect of such expenses. Other than in respect of the foregoing, no member of the Executive Committee shall be entitled to any remuneration or salary by virtue of his office per se.

112. CSE EXECUTIVE COMMITTEE POWERS

CSE Article 50. - CSE Committee Casual Vacancies - The Executive Committee shall have power at any time and from time to time to appoint any member to fill a casual vacancy in the Executive Committee. Any member so appointed shall hold office until such time as the member in whose place he has been appointed would have held office but shall be eligible for re-election.

CSE Article 52. - CSE Management & Executive Powers - The business and affairs of the Exchange including the recruitment and dismissal of staff shall be controlled and be under the management of the Executive Committee and all the executive powers of the Exchange including the creation of Rules and Bye-Laws shall be vested in such Executive Committee.

The authority of the Executive Committee to create Rules and Bye-Laws, delete, modify or otherwise amend such Rules and Bye-Laws and generally to create such additional Rules, Bye-Laws, Codes, Regulations or otherwise as the Executive Committee shall at its discretion and for whatsoever purpose find advantageous or necessary from time to time to execute in connection with the conduct, management or operation of the Exchange provided however that any such Rules, Bye-Laws, Codes, Regulations or any deletions modifications or amendments thereto shall be brought before the members at a meeting of the Association to be summoned for this purpose within a period of six (6) weeks from the date of the introduction and shall for the purpose of their continued validity require to be ratified by...

In the event of such Rules, Bye-Laws, Codes or Regulations or any deletions, modifications or amendments thereto as the case may be not being ratified as aforesaid, they shall immediately after such General Meeting cease to be of any effect or validity without however causing any prejudice to

any matter, act or thing done pursuant thereto prior to such General Meeting.

The right of the Executive Committee to create, delete, modify or amend as hereinbefore set out shall not preclude the members of the Exchange from so creating, modifying or amending the Rules, Bye-Laws, Codes or Regulations as the case may be and for this purpose to requisition a meeting of the Exchange provided however that the same shall be passed by two-thirds (2/3rd) of the members present and voting, voting in favour thereof at such meeting.

P2, CSE, Corner Control - Whenever in the opinion of the Committee, a corner has been created in a security, the Committee may postpone the time for delivery or direct the settlement of such contracts by payment of money at a fair settlement price agreed to by the parties or determined by the Committee after giving an opportunity to all interested parties to be heard.

CSE Article 56. - CSE Delegation of Power - The Executive Committee may delegate any of their powers to sub-committees provided that at least two members of the Executive Committee are members of each of such sub-committees. Any sub-committee when formed shall in the exercise of the powers so delegated conform to any directions that may be imposed on them by the Executive Committee. The meetings and proceedings of such sub-committees shall also conform to any directions that may be imposed on them by the Executive Committee and in the absence thereof shall conform as far as practicable to the provisions herein with regard to the meetings and proceedings of the Executive Committee. The results of their deliberations will be submitted to the Committee for approval, modifications or rejection.

The day to day management and business of the Exchange may be delegated by the Executive Committee to the Secretary and/or a General Manager, Managers, heads of Departments or other officers and staff as may be appointed by the Executive

Committee from time to time for this purpose.

P6, CSE Chief Executive Officer - (To be substituted for above paragraph) The Chief Executive Officer appointed by the Committee and serving at its pleasure shall be responsible for the day to day management and business of the exchange and shall be the official representative of the Exchange in all public matters. He may appoint such officers, (other than the Chairman or Vice Chairman of the Executive Committee), other employees of the exchange, counsel and expert or professional advisers as he may determine are required for the efficient management and operation of the exchange and fix their duties, responsibilities, terms and conditions of employment and termination of employment.

CSE Article 57. - CSE Borrowing - The Executive Committee may raise or borrow any sum or sums of money for the purposes of the Exchange and may secure the same in such manner as deemed fit provided that the total undischarged borrowings of the Exchange at any one time shall not exceed the sum of Rupees Five Hundred Thousand (Rs.500,000/-) without the sanction of the Exchange in general meeting.

CSE Article 58. - CSE Banking Authority - The Executive Committee shall be entitled to open in the name of the Exchange such Bank Account or Accounts as it considers necessary or prudent and shall be empowered in connection therewith to issue the necessary banking mandates and to make deposits and withdrawals of monies, issue cheques, drafts, promissory notes or other negotiable instruments as may become necessary from time to time in connection with the business of the Exchange. Such cheques, drafts, promissory notes or other negotiable instruments shall be signed, drawn, accepted endorsed or otherwise executed as the case may be in manner as the Executive Committee shall from time to time by resolution determine and shall unless otherwise determined by signed, drawn accepted, endorsed or otherwise executed

for and or behalf of the Exchange by any two members of the Executive...

113. CSE EXECUTIVE COMMITTEE PROCEEDINGS

CSE Article 53. - CSE Committee Meetings - Meetings of the Executive Committee shall be held as often as shall be found necessary and the Executive Committee shall regulate their meetings as they think fit. Questions arising at any meetings of the Executive Committee shall be decided by a majority of votes and in the event of an equality of votes the Chairman of the Executive Committee shall have a second or casting vote. Any member of the Executive Committee and the Secretary on the requisition of such a member shall at any time summon a meeting of the Executive Committee. Notice of a meeting of the Executive Committee shall be given to all members of the Executive Committee and such notice shall be accompanied by an agenda of the meeting (unless such agenda be incorporated in the notice itself) and all documents or copies thereof as may be relevant to the meeting.

CSE Article 54. - CSE Committee Quorum - The quorum for a meeting of the Executive Committee shall unless otherwise determined by the Executive Committee be three persons duly representing three of the members of the Executive Committee and a meeting of the Executive Committee at which a quorum is present shall be competent to exercise all such powers and discretions of the Exchange as are not by the statutes or by These Presents required to be exercised by the Exchange in General Meeting.

CSE Article 55. - CSE Committee Presiding Officer - The Chairman shall preside at the meetings of the Executive Committee but if any any meeting of the Executive Committee the Chairman is not present those present may choose from amongst themselves a Chairman to preside at that meeting.

CSE Article 60. - CSE Committee Validity of Acts - All acts done by any meeting of the Executive Committee or Sub-Committees or by any person representing a Member of the Executive Committee or Sub-Committee shall as regards all persons dealing in good faith with the Exchange notwithstanding that there was some defect in the appointment of any such Member of the Executive Committee or Sub-Committees acting as aforesaid or that they or any of them were disqualified or had vacated office or were not entitled to vote, be as valid as if every such person had been duly appointed and was qualified and had been entitled to vote.

CSE Article 61. - CSE Committee, Disqualifications - The office of a Member of the Executive Committee shall be vacated if such member:

- (a) without the consent of the Exchange in general meeting holds any other office of profit under the Exchange, or
- (b) makes any arrangement or composition with its creditors generally, or
- (c) resigns its office by notice in writing to the Exchange, or
- (d) is directly or indirectly interested in any contract with the Exchange and fails to declare the nature of its interest in manner required by the provisions of section 203 of the Act.

CSE Article 62. No person other than a Member of the Executive Committee retiring at the meeting shall unless recommended by the Executive Committee be eligible for election to the Executive Committee at any general meeting save as hereinafter provided in Article 63.

CSE Article 63. - CSE Committee Nominations - Any member of the Exchange shall be entitled to nominate any other member of the Exchange for election to the Executive Committee. Such nomination shall be made in writing signed by the Proposer and deposited at the Registered Office of the Exchange not less

than fourteen (14) days before the date of the proposed Annual General Meeting accompanied by a writing from the Nominee indicating his willingness to be so elected. For the purposes of this Article the Proposer and Nominee must both be Members entitled to attend and vote at such meeting and must be members who are not in arrears or otherwise have any money due and owing to the Exchange. Provided however that the provisions of this Article shall not apply with regard to the election of the First Executive Committee.

CSE Article 66. - CSE Committee Minutes - The Executive Committee shall cause minutes to be made in books provided for the purpose:

(a) of all appointments of officers made the Executive Committee

(b) of the names of the Members present at each meeting of the Executive Committee and of any sub-committee

(c) of all resolutions and proceedings at all meetings of the Exchange and of Meetings of the Committee

and every Member present at any meeting of the Executive Committee or Sub-Committees shall sign his name in a book to be kept for that purpose.

CSE Article 67. - CSE Secretary - Subject to the provisions of sections 175 and 178 of the statutes the Executive Committee may from time to time appoint and employ and at their discretion remove any individual firm or company as the Secretary of the Exchange (in These Presents called "the Secretary" or "the Secretaries") who duty it shall be to keep all records and registers required by the statutes to be kept by the Exchange to record and maintain the minutes required by the preceding Article or otherwise as required by These Presents, to perform any other functions which by These Presents are to be performed by the Secretary and generally to execute all other duties which may from time to time be assigned by the Executive Committee to the Secretary. The Executive Committee may

also (where they appoint an individual as the Secretary) appoint and employ any other person as Assistant Secretary.

Subject to the provisions of Section 175 of the statutes, the Executive Committee may at any time appoint and employ a temporary substitute for the Secretary or Assistant Secretary who shall for the purpose of These Presents be deemed, in the former case, to be the Secretary.

CSE Article 68. - CSE Seal - The Executive Committee shall provide for the safe custody of the Seal and the Seal shall only be used by the authority of the Executive Committee or a Sub-Committee authorized by the Executive Committee on that behalf. Subject to the provisions of the next succeeding sub-paragraph, the seal of the Exchange shall not be affixed to any deed, certificate for shares, stock, debenture-stock or other form of security or other instrument except in the presence of two duly nominated representatives of the Executive Committee or of one representative of the Executive Committee and the Secretary shall attest the sealing thereof. Such attestation on the part of the Secretary in the event of a Firm being the Secretaries, shall be signified by a partner or duly authorized agent of the said Firm signing the Firm's name or for and on behalf of the said Firm as such Secretaries. In the event of a Company being the secretary, such attestation shall be signified by a director or the duly authorized agent of such Company signing for and on behalf of such Company as Secretaries. The sealing shall not be attested by one person in a dual capacity, or

Any document sealed in accordance with the foregoing provisions of this Article shall be presumed to have been duly executed by the Exchange.

CSE Article 69. - CSE Document Authentication - Any person duly representing a member of the Executive Committee or the Secretary shall have the power to authenticate any documents affecting the constitution of the Exchange (including the Memorandum and Articles of

The Exchange) and any resolution passed by the Exchange and any books, records, documents and accounts relating to the business of the aforesaid and also to certify copies thereof or extracts of resolutions as true copies or extracts.

114. CSE FINANCE AND ACCOUNTS

CSE Article 65. - CSE Profit - The income and property of the Exchange whensoever derived shall be applied solely towards the promotion of the objects of the Exchange and no portion thereof shall be paid or transferred directly or indirectly by way of dividend, bonus or otherwise howsoever by way of profit to the persons who at any time are or have been members of the Exchange or any of them provided that nothing herein contained shall prevent the payment in good faith of remuneration to any officers or servants of the Exchange or to any member thereof or any other person in return for services actually rendered.

CSE Article 70. - CSE Account Records - The Exchange shall cause proper books of accounts to be kept with respect to -

(a) all sums of money received and expended by the Exchange and the matters in respect of which the receipt and expenditure has been incurred

(b) all sales and purchases of goods by the Exchange, and

(c) the assets and liabilities of the Exchange

Proper books shall not be deemed to be kept if the Exchange has not kept books of accounts as are necessary to give a true and fair view of the state of affairs of the Exchange and to explain its transactions.

CSE Article 71. - CSE Records, Location - The books of accounts shall be kept at the Registered Office of the Exchange or subject to the provisions of sub-section (3) of section 143 of the Act at

such other place or places as the Executive Committee thinks fit and shall always be open to the inspection of the Executive Committee.

CSE Article 72. - CSE, Inspection of Records - The Executive Committee shall from time to time determine whether and to what extent and at what times and places and under what conditions and rules the accounts and books or the documents or any of them shall be open to the inspection of members not being members of the Executive Committee and no members (not being members of the Executive Committee) have any right of inspecting any account or book or document of the Exchange except as conferred by statute or authorized by the Executive Committee or by the Exchange at a general meeting.

CSE Article 73. - CSE Financial Reports to General Meeting - The Executive Committee shall from time to time in accordance with the provisions of sections 144, 146 & 152 of the Act cause to be prepared and to be laid before the Exchange in general meeting such account of income and expenditure, balance sheets and reports as are referred to in These Presents.

CSE Article 74. - CSE Financial Report Distribution - A copy of every balance sheet (including every document required by law to be annexed thereto) which is to be laid before the Exchange in general meeting together with a copy of the Auditors' Report, shall be not less than twenty one days' before the date of the meeting, be sent to every member of the Exchange.

Provided that this Article shall not require a copy of such documents to be sent to any person of whose address the Exchange is not aware.

CSE Article 75. - CSE Audits - Auditors shall be appointed and their duties regulated in accordance with the provisions of section 156 to 159 of the Act.

115. CSE NOTICES TO MEMBERS

CSE Article 76. - CSE Service of Notice - A notice may be served by the Exchange on any member either personally or by sending it by post to his registered address or such other address given by him to the Exchange, for the service of notice.

Where a notice is sent by post it shall be deemed to have been served on the day following that on which the cover containing it was posted and evidence thereof shall for all purposes be sufficient proof that the cover containing the same was properly addressed prepared and posted.

116. CSE WINDING UP

CSE Article 77. - CSE Winding Up Approval - Subject to the provisions of the Companies Act no winding up liquidation proceedings shall be initiated by any member of the Exchange except with the prior approval of the Executive Committee.

CSE Article 78. - CSE Guarantee Liability at Winding Up - If the Exchange shall be wound up, every person who at the date of the winding up is a member of the Exchange and every person who was a member within a period of twelve months before such date shall contribute to the assets of the Exchange for payment of the debts and liabilities of the Exchange contracted before the time at which he ceases to be a member, and of the costs, charges and expenses of winding up the same and for the adjustment of the right of the contributors amongst themselves, such amount as may be required not exceeding the sum of Rupees Fifty Thousand (Rs.50,000/-).

117. CSE INDEMNITY

P3, CSE, Liability i.r Use of Facilities - The Exchange shall not be liable for any damages sustained by a Member growing out of the use of or enjoyment by such Member, its employees, representatives, and customers for the use of the facilities afforded by the Exchange to Members for the conduct of their business.

CSE Article 79. - CSE, Indemnity of Personnel - Save and except so far as the provision of this Article shall be avoided by any provisions of the Act, the Executive Committee, the Secretary, Auditors and other officers including employees for the time being of the Exchange acting in relation to any of the affairs of the Exchange shall be indemnified and secured harmless out of the Assets of the Exchange and from and against all actions, costs charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in the respective offices or trusts, except such (if any) as they shall incur or sustain through their own willful neglect or default respectively, and none of them shall be answerable for the acts receipts, neglects or defaults of any other of them or for joining in any receipt for the sake of conformity or for any bankers or other persons with whom any monies or effects of the Exchange shall be lodged or deposited for safe custody or for the insufficiency or deficiency of any security upon which any monies of the Exchange shall be placed out or invested or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts or in relation thereto, except the same shall happen by or through their own willful neglect or default respectively.

Chapter Two – Registration and Listing of Securities

201. LISTING REQUIREMENTS

SC Rules 90 4. - Listing Requirements - Every company which makes an application to a stock exchange for

listing shall comply with the listing requirements set out in Schedule II hereto.

CSE Rules 1.1-1 - Listing Criteria, Preamble - An application for listing shall comply with the relevant requirements laid down in these rules. In addition, the Exchange may make admission subject to any special conditions which it considers fit.

Note - (Suitability for listing depends on many factors. Applicants for listing and their advisors should appreciate that compliance with the relevant requirements laid down in these rules may not of itself ensure an applicant's suitability for listing. Each application will be considered on its individual merits. Its acceptance or rejection or deferment shall be at the sole discretion of the Executive Committee of the Exchange who may require that the application or any of the documents accompanying it shall be amended and, if accepted, quotation will be granted with effect from such date as the Committee shall determine.)

P101, Listing Approval - The Executive Committee shall approve Listing and Delisting of Securities for trading based on their finding that

1. There are or are not sufficient securities outstanding, security values, and security holders to support an auction market in the trading style of the Exchange
2. The issuer enters into a Listing Agreement as prescribed by the Exchange and continues to comply with such agreement.

CSE Rules 1.3-1 - Listing, Initial Application - Companies seeking admission to the Official List shall submit an application for Initial listing in accordance with Section 2 of these rules..(Application for initial listing is designed to serve the purpose of placing before the Exchange, the information essential to its determination as to the suitability of the securities for public trading on the Exchange.)

Every application (initial or subsequent) shall be forwarded in quadruplicate, through a member of the Exchange whose duty it shall be to satisfy that the requirements laid down in Section 2 have been complied with.

The Exchange will communicate its final decision to the Company the sponsoring broker within fourteen(14) market days in the case of new issues and within seven(7) market days in case of additional issues unless special circumstances prevail which require an extension of time which shall be at the discretion of the Committee.

202. LISTING ORDINARY SHARES

CSE Rules 1.1-2 - Listing Requirements, Ordinary Shares - Companies applying for quotation of Ordinary shares are, as a general rule, expected to meet the following requirements:-

1. Have a paid up capital of at least Rs.5,000,000

1.1 - 2-4 The following percentages of the issued capital should be in the hands of the public depending on the category to which the company belongs

| | | |
|---------------------------------|---|-----|
| Below Rs.10 million | - | 40% |
| Rs.10 million to Rs. 25 million | - | 30% |
| Above Rs. 25 million | - | 25% |

In complying with this requirement, the following are to be excluded:

- a) Holdings by parent, subsidiary or associate companies.
- b) Holdings by Directors, members of their families and/or their nominees.

1.1-3 In the event of an offer for sale or an introduction the Exchange may require a higher percentage up to 40% irrespective of the size of the issued capital of the Company (vide: 1.3-3)

1.1-4 Where any company has signified its intention to apply for a quotation to the Exchange, no Prospectus or other documents shall be issued to the public until it has been approved by the Exchange. Nor shall the Company on its own or through its Agents, Registrars/Secretaries, Holdings, Associate or Subsidiary Companies advertise in the media calling the public to request for applications to subscribe for the share issue until such approval has been received.

203. LISTING OTHER SHARES

CSE Rules 1.1-5 Listing Requirements, Other Shares - In addition to ordinary shares, applications will also be considered in respect of any other class of security in such company (i.e. Preference, Non-voting, Debentures) subject to the provision of the Securities Council Act, provided that ordinary shares of such company are already quoted in the official list.

However, the total value of any other class of shares in issue or to be issued in future shall not exceed 50% of the issued ordinary capital at any time.

In the case of non-voting shares the issue of such shares shall be subject to the following terms and conditions:-

i. When non-voting shares are approved for a quotation a pre-condition is that other classes of shares which enjoy voting rights are already quoted on the Exchange in order to enable holders of non-voting shares to acquire voting shares in the market, if they so desire.

ii. The quantum of non-voting shares in a listed Company at any time shall not exceed 50% of the voting shares of such Company. (This is to prevent a situation where a small public company having shares tightly held among a few shareholders and seeking to raise a large sum of money through the issue of non-voting shares.)

iii. The non-voting shares shall have only limited life. The terms of issue of such shares shall provide for those shares to be convertible or redeemable after the lapse of a determined number of years and such period shall not exceed 5 years. (The reason for this is that if the Company after the issue of non-voting shares, were to incur losses thereafter continuously the non-voting shareholders should recourse to redemption.)

iv. If the Company fails to pay a dividend for 3 consecutive years after the issue of non-voting shares, such shares shall automatically be converted into voting shares.

v. A company contemplating an issue of non-voting rights shares shall have a

satisfactory profit and dividend record for a minimum of 5 years, as determined by the Exchange.

204. LISTING PROPERTY COMPANY SHARES

CSE Rules 1.1-6) - Listing Property Company - The Exchange shall except in exceptional circumstances, not list a Property Company unless a valuation of the free-hold land and lease-hold Property of the Company or of the group (such as the case may be has been conducted by independent professional valuers on a date which shall not be more than nine months from the date of the Company's application to the Exchange for quotation. However, the Exchange may require an independent assessment of such valuation for its own reference when evaluating the application and the applicant shall bear such expenses arising out of such valuations.

205. LISTING CONVERTIBLE SECURITIES

CSE Rules 1.2-2 - Listing Convertible Security - Where any other classes of security exists or is issued which can be converted into the class of security for which a quotation is sought or has been granted (eg. Preference shares, Convertible debentures, fully subordinated debentures or loan stock), then application may be made for such class of security to be quoted at the same time as a quotation is being sought for the principle security or before the new class is issued as the case may be.

Under exceptional circumstances, the Exchange may at its own discretion grant waiver of this policy and may impose such terms and conditions as it seems fit.

206. LISTING ALTERNATIVE FOR ESTABLISHED COMPANIES

CSE Rules 1.3-3 - Listing by Offer of Sale or Placing - In addition to application for initial listing (issue by Prospectus) as detailed out in Section 1 and 2, the Exchange may, under special circumstances, consider the following:

- a. an offer for sale
- b. a placing or introduction

In either event:

- i. The Company shall have a 5 year satisfactory operating record (in the case of investment companies, the Exchange may waive this requirement.)
- ii. The shares shall (a) already be widely held and (b) sufficient shares shall be available for sale and (c) there shall be no large "deal" involved in placing.

In all other respects the conditions applicable to an initial listing shall be applicable and the Exchange may impose such further conditions and requirements as it may deem necessary.

207. LISTING GOVERNMENT SECURITIES

CSE Rules 1.4-6 - Listing Governments - Dealings shall also be permitted in Treasury Bills, Loans, Stock, Bills, Mortgages, and short-term securities of the Government of Sri Lanka or of any local government authority in Sri Lanka or other Securities issued or guaranteed by or on behalf of the Government of Sri Lanka or government sponsored corporations established by or under any statute.

208. LISTING AGREEMENT

CSE Rules 1.2-4 - Listing Agreement (Undertaking) - - Companies applying for listing on the Exchange shall enter into an undertaking with the Exchange under the common seal of the Company with all the listing requirements and policies of the Exchange which shall be in force from time to time and that it shall not, without the prior approval of the Exchange withdraw its quotation. The format of the listing undertaking is in Appendix 1 of this Section.

P103, - Listing Agreement - Listing Agreement; - Any issuer applying for listing of its securities on the Exchange shall enter into an Agreement in the following form, but nothing in the Agreement shall be construed to require the issuer to do any acts in contravention of law or in violation of any regulation of any public authority exercising jurisdiction over the issuer.

Listing Agreement

_____ (hereinafter called the Issuer), in consideration of the listing of the securities covered by this application, hereby agrees with the Colombo Stock Exchange (hereinafter called the Exchange), as follows:

1. Any notification or report required to be made to the Exchange in this agreement will also promptly be publicly announced.
2. The Issuer will promptly notify the Exchange of:
 - a) any change in the general character or nature of business,
 - b) any changes of principal officers or directors,
 - c) any disposal of any property or any stock interest in any of its subsidiary or controlled companies if such disposal will materially affect the financial position of the issuer or the nature or extent of its operations,
 - d) any change in, or removal of, collateral deposited under any mortgage or trust indenture under which securities of the issuer listed on the Exchange have been issued,
 - e) within ten days after the close of a fiscal quarter, in the event any previously issued shares of any stock of the issuer listed on the Exchange have been reacquired or disposed of, directly or indirectly, for the account of the issuer during such fiscal quarter, such report showing separate totals for acquisitions and dispositions and the number of shares of such stock so held by it at the end of each quarter,
 - f) all facts relating to the purchase, direct or indirect, of any of its securities listed on the Exchange at a price in excess of the market price of such security prevailing on the Exchange at the time of such purchase,
 - g) any action by it or by others which becomes known to it which will result in the redemption, cancellation or retirement, in whole or in part, of any of its securities listed on the Exchange,
 - h) action taken to fix a stockholder's record date, or to close the transfer books, for any purpose (and will take such action at such time as will permit giving the Exchange at least ten business day's

- notice in advance of such record date or closing of the books,
- i) any diminution of the supply of stock available for the market occasioned by deposit of stock under voting trust agreements, if any knowledge of such actual or proposed deposits should come to the official attention of officers or directors of the issuer,
 - j) if it changes its independent public accountants regularly auditing the books and accounts of the issuer, with the reasons for such change.
3. The issuer will furnish to the Exchange on demand such other information concerning the issuer as the Exchange may reasonably require.
4. The issuer will file with the Exchange:
- a) four copies of all material mailed by the issuer to its stockholders with respect to any amendment or proposed amendment to its certificate of incorporation,
 - b) a copy of any amendment to its certificate of incorporation, or resolution of directors in the nature of an amendment, certified by competent authority,
 - c) a copy of any amendment to its by-laws, certified by a duly authorized officer of the issuer, as soon as such amendment shall have become effective.
5. The issuer will publish at least once a year and submit to its stockholders at least fifteen days in advance of the annual meeting of such stockholders and not later than three months after the close of the last preceding fiscal year of the issuer:
- a) a balance sheet as of the end of such fiscal year, and a surplus and income statement for such fiscal year for the issuer as a separate entity and of each other entity in which it holds directly or indirectly a majority of the equity; or in lieu thereof, eliminating all intercompany transactions, a consolidated balance sheet of the issuer and its subsidiaries as of the end of the last previous fiscal year, and a consolidated surplus statement and a consolidated income statement. If any such consolidated statement shall exclude entities a majority of whose equity stock is owned directly or indirectly by the issuer:
 - i) the caption of, or a note to, such statement will show the degree of consolidation,
 - ii) the consolidated income account will reflect, either in a footnote or otherwise, the parent company's proportion of the sum of, or difference between, current earnings or losses and the dividends of such unconsolidated subsidiaries for the period of the report; and
 - iii) the consolidated balance sheet will reflect, either in a footnote or otherwise, the extent to which the equity of the parent in such subsidiaries has been increased or diminished since the date of acquisition as a result to profits, losses and distributions. Appropriate reserves, in according with good accounting practice, will be made against profits arising out of transactions with unconsolidated subsidiaries in either parent statements or consolidated statements. Such statements will reflect the existence of any default in interest, cumulative dividend requirements, sinking fund or redemption fund requirements of the issuer and of any controlled entity, whether consolidated or unconsolidated. Such statements shall be in the same form as the corresponding statements contained in the listing application in connection with which this listing agreement is made, and shall disclose any substantial items of unusual or non-recurrent nature. Issuers shall publish either quarterly or mid-year statements of earnings on the basis of the same degree of consolidation as in the annual report. Such statements will disclose any substantial items of unusual or non-recurrent nature and will show either net income before and after income taxes or net income and the amount of income taxes.
 - b) the number of its shares of stock issuable under outstanding options at the beginning of the year; separate totals of changes in the number of shares of its stock under option resulting from issuance, exercise, expiration, or

cancellation of options; the number of shares issuable under outstanding options at the close of the year, the number of unoptioned shares available at the beginning and the close of the year for the granting of options under an option plan, and any changes in the exercise price of outstanding options through cancellation and reissuance, or otherwise, except price changes resulting from the normal operation of anti-dilution provisions of the options.

All financial statements contained in annual reports or proxy statements to shareholders will be audited by independent public accountants qualified under the laws of Sri Lanka and in conformance with Sri Lanka generally accepted auditing practice, and will be accompanied by a certificate made by them with respect to their audit of such statements showing the scope of such audit and the qualifications, if any, with respect thereto.

6. The issuer will not select any of its securities listed on the Exchange for redemption otherwise than by lot or pro rata, and will not set a redemption date earlier than 15 business days after the date the issuer action is taken to authorize the redemption.

7. In case securities to be issued are in temporary form, to order permanent engraved securities within thirty days after the date of listing.

8. The issuer will make application to the Exchange for the listing of additional amounts of securities listed on the Exchange sufficiently prior to the issuance thereof to permit action in due course upon such application. The issuer will not make any change in the form or nature of any securities listed on the Exchange, nor the rights and privileges of the holders thereof, without giving twenty days' prior notice to the Exchange of the proposed change, and having made application for the listing of the securities as changed if the Exchange shall so require.

9. The issuer will use its best efforts with any large holders to make reasonable amounts of stock available for loaning purposes on the Exchange if at any time such need should develop.

10. The issuer will not make, or permit any subsidiary controlled by it to make, any substantial charges against capital surplus without notifying the Exchange and if so requested by the Exchange submitting such charges to stockholders for approval or ratification.

11. The issuer will not make any substantial change, nor permit any controlled subsidiary to make, any substantial change in accounting methods, in policies as to depreciation and depletion or in bases of valuation of inventories or other assets, without notifying the Exchange and disclosing the effect of such change in its next succeeding interim and annual report to its stockholders.

12. The issuer will maintain a) at least two members of its Board of Directors or similar governing body who are not officers or controlling persons, and b) an audit committee of its Board with a majority of its members not officers or controlling persons.

13. The issuer will maintain in the City of Colombo in accordance with Exchange requirements:

(A) an office or agency where:

- a) the principal of and interest on all bonds of the issuer listed on the Exchange shall be payable and where any such bonds which are registerable as to principal or interest may be registered.
- b) all stock of the issuer listed on the Exchange shall be transferable.
- c) Checks for dividends and other payments with respect to listed stock may be presented for immediate payment
- d) Scrip issued to holders of listed securities and representing a fractional interest in a listed security will be accepted for such purpose,
- e) Listed convertible securities will be accepted for conversion, and

(B) a Registrar where listed stock of the issuer shall be registerable. Such Registrar shall be a bank or Trust Company not acting as Transfer Agent for the same security.

14. The issuer will not appoint a transfer agent, registrar or fiscal agent of, nor a trustee under a mortgage or other instrument relating to, any listed security

without prior notice to the Exchange. The issuer will not a) appoint a registrar for its listed securities unless such registrar at the effective date is qualified with the Exchange as a registrar or b) select an officer or director of the issuer as a trustee under a mortgage or other instrument relating to a listed security.

15. The issuer will maintain a sufficient supply of certificates to meet the demands for transfer. If stock certificates do not recite the preferences of all classes of its stock, it will furnish to stockholders on request and without charge a printed copy of such preferences.

16. The issuer will not issue any common ownership shares without voting rights and all such shares shall have an equal vote.

17. The issuer will solicit proxies for all meetings of shareholders.

18. The issuer will publish immediately to the holders of any listed securities any action taken by it with respect to dividends or to the allotment of rights to subscribe or to any rights or benefits pertaining to the ownership of listed securities; and will give prompt notice to the Exchange of any such action; and will afford such holders a proper period within which to record their interests and to exercise their rights; and will issue such rights or benefits in form approved by the Exchange and will make the same transferable, exercisable, payable and deliverable in the City of Santo Domingo.

19. The issuer will issue new certificates for listed securities replacing lost ones forthwith upon notification of loss and receipt of proper indemnity. In the event of the issuance of any duplicate bond as a replacement and subsequent appearance of the original in the hands of an innocent holder, either the original or the duplicate bond will be taken up and cancelled and the issuer will deliver to such holder another bond theretofore issued and outstanding.

20. The issuer will pay when due any applicable listing fees established from time to time by the Exchange

Agreement to be dated and signed for the issuer by an duly authorized party.

209. DELISTING

SC Rules 90 6. (1) - Delisting - Upon listing, a listed company shall enter into an agreement with the stock exchange, which provides that the securities of each company shall remain on the official list solely at the discretion of such stock exchange. The stock exchange shall have the right to suspend or remove such securities from the official list at any time for any reason which the stock exchange considers proper in its absolute discretion. Any aggrieved party may appeal to the Council from any decision of such stock exchange.

(2) (a) Where any listed public company wishes to delist, it shall do so only after obtaining prior written approval of the Council; (A SECURITIES COUNCIL DELISTING QUESTIONNAIRE IS AT EXHIBIT 6)

(b) A public quoted company which wishes to delist shall obtain the approval of 3/4ths majority of its members present for a resolution to delist such company, provided there is a quorum and due notice of the meeting has been given to the shareholders;

(c) In the event the resolution to delist the public quoted company is passed with the required majority, the Directors of the company shall make provision for the purchase of shareholdings of any dissenting shareholders who wish to sell their shareholdings, at a price to be determined by the stock exchange, based on the market value of the shares.

(4) Partly paid shares shall be permissible provided that specific dates for the balance calls are fixed prior to such issue and within a period of six months.

(5) Where a listed public company issues shares with limited or non-voting rights, there shall be a time limit of five years after which such shares shall rank pari passu with the existing issue of the capital of the company. Any extension of such time limit shall be made only with the prior approval of the Council.

210. DISCLOSURE

SC Rules 90 18. - Listed Company Audits, Financial Statements - (1) Every issuer of listed securities shall file with the stock exchange, Annual Reports certified by their Auditors. Such Reports shall be made available to the public.

(2) Listed public companies shall report to their shareholders on a regular and consistent basis, as required by the rules of the stock exchange.

(3) Listed public companies' financial year end provisional results shall be announced within four months of the end of each companies' financial year.

(4) (a) Every listed public company shall prepare and furnish to the Council accounts in accordance with the provisions of the Companies Act No.17 of 1982 in respect of each financial year;

(b) The Auditors shall certify that such accounts are presented in accordance with accounting standards as laid down by the Institute of Chartered Accountants of Sri Lanka,

(5) The report of a listed public company shall disclose any occurrence or events which in the view of the Directors may materially affect the following -

- (a) Nature of the business;
- (b) Objectives;
- (c) Consideration as a going concern;
- (d) Valuation of assets;
- (e) Assessment of liabilities including contingent liabilities;
- (f) Profits and/or losses;

and the extent to which provision had been made in the accounts in respect of such occurrence or event.

(6) The Directors of a holding company shall ensure that, except where in their opinion there are good reasons to the contrary, the financial year of each of its subsidiaries shall coincide with the company's own financial year.

(7) (a) A listed public company shall submit to the shareholders, as well as to the stock exchange of which it is a member, an interim financial statement within ninety days from the end of six months of the financial year, in such format as may be prescribed by the stock exchange. The interim statement shall be signed by any two Directors of the company and certified as to whether such accounts are audited or unaudited.

(b) The stock exchange upon receipt of the interim financial statement, shall, if such statement conforms to prescribed standards forward such statement to the members of such stock exchange.

211. LISTING, CONTINUING REQUIREMENTS

CSE Rules 3 - Listing, Continuing Requirements Preamble - While a Company remains on the official list it shall comply with the following requirements and such requirements as may be introduced from time to time at the discretion of the Committee and provide forthwith any explanations requested by the Exchange.

CSE Rules 3.1 - Listed Company Immediate Announcements - A listed Company shall supply the Exchange with immediate effect:

3.1-1 Any information concerning the Company or any of its subsidiaries of a false market in the Company's securities or which would be likely to materially affect the price of its securities.

3.1-2 Any acquisition or disposal which are in the nature of trade investments and which in the opinion of the Directors is material, the fact of such disposal or acquisitions and the possible or estimated effects of such disposal and acquisitions on the performance and the profitability of the Company shall be communicated to the Exchange and to the shareholders simultaneously.

3.1-3 Any proposed change in the general character or nature of business of the Company or of any subsidiary thereof and particulars of any offer or proposals for the purchase or sale of any controlling interest or any substantial part of the assets of the

Company or of any subsidiary thereof and of the decisions of the Board in that regard.

3.1-4 Any intention to fix a books closing date and the reason thereof, stating the books closure date, which shall be at least 14 market days after the date of notification to the Exchange and the address of share registry at which documents will be accepted for registration.

3.1-5 Any decision to hold a Board Meeting at which the declaration or recommendation of a dividend will be considered.

3.1-6 Any recommendation or decision that a dividend will not be declared.

3.1-7 Any recommendation or declaration of a dividend (including bonuses if any) the rate and amount per share and date of payment which shall be before the expiry of 21 market days from the books closure date. Such information should be communicated to the Exchange by telephone no sooner the meeting is held to consider or recommend such payment and confirmed by letter immediately afterwards.

Once the books closing date is announced, the Company shall not make any subsequent alterations to the dividend entitlement.

3.1-8 In the case of an interim dividend declared before the close of a financial year, such announcement to the Exchange shall be accompanied by a statement showing comparative figures, based on which the declaration was made for such period of the current Financial Year and the corresponding period of the previous year.

3.1-9 When a dividend (Interim or Final) is declared after the close of a Financial year, such announcement to the Exchange shall be accompanied by a statement showing comparative figures of the following:

- a. Turnover figures/Gross operating profit;
- b. Gross profit;
- c. Income from other sources;
- d. Provision for Taxation;
- e. Nett Profit after Taxation.

3.1-10 a. The Company shall make available to the Exchange and to all shareholders in the form set out in Appendix 3 and 4 of this section a half yearly Financial Statement before the expiry of 3 months from the half year period. Such Financial Statement shall be signed by the Chairman or Chief Executive and the Finance Director or in his absence the Chief Accountant.

b. The Company shall make available to the Exchange a Financial statement before the expiry of 3 months from the end of each Financial Year in the form as set out in Appendix 3 and 4 of this Section even if the figures are provisional and subject to audit.

3.1-11 Any Intention to pass a resolution at any members' meeting shall be notified to the Exchange at the same time that it is conveyed to the shareholders and within 3 market days after the date of the meeting whether or not such resolution was carried.

Companies shall send duly stamped proxy forms to shareholders and debenture holders in all cases where proposals other than those of a purely routine nature are to be considered at a meeting of the Company's shareholders and debenture holders in all cases where proposals other than those of a purely routine nature are to be considered at a meeting of the Company's shareholders and debenture holders and such proxy forms shall be so worded that a shareholder or a debenture holder may be eligible to vote either for or against each resolution.

3.1-12 any change of address of the registered office of the Company or of any offices at which the register of the securities of the Company is kept.

3.1-13 Any change in the Directors, Company Secretary, Registrars or Auditors of the Company.

3.1-14 Any change of substantial share holding in the Company and details thereof.

3.1-15 Any application filed with a court to wind up the Company or any of its subsidiaries.

The appointment of receiver or liquidator of the Company or any of its subsidiaries.

3.1-16 Any acquisition of shares of another company or any transaction resulting in such Company becoming a subsidiary of the Company.

CSE Rules 3.2 - Listed Company Document Copies to Exchange - The Company shall forward to the Exchange at the same time as despatched to the shareholders:

a. 24 copies of the statutory and Annual Report and Accounts.

3.3 The Company shall prepare and circulate before the expiry of 6 months from the close of the Financial Year a balance sheet and profit and loss account in accordance with the accounting standards and pronouncements of the Institute of Chartered Accountants of Sri Lanka and certified accordingly by the Company's auditors.

Such published accounts shall contain among other information:

- a. A full list of Investments (quoted and unquoted) held outside the group as trade investments by the Company.
- b. Holdings in Associate and Subsidiaries with the relative percentage.
- c. A distribution schedule of each class of equity security setting out the number of holders and percentage in the following categories:-

| No. of Holders | % | Holdings |
|----------------|---|-----------------------------|
| Total Holdings | | |
| | | less than 500 shares |
| | | 500 to 5,000 shares |
| | | 5,001 to 10,000 shares |
| | | 10,001 to 20,000 shares |
| | | 20,001 to 30,000 shares |
| | | 30,001 to 40,000 shares |
| | | 40,001 to 50,000 shares |
| | | 50,001 to 100,000 shares |
| | | 100,001 to 1,000,000 shares |
| | | over 1,000,000 shares |

212. LISTED COMPANY MISCELLANEOUS PROVISIONS

SC Rules 90 5. - Listed Company Trading Off-Exchange Limited - A company which is listed or wishes to be listed with a stock exchange shall not make a public offer of new or existing securities

unless such company has lodged with such stock exchange an application for such purpose, which shall include details of the public offer of such securities. A public offer of such securities shall be made only upon the grant of approval by such stock exchange.

SC Rules 90 7. - Listed Company Share Provisions, Transferability, Voting, Liens, Calls - (3) Fully paid shares shall be freely transferable and shall be free from all lien except when a company has to comply with any statutory or governmental requirement in which event, the stock exchange with the approval of the Council may require compliance with such requirement. Such restriction shall be clearly indicated in the official listing of the stock exchange.

CSE Rules 1.2-1 - Listed Company, Conflicts of Interest - The existence of material conflicts of interest between companies and their Officers, Directors or substantial shareholders (or members of their families or concerns controlled by them) shall be reviewed by the Exchange on an individual basis in considering the eligibility of companies for initial listing. Companies shall be expected, as far as possible, to eliminate such conflict situations prior to listing but if this is not possible companies may be requested to do so within a reasonable period after listing. Where a conflict cannot be resolved promptly for sound business reasons, the Exchange shall consider all pertinent factors, and shall appoint a committee of inquiry for such purpose.

(The most common types of conflict situations to which this policy applies include personal interest of Officers, Directors or principal shareholders of any business arrangements involving the Company such as leasing of Property, Machinery and other assets to or from the Company, interest in subsidiaries, interest in businesses that are competitors, suppliers or customers of the Company, loans to and from the Company etc.)

In considering the eligibility of companies applying for initial listing under its Conflicts of Interest Policy, the Exchange considers, among other factors:

1. Persons involved in the conflict and their relationship to the Company.

2. Significant operations of the Company.

b. The terms of the arrangement are the same or better than those that can be obtained from unaffiliated concerns.

c. The arrangement has been approved by Directors or shareholders who are independent of such conflicts.

d. The arrangement has been adequately disclosed to shareholders through Prospectus, Statements or an reports.

CSE Rules 1.3-5 - Listed Company, Open Subscription Period - The list for subscribers shall be kept open for a minimum period of five (5) market days from the proposed date of opening. The Exchange shall not under any circumstance waive this "minimum period" requirement.

CSE Rules 1.3-6 - Listed Company, Share Allotment in New Issues - Allotment against applications of shares offered to the public shall be made fairly and unconditionally. In the event of an over-subscription, the basis of allotment shall be determined by the Company in consultation with the Exchange. The Company shall allot the shares as soon as the basis of allotment is determined and shall publish the distribution schedule in at least one leading Sinhala, Tamil and English newspaper.

A copy of the return of the allotment shall be furnished to the Exchange not later than fourteen(14) market days of the final allotment.

In any event, no allotment shall be made for an amount less than a minimum board lot as operative in the Securities Exchange.

CSE Rules 1.3-7-9 - Listed Trading of Newly Issued Shares - In the case of a new listing the shares allotted in terms of a prospectus shall be permitted for trading only after the expiry of four (4) market days from the date of despatch of allotment letters.

1.3-8 Certificates in respect of Public Issues shall normally be despatched to the

shareholders before the expiry of 21 market days from the last date for renunciation. However, the Exchange may at its discretion extend exceptionally this period depending on the requirements of individual companies.

Commencing from the last date for renunciation, trading in such new shares shall be suspended for a period of 21 market days or for such extended period as the case may be. The quotation shall be restored for trading after the expiry of 4 market days from the date of despatch of all the share certificates.

Note: (The Board of Directors should not in any way interpret such suspension as being a stricture on the Company and should appreciate that this is done in order to eliminate the build-up of complications in documentation due to the absence of an instrument for trading)

1.3-9 In the case of subsequent issues offered to the public (not by way of Bonus) the shares of the Company which are already listed will be suspended from trading from the date of the issue of the prospectus or from the date of the allotment of a rights, as the case may be, to the date on which such new shares become eligible for trading in the market, being 4 market days from the date of despatch of allotment letters.

CSE Rules 1.3-10) - Listed Company, Allotment of shares to employees - Companies seeking admission to the official list may be permitted if they so desire, with the approval of the Exchange, to reserve up to 10% of the issued share capital for allotment to their employees and Executive Directors of the group provided that the Companies lodge with the Exchange in advance a statement giving the number of shares to be allotted to each employee and the basis of allotment.

CSE Rules 1.4-1 - List, Official - The Official List shall, unless the Committee otherwise orders, contain a list of quoted securities with such particulars and in such form as the Committee shall from time to time determine including bargains concluded by members of the Exchange.

CSE Rules 1.4-2 - Recording Bargains in Inactive Securities - The

Committee may make such provisions and give such directions as it thinks fit for the recording of bargains in inactive quoted securities, without prejudice however to the validity of the quotation.

CSE Rules 1.4-3 - Quotation List Publication - No list or record of dealings shall be issued or sold by a member of the Exchange without the prior sanction of the Committee.

CSE Rules 1.4-4 - Suspension or Delisting of Quotation - The grant of a quotation may be suspended or cancelled, and the security may be withdrawn from the official list, and the recording of bargains may be suspended, on the authority of the Committee.

CSE Rules 1.4-5 - Notification of Listing, Suspension - The decision of the Committee regarding (a) the acceptance or rejection or deferment of an application for quotation or (b). the suspension or cancellation of a quotation or (c). the suspension of a record shall be notified to all members of the Exchange and to the Company whose securities are affected thereby.

213. LISTING FEES

CSE Rules 1.4-7 - Listing (Quotation) Fees, Initial - All companies applying for a quotation shall pay a fee to the value of Rs. 5,000/- or one fifth percent (1/5%) of the nominal value of the security for which a quotation is granted, whichever is more (but, with a maximum of Rs. 50,000/). Where the quotation is for a further issue of securities in respect of a company already quoted, one half only of the above mentioned fee shall be payable.

No fee shall be payable for stock unit application of securities issued by the Government, Central Bank or other Government Institutions or applications arising out of change of name, denomination, dividend rights or exercise of conversion of option rights.

Fees shall be payable with the application and are non-refundable whether or not a quotation is granted.

CSE Rules 1.4-8 - Listing Fees, Annual - All companies whose securities are quoted on the official list by the Exchange shall pay an Annual Fee to the Exchange on or before the 31st day of March in each calendar year based on the ordinary issued capital as at 31st January immediately preceding or at such rates as the Committee shall determine from time to time.

The rates currently applicable are as follows:

| | |
|--|--------------|
| Up to Rs. 5,000,000 | Rs. 5,000/- |
| Above Rs.5,000,000 and up to Rs.10,000,000 | Rs. 7,500/- |
| Above Rs.10,000,000 and up to Rs. 15,000,000 | Rs. 11,500/- |
| Above Rs.15,000,000 | Rs. 15,000/- |

A full year's fee shall be payable even if the quotation is granted during the year.

214. ADDITIONAL LISTINGS

CSE Rules 4 - Listing Application, Additional Shares - A company pursuing either a rights or a bonus issue shall submit an application through a member of the Exchange. The form and content of the application shall be as follows:- Item 1: Title page as outline in CSE Rule 2.3-A

Item 2: "Particulars of Company" as outlined in CSE Rule 2.3-B

Item 3: Supporting papers

a. A draft copy of the circular to shareholders.

b. Specimen of the :-

i. Provisional letter of allotment.

ii. Letter of acceptance.

iii. Form of Renunciation.

iv. Form for application for the additional shares in case of a rights issue.

v. Share certificate.

c. A certified copy of the Board Resolution authorising the issue.

d. A statement in the form as set out in Section 2.3- C (Page 20) of these rules.

Item 4: A draft Profit & Loss Account statement made up to one month prior to the date of the Board Resolution shall

accompany the application. The Exchange may require the Company to publish excerpts of the Profit & Loss statement in the circular to shareholders.

215. RIGHTS TO SUBSCRIBE

CSE Rules 4.1 - Rights Issues - a. A company intending to make a rights issue shall promptly make an announcement to the Exchange.

b. No dates shall be fixed for closing of books, entitlement, provisional allotment, splitting and renunciation until the application for such an issue is approved by the Exchange.

c. Provisional Allotment in the case of a rights issue which does not require the approval of the shareholders shall be at least 30 market days after receiving approval from the Exchange.

d. Closure of transfer books shall not exceed a period of 7 market days while the first day of such closure shall be at least 14 market days after receiving approval from the Exchange.

CSE Rules 4.2 - Rights Issue Offering Circular - 4.2-1 The date of the circular

4.2-2 The following statements:

a. **"THIS DOCUMENT IS IMPORTANT"** (to be in bold print)

b. **"If you are in any doubt as to the action you should take, you should consult your Stockbrokers, Bank Manager, Solicitor, Accountant, or other professional adviser immediately."** (to be in bold print)

"Copies of this document, together with copies of the Provisional Allotment letter and additional share application form, have been lodged with and registered by the Registrar of Companies who take no responsibility for the contents of the documents."

c. **"Permission has already been obtained from the Colombo Securities Exchange to deal in and for the quotation of the new securities arising from the rights. Such new securities will be admitted to the official list of the Exchange and trading will be permitted**

only after the expiry of four(4) market days after the despatch of the letter of allotment."

d. **"The Colombo Securities Exchange takes no responsibility for the correctness of any statements made or opinions herein."**

"Admission to the official list and quotation of the said new securities is in no way reflective

e. "All the documentation relating to this issue has been seen and approved by the Directors of the Company and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of their knowledge and belief there are no other factors the omission of which would make any statement misleading."

f. **Reasons & Purpose of the Issue**

i. This shall include a statement or an estimate of the net proceeds of the issue and a Statement as to how the proceeds are intended to be applied.

ii. The present market value of a share.

iii. Description of the history and business of the Company.

CSE Rules 4.3 - Rights Issue, Shareholder's Approval - If a rights issue requires the sanction of the shareholders at a General Meeting, such companies shall follow the following procedure laid down by the Exchange.

4.3-1 The Company informs the Exchange immediately after the meeting the intention of the Board to proceed with the rights issue.

4.3-2 The Company submits application to the Exchange within 7 market days from the date of notification.

4.3-3 The Exchange informs the Company of its decision within 7 market days from receiving the application.

4.3-4 The Company closes books for a period not exceeding 3 market days if necessary to send out notices convening the extra-ordinary General Meeting.

4.3-5 The Company re-opens the transfer books and the Exchange quotes the security "XR" after the expiry of 20 market days from the date of notification to the Exchange.

4.3-6 The Company closes the transfer books to consider the rights entitlement 10 market days after its shares were quoted "XR" in the market.

4.3-7 The Company holds EGM not earlier than 20 market days after receiving approval from the Exchange but not later than 40 market days.

216. BONUS ISSUES & STOCK SPLITS

CSE Rules 4.4 - Bonus Issues - A Company intending to make a bonus issue shall promptly make an announcement to the Exchange even if the issue of shares to certain categories of members of the Company is subject to Exchange Control approval.

The following procedure laid down by the Exchange shall be followed by the Companies proceeding with a Bonus Issue.

4.4-1 The Company informs the Exchange immediately after the meeting the intention of the Board to proceed with the issue.

4.4-2 The Company submits application to the Exchange within 7 market days from the date of notification.

4.4-3 The Exchange informs the Company of its decision within 7 market days from receiving the application.

4.4-4 The Company closes books for a period not exceeding 3 market days if necessary to send out notices convening the extra-ordinary General Meeting.

4.4-5 The Company re-opens the transfer books and the Exchange quote the Security "XC" after the expiry of 20 market days from the date of notification to the Exchange.

4.4-6 The Company closes the transfer books to consider the bonus entitlement 10 market days after its shares were quoted "XR" in the market.

4.4-7 The Company holds EGM not earlier than 20 market days after
rec certified by a responsible official of the Company.

b. Where a right renunciation is given:

i. the period for renunciation shall not exceed 21 market days from the date of issue of the Allotment letters/letters of Rights while the period for splitting shall not exceed 10 market days;

ii. the form of renunciation shall be printed on the back of or attached document in question.

Provided that, if the law permits, the foregoing periods may respectively be extended to a maximum of six weeks and minimum of three weeks.

c. The documents shall be serially numbered, printed on good quality paper, and shall be examined and autographically signed by a responsible official of the Company.

d. Letters of allotment and acceptance shall, wherever possible, contain the distinctive numbers of the shares to which they relate.

e. Provisional Allotment Letters, Letters of Rights and Allotment Letters issued upon conversion or in capitalization of reserve shall state the names of all joint holders.

f. Letters shall state how the next payment of dividend on the security will be calculated.

217. DOCUMENTARY LEGAL REQUIREMENTS

CSE Rules 1.2-3 - Listed Company Memorandum & Articles - Reference to Section 5 Companies seeking admission to the Official List of the Exchange shall be required to incorporate into their Memorandum and Articles of Association various provisions which are set out in Section 5 of these rules.

CSE Rules 5 - Listed Company Memorandum & Articles - 5.1 The Company shall not by its Memorandum of Association or other corresponding document reserve power to itself to act as

Stock or Share Brokers or as dealers in securities.

5.2 The Articles of Association or other corresponding document shall contain provision to the following effect:

A. as regards transfer and registration:

1. that the common form of transfer may be used.

2. that fully paid shares shall be free from any restriction on the right of transfer and to the extent to which in its opinion shall also be free from all lien. when and if necessary to do so to enable a Company to comply with any Statutory or Governmental requirement affecting its business, the Committee may permit a modification or variation of this requirement.

3. that, where the Company takes power to refuse to register more than three persons as joint holders of a share, such power shall not apply to the executors or trustees of a deceased holder.

B as regards Definitive Certificates:

that all forms of Certificates for Shares, Stock, Debenture Stock or representing any other form of security (other than Letters of Allotment or Scrip Certificates) shall be issued under the common seal of the Company. This requirement so far as it relates to autographic signatures of Directors may be relaxed in cases where the Directors being so authorized by the Articles have resolved to adopt some method of mechanical signature which is controlled by the Auditors, Transfer Auditors or Bankers of the Company.

C as regards dividends:

1. that any amount paid up in advance of calls on any share may carry interest but shall not entitle the holder of the share to participate in respect thereof in a dividend subsequently declared.

2. that unclaimed dividends cannot be forfeited before the expiration of six years after date of declaration thereof.

D. as regards directors:

1. that apart from temporary borrowing against stocks or produce in hand, the borrowing powers of the Board are limited so that the aggregate amount at any time owing by the Company and its subsidiaries (exclusive of inter company with the consent of the Company in general meeting by ordinary, extra-ordinary or special resolution, exceed a reasonable amount which, if measured by reference to share capital, must be related to the issued and paid up share capital of the Company.

2. that the Directors shall have power at any time and from time to time to appoint any other person as a Director either to fill a casual vacancy or as an addition to the Board, but so that the total number of Directors shall not at any time exceed the maximum number authorized by the Articles of Association; but that any Directors so appointed shall hold office only until the next following Annual General Meeting of the Company, and shall then be eligible for re-election;

3. that where not otherwise required by law, the Company in General Meeting shall have power by Ordinary Resolution to remove any Director (including a Managing Director but without prejudice to any claim for damages under any contract) before the expiration of his period of office.

E as regards accounts:

that a printed copy of the Report of the Directors accompanied by the Balance Sheet (including every document required by law to be annexed thereto) and Profit and Loss Account or Income and Expenditure Account shall at least 21 days previous to the General Meeting be delivered or sent by post to every shareholders who shall have registered an address in Sri Lanka.

F as regards rights:

1. that adequate voting rights are in appropriate circumstances secured to the Preference Shareholders.

2. that the rights attached to any class of shares may not be varied without the reasonable consent of the holders of such shares.

G as regards investment trusts: where it is desired that the securities of the Company be classified under the "Investment Trusts" section of the Official List, that all monies realized on the sale or payment off of any capital asset in excess of book value of the same and all other monies in the nature of accretion to capital shall be treated for all purposes as capital monies and not as profits available for dividends.

H as regards notices:

1. that, where power is taken to give notice by advertisement, such advertisement, shall be inserted in at least one leading National Daily Newspaper.

2. that, where it is provided that notices will be given only to those members whose registered addresses are within Sri Lanka, any member whose registered address is not within Sri Lanka, may name an address within Sri Lanka which for the purpose of notice, shall be considered as his registered address.

I as regards redeemable securities:

that where power is reserved to purchase a redeemable security, purchase if not made through the market, shall be limited to a maximum price.

CSE Rules 6 - Listed Company, Trust Deeds & Debentures - Trust Deeds relating to debentures and unsecured debentures shall contain provisions to the following effect:

A as regards Redemption:

1. that, where provision is made that the security shall be repayable at a premium either at a fixed date or at any time upon notice having being given, the security shall not in the event of the Company going into voluntary liquidation be repayable at less than the premium then current;

2. that, where power is reserved to purchase a redeemable security, purchases, if not made through the market, shall be limited to a maximum price;

3. that, where stock is subject to redemption by drawings, the amount (or unit) into which the issue is to be divided for the purpose of the drawing shall not exceed Rs.1,000/-;

B as regards Trustees:

1. that there shall be at least two trustees, provided that a company or corporation approved by the Committee of the Exchange may be appointed sole trustee;

2. that the appointment of a new trustee under any statutory or other power shall be notified to the Debenture (or Debenture Stock) holders.

C as regards Meetings and Voting Rights:

1. that a meeting of Debenture (or Debenture Stock) holders must be called on a requisition in writing signed by holders of at least one tenth of the nominal amount of the Debentures (or Debenture Stock) for the time being outstanding;

2. that the quorum for passing an Extra Ordinary Resolution shall be the holders of a clear majority in value of the whole of the outstanding Debentures (or Debenture Stock) present in person or by proxy or by attorney. If such a quorum be not obtained, provision may be made for the adjournment of the meeting for not less than fourteen days. In that event notice of the adjourned meeting shall be sent to every Debenture (or Debenture Stock) holder and shall state (if it be the case) that, if a quorum as above be defined shall not be present at the adjourned meeting, the Debenture (or Debenture Stock) holders then present shall form a quorum;

3. that the necessary majority for passing an Extra Ordinary Resolution shall not be less than three fourths of the persons voting there-at on a show of hands and if a poll is demanded then not less than three fourths of the votes given on such a poll;

4. that on a poll, each holder of Debenture or Debenture Stock shall be entitled to at least one vote in respect of every Rs.100/- of Debentures or Debenture Stock held by him, except that where the lowest denomination in which such securities can be transferred is more than Rs.100/- such denominations may be substituted for the Rs.100/- referred to above.

D as regards Transfer: that in the case of a registered security the common form of transfer shall be used.

E as regards Definitive Certificates: that on any payment off of part of the amount due on the security, unless a new document is issued, a note of such payment shall be affixed (not endorsed) on the document.

F as regards security:

1. that in the case of securities which are entitled "Mortgage" the same shall be secured to a substantial extent by a direct specific mortgage on movable or immovable property. In the case of Debentures or Debenture or Loan Stocks that constitute an unsecured liability the same shall be entitled "unsecured"

2. that the aggregate of the borrowing of any subsidiary company shall be limited to a reasonable amount except with the consent of an Extraordinary Resolution of the Debenture (or Debenture Stock) holders.

CSE Rules 1.3-2 - Listed Company, Prospectus Reference - All companies seeking admission to the Official List of the Exchange, whether through a public issue, offer for sale or introduction, shall issue a prospectus or a statement in lieu of prospectus as the case may be which shall in addition to complying with the Prospectus requirements of the Companies Act, comply with the Prospectus/Statement in lieu of Prospectus requirements of the Exchange as set out in Section 7.

CSE Rules 1.3-4 - Listed Company, Prospectus & Application - It shall be the responsibility of the Company to arrange for adequate supply and timely distribution of prospectus and application forms. At the time of application the Company shall disclose to the Exchange the proposed date of Registration of the Prospectus and the opening of the subscription list.

If the approval is granted the Exchange shall intimate to the Company through the sponsoring broker the requirements of the members and the Company shall make arrangements to provide the full quota to the Exchange at least five (5) market days before the proposed date of issue. The Company shall also ensure that neither its bankers nor the under-writers (if any) nor the other agencies distribute the Prospectus and Application Forms to anybody before such specified dates. Failure to discharge this

responsibility may disentitle the Company to an official quotation.

CSE Rules 7 - Listed Company, Prospectus Contents - 7.1-1 This section sets out the basic requirements for the contents of Prospectus.

The requirements of this Section are not exhaustive. Additional information, according to the particular nature of the issuer and of the securities for which listing is sought, shall be included to the extent necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospectus of the issuer and of the rights attaching to such securities, notwithstanding that such information is not specifically required by this Section or any other Section of these Rules.

Furthermore, the Exchange may require disclosure of such additional information as it considers appropriate in any particular case. If the Exchange requires such information, it shall inform the applicant in writing of the additional information required.

7.2 Requirements for Contents:

(The issuer, the persons responsible for Prospectus, the auditors and other advisers)

7.2-1 Name of the Company, registered office.

7.2-2 Date of Incorporation.

7.2-3 Place of Incorporation, and the authority under which the Company was incorporated.

7.2-4 Name, address and occupation of all directors.

7.2-5 Declaration by the Directors of the Company in the following form:-

"This Prospectus has been seen and approved by the Directors of the Company and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading."

7.2-6 A statement by the Company managing the issue that to the best of its knowledge and belief the prospectus constitutes full and true disclosure of all material facts about the issue and issuer; and where appropriate, it has satisfied itself that the profit forecasts have been stated by the directors after due and careful enquiry.

7.2-7 In the case of a statement or report attributed to an expert, a statement that he has not withdrawn his written consent to the issue of the Prospectus with the statement or report included in the form and context in which it is included.

7.2-8 Name and qualification of the Secretary.

7.2-9 Name, address and professional qualifications of the auditors.

7.2-10 Names and addresses of bankers, solicitors, registrars, issuing house and trustee (if any)

7.3 The Securities for which application is being made: A statement shall be made as follows:-

"Approval has been obtained from the Colombo Securities Exchange for permission to deal in and for quotation for all shares of the Company already issued as well as those which are the subject of this issue. Such permission will be granted when the Company has been admitted to the Official List of the said Stock Exchange. The Colombo Securities Exchange (Gte) Limited assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus. Admission to the Official List is not to be taken as an indication of the merits of the Company or of the shares."

7.3-2 the authorized share capital, the amount issued or agreed to be issued, the amount paid-up and the description and nominal value of the shares.

7.3-3 Summary of the rights of the shares for which admission is sought, and in particular the voting rights, entitlement to share in the profits and, in the event of liquidation, in any surplus and any other special rights.

Where there is or is to be more than one class of shares of the Company in issue, like particulars shall be given for each additional class.

7.3-4 Summary of the provisions of the Company's Memorandum and Articles of Association regarding changes of capital or variations of class rights whether or not such provisions are more stringent than required by law.

7.3-5 Arrangements for transfer of the securities and (where permitted) any restrictions on their free transferability (eg: provisions requiring transfers to be approved).

7.3-6 Number of securities to be offered to the public, employees, government institutions, financial institutions etc by category.

7.3-7 Period during which the issue or offer of securities will remain open after the publication of the Prospectus and the names of the receiving bankers or issuing house.

7.3-8 Name, address and description of the persons underwriting or guaranteeing the issue with elaborate details.

7.3-9 Where only a part of the issue is underwritten or guaranteed, a statement of the part not covered and the reason thereof.

The Exchange reserves the right to require an issue to be fully underwritten if deemed necessary.

7.3-11 Indication or estimate of the total expenses of the issue or offer, stating the underwriting commission, guarantee commission, placing commission or brokerage.

7.3-12 Estimated net cash proceeds accruing to the issuer from the issue an intended application of such proceeds to be shown in the following manner:

| | |
|--------------------------------------|--|
| Land (including development) | |
| Buildings | |
| Plant, Machinery and Equipment | |
| Vehicles | |
| Preliminary Expenses | |

| | |
|----------------------------|-------|
| Project promotion expenses | ..... |
| Management Expenses | ..... |
| Total | ----- |
| Project Cost | ..... |
| | |
| Funded by: | ----- |
| | |
| Equity | ----- |
| Loan Capital | ----- |

7.4-2 Indication of the conditions governing and the procedures for conversion, exchange or subscription of such securities.

7.4-3 Indication of the persons, so far as known to the Company, who, directly or indirectly, exercise control over the Company and particulars of the proportion of the voting capital held. A statement showing:-

7.3-13 Statement by the Directors that in their opinion the working capital available to the group is sufficient, or if not, how it is proposed to provide the additional working capital considered by the Directors to be necessary.

(a) any alterations in the share capital of the Company within the two years preceding the publication of the prospectus.

(b) the interests of each director in the share capital of the Company as appearing in the register maintained under the provisions of the Companies Act No.17 of 1982.

(c) the names together with the respective interests of the substantial (10% and above) shareholders of the Company.

7.3-14 Details of any payment or other benefit paid to or given to a promoter if and to the extent that disclosure of same is required by law.

7.3-15 Particulars of any commissions, discounts, brokerages or other special terms granted within two years immediately preceding the publication of the prospectus in connection with the issue of any capital of the Company or sale of any of its subsidiaries.

7.4-4 If the Company is a member of a group, a brief description of the same and the Company's position within it, stating, where the Company is a subsidiary, the names of and the number of shares in the Company held (directly or indirectly) by each holding Company.

7.3-16 (a) Indication of any of the following which have occurred during the last financial year and the current financial year:-

- public take-over offers by third parties in respect of the Company's shares.
- public take-over offers by the Company in respect of other Companies' shares.

7.4-5 Particulars of any capital of the Company or of its subsidiary which is under option, or agreed conditionally or unconditionally to be put under option, with the price and duration of the option and consideration for which the option was or will be granted, and the name of the grantee, or an appropriate negative statement.

(b) statement of the price or Exchange terms attaching to such offers and the outcome thereof.

Provided that where options have been granted or agreed to be granted to all the members or debenture holders or to any class thereof or to employees under a share option scheme, it shall be sufficient, so far as the names are concerned, to record that fact without giving the names of the grantee.

7.3-17 If in conjunction with the issue of shares, shares of the same or another class are subscribed or sold privately, details must be given of the nature of such operations and of the number and characteristics of shares concerned.

7.4-6 The dates of and parties to all material contracts (not being contracts entered into in the ordinary course of business) entered into within two years immediately preceding the publication of the Prospectus, together with a summary of the principle contents of each contracts including particulars of any

7.4 General information about the Issue and its Capital:

7.4-1 Amount of any outstanding convertible debt securities.

consideration passing to or from the Company or any subsidiary.

7.4-7 A reasonable time (being not less than fourteen days) during which and a place in Colombo at which the following documents (or copies thereof) where applicable may be inspected; the Memorandum & Articles of Association, Mortgage, Trust Deed, Deed Poll, all material contracts or in the case of a contract not reduced into writing a Memorandum giving full particulars thereof of all reports, letters, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in the Prospectus, Offer for Sale or Statement, a written statement signed by the auditors or accountants setting out the adjustments made in the report on the profits and giving the reasons therefor, and the audited accounts of the Company for each of the two financial years immediately preceding the publication of the Prospectus, Offer for Sale or Statement together with all notes, certificates, and information required by the Companies Act.

7.4-8 The general nature of the business of the Company or Group and, in cases where the Company or Group carries on two or more activities which are material having regard to profits or losses, assets employed or any other factor, information as the relative importance of each such activity.

7.4-9 In regard to (i) every company whose results are, or are proposed to be, dealt with in the consolidated accounts and (ii) other investments which are material in relation to the Company, particulars of: the name, date, place of incorporation, whether public or private, general nature of business, issued capital and the proportion thereof held or about to be held.

7.4-10 In regard to the Company and every subsidiary or company about to become a subsidiary, particulars of: the situation, area or tenure (including in the case of leaseholds, the rent and unexpired term) of the factories and main building the principal products and approximate number of employees.

7.4-11 A statement showing the sales turnover figures or gross trading income during the preceding five financial years or which should contain a reasonable

breakdown between the more important trading activities.

In the case of new companies a statement showing the projected sales and turnover figures for the first five years.

7.5 Financial Information Concerning the Company or Group:

7.5-1 in relation to the Company and its subsidiaries:

a. Particulars of loan capital (including term loan) outstanding, or created but unissued and of all mortgages or charges, or an appropriate negative statement.

b. Particulars (as at latest date reasonably practicable) of other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptance (other than normal trading bills) or acceptance credits, leasing, lease purchase and hire purchase commitments, or guarantees or other material contingent liabilities, or if there are no such liabilities, a statement to that effect.

7.5-2 A report by an approved Company Auditor:-

a. a summary of earnings (on a consolidated basis, if the company has subsidiaries) for the last 5 financial years or such shorter period as may be appropriate showing sales before charges for depreciation, interest and income tax. The amount of each of those charges, net income before extraordinary items, net income and earnings per share; and if the summary is in respect of a period ending on a date earlier than 3 months before such publication a statement that no accounts have been made up since that date;

b. in the case of an issue by a holding company, in lieu of the report in (a), a like report with respect to the profits or losses of the Company and its subsidiary company, so far as such profits or losses can properly be regarded as attributable to the interests of the holding company;

c. as to the rate of dividend and the amount absorbed thereby for each class of shares during each of the five financial years preceding the issue of the prospectus with

details of any waiver of dividends in such years;

d. with respect to the balance sheet of the company and in the case of an issue by a holding company, a like report with respect to the consolidated balance sheet of the company and its subsidiary companies, in each case at the end of the last accounting period reported upon.

e. with respect (and in summarized form if desired) to the balance sheet of the Company or, if the Company is a holding company, the consolidated balance sheet of the company and of its subsidiary companies at the end of each previous accounting period reported upon and at the beginning of the first such period.

f. with respect to any other matters which appear to the auditor to be relevant having regard to the purpose of the report.

In making such a report the auditors shall have such adjustments (if any) as are in their opinion appropriate for the purpose of the prospectus.

Particulars (as at latest date reasonably practicable) of other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptance (other than normal trading bills) or acceptance credits, leasing, lease purchase and hire purchase commitments, or guarantees or other material contingent liabilities, or if there are no such liabilities, a statement to that effect.

7.6 The Management

a. Name, address, age and position of all directors, chief executives and persons nominated or chosen by the Company to become directors and chief executive.

b. Brief account of the business experience during the past 5 years of each of these persons, including his principal business of any enterprise in which such occupation and employment were carried in.

c. Indicate any other directorship held by each director or proposed director.

d. Whether any director, General Manager, Chief Executive or person nominated to become a Director, General Manager or

Chief Executive is or was involved in the following events:-

- a petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer

- Such person was convicted for fraud, misappropriation or breach of trust or any other similar offence which the Exchange considers a disqualification.

- Such person was the subject of any order, judgement or ruling of any court of competent jurisdiction or temporarily enjoining him from acting as an investment adviser, dealer in securities, directors or employee of a financial institution and engaging in any type of business practice or activity.

e. Details of all options to subscribe for securities of the company or any of its subsidiaries which were granted to or exercised by each director or executive officer during the last financial year.

7.6-1 Details of director's existing or proposed service contracts with the Company or any subsidiary, excluding contracts expiring, or determinable by the employing company without payments or compensation (other than statutory compensation) within one year, or an appropriate negative statement.

7.6-2 The aggregate emoluments of the directors during the last completed financial year together with an estimate of the amount payable to directors, including proposed directors, for the current financial period under the arrangements in force at the date of the prospectus.

7.6-3 Full particulars of the nature and extent of the interest, direct or indirect, if any, of every director in the promotion of or in any assets which have been, within the two years preceding the publication of the prospectus, acquired or disposed of by or leased to, the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries or are proposed to be acquired, disposed of by or leased to the Company or any of its subsidiaries, including:-

i. the consideration passing to or from the Company or any of its subsidiaries; and

ii. short particulars of all transactions relating to any such assets which have taken place within two years immediately preceding the publication of the prospectus; or an appropriate negative statement.

7.6-4 Full particulars of any contract or arrangement subsisting at the date of the prospectus in which a director of the company is materially interested in relation to the business of the Company and its subsidiaries, taken as a whole or in an appropriate negative statement.

7.6-5 Summary of the provisions of the Articles of Association with regard to:

a. any power enabling a director to vote on a proposal, arrangement, or contract in which he is interested.

b. borrowing powers exercisable by the directors and how such borrowing powers can be varied.

Details of any scheme for involving the staff in the capital of the Company or any of its subsidiaries.

7.6-6 Number of employees in the Company or group and labour relationship with the unions (if any).

7.7 Recent Developments & Prospects of the Group:

7.7-1 A statement as to the financial and trading prospects of Company or Group, together with any material information which may be relevant thereto, including all such trading factors or risks if any which are not mentioned elsewhere in the prospectus and which are unlikely to be known or anticipated by the general public, and which could materially affect the profits such as unsettled tax liabilities.

7.7-2 A statement giving an analysis of the financial condition and operations of the Company or group, in particular, with regard to:-

a. any known trends or any known demands, commitments, events or uncertainties that will result in or that is reasonably likely to result in the Company's liquidity increasing or decreasing in any material way;

b. any material commitments for capital expenditures, the general purpose of such commitments and the anticipated source of funds;

c. any unusual or infrequent events or transaction or any significant economic changes that materially affected the amount of reported income from operations and the extent to which income was so affected.

d. any known trends or uncertainties that have had or that the company reasonably expects will have a material favourable or unfavourable impact on revenue or operating income.

e. where there has been substantial increase in revenue, state the extent to which such increase is attributable to increase in prices or increase in volume or amount of goods or services being sold or to the introduction of new products or services.

7.8 Properties

7.8-1 Particulars of Properties

a. The address of each property.

b. In respect of each property.

i. a brief description (eg: land or buildings, approximate areas, etc.)

ii. existing use (eg: shops, offices, factories, residential, etc.)

iii. tenure (i.e. freehold, or leasehold, giving terms)

iv. terms of tenants' leases or under leases (including repairing obligations)

v. approximate age of the buildings;

vi. present capital value in existing state.

7.8-2 Valuation of Properties

(A) Whether the valuation is on the basis of:

i. current value in the open market stating whether:

a. on investment basis;

b. on basis of development;

c. on basis of future capital realisation;

ii. current value as one asset of a going concern;

iii. value after development has been completed;

iv. any other basis (which should be stated)

(B) Where the value is based on value after development has been carried out:-

i. whether planning consent has been obtained and, if so, whether there are any conditions attached to such consent;

ii. the date when the development is expected to be completed

iii. the estimated cost of carrying out the development or (where part of the development has already been carried out) the estimated cost of completing the development.

iv. the estimated capital value when completed and let.

7.8-3 Additional Matters to be included in Prospectus relating to Property Companies.

a. Where Rentals are used as a basis for valuation:

i. Estimated current net rental of each property. This means the income which is estimated by the valuer to be the average net annual income arising from the property in the hands of the landlord over a long period of years, before income tax and any allowances for interest on capital or mortgage, but after deducting disbursements, the landlord's expenses in managing the property and in maintaining it in a condition to continue and command its rent.

ii. Estimated future net rental at named date (where this differs materially from the current net rental) and whether such information is based on current rental values.

7.8-4 Additional Information to be supplied by Promoters:

In respect of all transactions in the acquisition or disposal of any of the properties listed above during the two years preceding the valuation:-

a. the dates of the sales; and

b. the prices paid with particular reference to those transactions in which the directors or promoters, either individually or collectively have been involved.

7.8-5 Summary

Number of properties and current value:-

a. Freehold,

b. Leasehold.

Where the number of properties held is too large for 7.8-3a of this Section to be applied a more elaborate Summary will be required, to accord with the circumstances.

218. LISTED COMPANY CORPORATE DISCLOSURE POLICY

CSE RULES 8.1 - Disclosure Policy Outline - The Exchange considers that the conduct of a fair and orderly market requires every listed company to make available to the public, information necessary to informed investing; and to take reasonable steps to ensure that all who invest in its securities enjoy equal access to such information. In applying this fundamental principle, the Exchange has adopted the following six specific policies concerning disclosure, each of which is discussed in fuller details in Section 8.2

CSE Rules 8.1-1 - Immediate Public Disclosure of Material Information - A listed company is required to make immediate public disclosure of all material information concerning its affairs, except in exceptional circumstances, acceptable to the Exchange.

CSE Rules 8.1-2 - Thorough Public Dissemination - A listed company is required to release material information to the public in a manner designed to obtain its fullest possible public dissemination.

CSE Rules 8.1-3 - Rumours and Reports Clarification, Confirmation - When ever a listed company becomes, or made aware of a rumour or report true or false, that contains information that is likely to have or has had an effect on the trading in the Company's securities or would be likely to have a bearing on investment decisions, the Company is required to publicly clarify the rumour reports as promptly as possible.

CSE Rules 8.1-4 - Unusual Market Action Response - Whenever unusual market action takes place in a listed company's securities, the company is expected to make inquiry to determine whether rumours or other conditions requiring corrective action exists, and, if so, to take, whatever action is appropriate. If, after the company's review, the unusual market action remains unexplained it may be appropriate for the company to announce that there has been no material development in its business and affairs not previously disclosed to its knowledge, nor any other reason to account for the unusual market action.

CSE Rules 8.1-5 - Unwarranted Promotional Disclosure - A listed company should refrain from promotional disclosure activity which exceeds what is necessary to enable the public to make informed investment decisions. Such activity includes inappropriately worded news releases, public announcements not justified by actual developments in a company's affairs, exaggerated reports or predictions, flamboyant wording and other forms of overstated or over-zealous disclosure activity which may mislead investors and cause unwarranted price movements and activity in a company's securities.

CSE 8.1-6 - Insider Trading - Insiders should not trade on the basis of material information which is not known to the investing public. Moreover, insiders should refrain from trading, even after material information has been released to

the press and other media, for a period at least 5 market days to permit thorough public dissemination and evaluation of the information.

CSE Rules 8.2 - Disclosure Policy Explanation - 8.2-1 Policy on Immediate Public Disclosure of Material Information

Q. What standards should be employed to determine whether disclosure should be made?

A. Immediate disclosure should be made of information about a company's affairs or about events or conditions in the market for the company's securities which meets either of the following standards:

a. Where the information is likely to have a significant effect on the price of any of the company's securities, or

b. Where such information (after any necessary interpretation by securities analysts or other experts) is likely to be considered important, by a reasonable investor in determining his choice of action.

Q. What kind of information about a company's affairs should be disclosed?

A. Any material information of a factual nature that has bearing on the value of a company's securities or on investor decisions as to whether or not to invest or trade in such securities. Included is information, known to the company, concerning the company's property, business financial conditions and prospects, mergers and acquisitions; and dealings with employees suppliers, customers and others; as well as information concerning a significant change in ownership of the company's securities owned by insiders or representing control of the company.

The Exchange does not normally consider disclosure of a company's internal estimates or projections of its earnings or of other data relating to its affairs to be necessary. If such estimates or projections are released, they should be prepared carefully, on a reasonable factual basis, and should be stated realistically, with appropriate qualifications. Moreover, if such estimates or projections subsequently appear to have been

mistaken, they should be promptly and publicly corrected.

Q. What kind of events and conditions in the market for a company's securities may require disclosure?

A. The price of a company's securities, as well as a reasonable investor's decision whether to buy or sell those securities, may be affected as much by factors directly concerning the market for the securities as by factors concerning the company's business. Factors directly concerning the market for a company's securities may include such matters as event affecting the present or potential dilution of the rights or interests of a company's securities, or events materially affecting the size of the "public issue" of its securities.

While, as is noted above, a company is expected to make appropriate disclosure about significant change in insider ownership of its securities, the company should not indiscriminately disclose publicly any knowledge it has of the trading activities of outsiders, such as trading by unit trusts or other institutions, for such outsiders normally have a legitimate interest in preserving the confidentiality of their securities transactions.

Q. What are some specific examples of a company's affairs or market conditions typically requiring disclosure?

A. The following events, while not comprising a complete list of all the situations which may require disclosure are particularly likely to require prompt announcements:

a. a joint venture, mergers, acquisitions or take-overs.

b. the declaration or omission of dividends or the determination of earnings.

c. the acquisition or loss of a significant contract.

d. a significant new product or discovery.

e. a change in control or a significant change in management.

f. a call of securities for redemption.

g. the borrowing of a significant amount of funds.

h. the public or private sale of significant amount of additional securities.

i. significant litigation.

j. the purchase or sale of a significant asset.

k. a significant change in capital investment plans.

l. a significant labour dispute or dispute with sub-contractors or suppliers.

m. a tender offer for another company's securities.

n. an event of default on interest and/or principal payments in respect of loans.

Q. When may a company properly withhold information?

A. Occasionally, circumstances arise in which- provided that complete confidentiality is maintained- a company may temporarily refrain from publicly disclosing material information. The following circumstances where disclosures can be withheld are limited and constitute an infrequent exception to the normal requirement of immediate public disclosure. Thus, in cases of doubt, the presumption must always be in favour of disclosure.

l. When immediate disclosure would prejudice the ability of the company to pursue its corporate objectives.

Although public disclosure is generally necessary to protect the interest of investors, circumstances may occasionally arise where disclosure would prejudice a company's ability to achieve a valid corporate objective. Public disclosure of a plan to acquire certain real estate for example, could result in an increase in the company's cost of the desired acquisition or could prevent the company from carrying out the plan at all. In such circumstances, if the unfavourable result to the company outweighs the undesirable consequences of non-disclosure, disclosure may properly be deferred to a more appropriate time.

ii. When the facts are in a state of flux and a more appropriate moment for disclosure is imminent.

Occasionally corporate developments give rise to information which, although material, is subject to rapid change. If the situation is about to stabilise or resolve itself in the near future, it may be proper to withhold public announcements until a firm announcement may be made since successive public announcements concerning the same subject but based on changing facts may confuse or mislead the public rather than enlighten it.

In the course of a successful negotiation for the acquisition of another company, for example, the only information known to each party at the outset may be the willingness of the other to hold discussions. Shortly thereafter it may become apparent to the parties that it is likely an agreement can be reached. Finally, agreement in principle may be reached on specific terms. In such circumstances a company need not issue a public announcement at each stage of the negotiations, describing the current state of constantly changing facts but may await agreement in principle on specific terms. If, on the other hand, progress in the negotiation should stabilise at some other point, disclosure should then be made if the information is material.

Whenever the material information is being temporarily withheld, the strictest confidentiality must be maintained, and the company should be prepared to make an immediate public announcement, if necessary. During this period, the market action of the company's securities should be closely watched, since unusual market activity frequently signifies that a "leak" may have occurred.

Company or securities laws may restrict the extent of permissible disclosures before or during a public offering of securities or a solicitation of proxies.

Q. Information is being temporarily withheld?

A. If rumours concerning such information should develop, immediate public disclosure becomes necessary. (See also "Clarification or Confirmation of Rumours or Reports on page 76)

Q. What action is required if insider trading occurs while material information is being temporarily withheld?

A. Immediate public disclosure of the information in question must be effected if the Company should learn that insider trading, as defined on page has, taken or is taking place. In unusual cases, where the trading is insignificant and does not have any influence on the market, measures sufficient to halt the insider trading and prevent its recurrence are taken, exceptions might be made which should be discussed with the Exchange. The Exchange listing department can provide current information regarding market activity in the Company's securities with which to help assess the significance of such trading.

Q. How can confidentiality best be maintained?

A. Information, that is to be kept confidential should be confined, to the extent possible, to the highest possible echelons of management and should be disclosed to officers, employees, and others on a "need to know" basis only. Distribution of paperwork and other data should be held to a minimum. Where the information must be disclosed more broadly to company personnel or others, their attention should be drawn to its confidential nature and to the restrictions that apply to its use. Including the prohibitions of insider trading.

It may be appropriate to require each person who gains access to the information to report any transaction which he affects in the company's securities to the Company. If counsel, accountants or financial or public relations advisers or other outsiders are consulted, steps should be taken to ensure that they maintain similar precautions within their respective organisations to maintain confidentiality.

In general, it is recommended that a listed company reminds its employees on a regular basis of its policies on confidentiality.

8.3 Policy on Thorough Public Dissemination

Q. What specific disclosure techniques should a company

employ?

A. The steps required are as follows:-

i. Disclosure of material information can often be made after the market closes. Otherwise, when it is necessary to make disclosure of material information before or during trading hours, the Exchange expects a company to notify the Exchange in advance of such disclosure if the material is of a non-routine nature or is expected to have a substantial impact on the market for the securities of the company. The Exchange, with the benefit of all the facts provided by the Company, will be able to consider whether a temporary halt in trading, pending an announcement, would be desirable. Such a temporary halt in trading is not a reflection on the company or its securities, but provides an opportunity for disseminating and evaluating the information released.

Such a step frequently helps avoid rumours and market instability, as well as the unfairness to investors that may arise when material information has reached part but not yet all of the investing community. Thus, in appropriate circumstances, the Exchange can often provide a valuable service to investors and listed companies by arranging for such a halt.

ii. At time of Public Disclosure

As a minimum, any public disclosure of material information should be made by an announcement released simultaneously to the business and financial news media and The Colombo Securities Exchange.

Companies may also wish to broaden their distribution to other news or broadcast media, such as those in the location of the company's plants or offices, and to trade publications. The information in question should always be given to the media in such a way as to promote publication by them as promptly as possible, i.e. by telephone, or in writing by hand delivery in both cases on an "immediate release" basis. Companies are cautioned that some of these media may refuse to publish information given by telephone until it has been confirmed in writing or may require written confirmation after publication.

Twenty four copies or such other numbers as the Exchange may determine of all public

announcements should be sent to the Exchange.

Q. How does the policy on thorough public dissemination apply to meetings with securities analysts, journalists, stockholders and others?

A. The Exchange recommends that companies observe an "open door" policy in dealings with analysts, journalists, stockholder and others. However, under no circumstance should disclosure of material corporate developments be made to an individual or selective basis to analysts, stockholders or other persons unless such information has previously been fully disclosed and disseminated to the public. In the event that material information is inadvertently disclosed on the occasion of any meetings with analysts or others, it must be publicly disseminated as promptly as possible by the means described above.

The Exchange also believes that even any appearance of preference or partiality in the release of explanation of information should be avoided. Thus, at meetings with analysts or other special groups, where the procedure of the group sponsoring the meeting permits, representatives of the news, and other media should be permitted to attend any.

CSE Rules 8.4 - Rumors & Reports, Clarification, Confirmation -

Q. What "rumours and reports" must be clarified or confirmed?

A. A public circulation by any means, whether by an article published in a newspaper, by a broker's market letter, or by word-of-mouth information, either correct or false, which has not been substantiated by the company and which is likely to have, or has had, an effect on the price of the company's securities or would be likely to have a bearing on investment decisions must be clarified or confirmed.

Q. What response should be made to rumours or reports?

In the case of material rumour or report containing erroneous information which has been circulated, the company should prepare an announcement denying the

rumour or report and setting forth facts sufficient to clarify any misleading aspects of the rumour. In the case of a material rumour or report containing information that is correct, an announcement setting forth the facts should be prepared for public release. In both cases, the announcement should then be publicly disseminated in accordance with the guidelines discussed above. In addition, in the case of false rumour or report, a reasonable effort should be made to bring the announcement to the attention of the particular group that initially distributed it. In the case of an erroneous newspaper article, for example by sending a copy of the announcement to the newspaper's financial editor, or in the case of an erroneous market letter by sending a copy to the broker responsible for the letter.

In the case of rumour or report predicting future sales, earnings or other data, no response from the Company is ordinarily required. However, if such a report is manifestly based on erroneous information, or is wrongly attributed to the company source, the company should respond promptly to the supposedly factual elements of the rumour or report in the same manner as to other false rumours and reports of a supposedly factual nature. Moreover, if a rumour or report contains a prediction that is clearly erroneous, the company should issue an announcement to the effect that the company itself has made no such predictions and currently knows of no facts that would justify making such prediction.

CSE Rules 8.5 - Unusual Market Action Response.-

Q. What is the significance of unusual market activity from the standpoint of disclosure?

A. Where unusual market action, in price movement, trading activity, or both occurs without any apparent publicly available information which would account for the action, it may signify trading by persons who are acting either on unannounced information or on a rumour or report, whether true or false, about the company. Most often, of course, unusual market activity may not be traceable either to insider trading or to a rumour or report; nevertheless the market action itself may be misleading to investors, who are likely to assume that a sudden and appreciable change in the price of a

company's stock must reflect a parallel change in its business or prospects. Similarly, unusual trading volume, even when not accompanied by a significant change in price, tends to encourage rumours and give rise to excessively speculative trading activity which may be unrelated to actual developments in the company's affairs.

Q. What response is required of a company when unusual market action in its securities takes place?

A. First, the company should attempt to determine the reason for the market action, by considering, in particular (a) whether any information about its affairs which would account for the action has recently been publicly disclosed, (b) whether there is any information of this type that has not been publicly disclosed (in which case the unusual market action may signify that a "leak" has occurred), and (c) whether the company is the subject of rumour or report.

If the company determines that the market action results from material information that has already been publicly disseminated generally no further announcement is required, although, if the market action indicates that such information may have been misinterpreted, it may be helpful, after discussion with the Exchange, to issue a clarifying announcement.

If the market action results from the "leak" of previously undisclosed information, the information in question must promptly be publicly disseminated. If the market results from a false rumour or report, the Exchange policy on correction of such rumours and reports, (discussed above) should be complied with. Finally, if the company is unable to determine the cause of the market action, the Exchange may suggest that the company make a public announcement to the effect that there have been no undisclosed recent developments affecting the company or its affairs which would account for the unusual market activity.

CSE Rules - 8.6 - Unwarranted Promotional Disclosure -

Q. What is "unwarranted promotional disclosure activity?"

A. Disclosure activity beyond that necessary to inform investors and explicitly essential as an attempt to influence securities prices is considered to be unwarranted and promotional. Although the distinction between legitimate public relation activities and such promotional activity is one that must necessarily be drawn from the facts of a particular case; the following are frequent instances of promotional activity:

- 1. A series of public announcements unrelated in volume or frequency to the materiality of actual developments in a company's business and affairs.**
- 2. Premature announcements of products still in the development stage with unproven commercial prospects.**
- 3. Promotions and expense-paid trips, or the seeking out of meetings or interviews with analysts and financial writers, which could have the effect of unduly influencing the market activity in the company's securities and are not justified in frequency or scope by the need to disseminate information about actual developments in the company's business and affairs.**
- 4. Press release or other public announcement of a one-sided or unbalanced nature (See page 82)**
- 5. Company or product advertisement which in effect promote the company's securities.**

**CSE Rules 8.7 - Insider Trading -
Also See Ethics Chapter**

Q Who are insiders?

A. All persons who come into possession of material inside information, before its public release are considered insiders for the purpose of the Exchange's disclosure policies. Such persons include controlling shareholders, directors officers and employees, and frequently also include outside attorneys, accountants, investment bankers, public relations advisers, advertising agencies, consultants, and others who come into possession of material inside information.

(Matters referred to above are contained in part IV of the Securities Council Act.)

Q. What is insider information?

A. Insider information is that which has not been publicly released and which is intended for use solely for a corporate purpose and not for any personal use and which the company withholds.

Q. What is Insider Trading?

A. Insider Trading refers not only to the purchase or sale of a company's securities, but also to the purchase or sale of options with respect to such securities. Such trading is deemed to be done by an insider whenever he has any beneficial interest, direct or indirect, in such securities or options, regardless of whether they are actually held in his name.

Included in the concept of insider trading is tipping, or revealing inside information to outside individuals to enable such individuals to trade in the company's securities on the basis of undisclosed information.

Q. How soon after the release of material information may insiders begin to trade?

A. This depends both on how thoroughly and how quickly after its release the information is published by the news media services and the press. In addition, following dissemination of the information, insiders should refrain from trading until the public has had an opportunity to evaluate it thoroughly. Where the effect of the information on investment decisions is readily understandable, as in the case on earnings, the required waiting period will be shorter than where the information must be interpreted before its bearing on investment decisions can be evaluated. While the waiting period is dependent on the circumstances, the Exchange recommends that, as a basic policy, when dissemination is made in accordance with Exchange policy (Page 84) insiders should wait for at least twenty-four hours after the general publication of the release in news media.

Q. What steps can companies take to prevent insider trading?

A. Companies can establish, publish, and enforce effective procedures applicable to

purchase and sale of its securities by officers, directors, employees and other insiders designed not only to prevent improper trading but also to avoid any question of the propriety of insider purchases or sales. One such procedure might require corporate insiders to restrict their purchases and sales of the company's securities following the release setting forth the financial conditions and status of the company. Another could involve the purchase of a company's securities on a regular periodic basis by an agent over which neither the company nor the individual has any control.

CSE Rules 8.8 - Public Announcement Content, Preparation - 8.8-1 Exchange Requirements: The content of a press or other public announcement is as important as its timing. Each announcement should:

- a. Be factual, clear and concise.
- b. Contain sufficient quantitative information to allow investors to evaluate its relative importance to the activities of the company.
- c. Be balanced and fair. Thus, the announcement should avoid:
 - i. Omission of important unfavourable facts, or the slighting of facts (eg. by 'burying' them at the end of a press release).
 - ii. Presentation of favourable possibilities as certain, or as more probable than is actually the case.
 - iii. Presentation of projections without sufficient qualification or without sufficient factual basis.
 - iv. Negative statements phrased so as to create a positive implication eg: "The Company cannot now predict whether the development will have a materially favourable effect on its earnings" (creating the implications that the effect will be favourable even if not materially favourable), or "the company expects that the developments will not have materially favourable effect on earnings in the immediate future" (creating the implication that the development will eventually have a materially favourable effect.)

v. Use of promotional jargon calculated to excite rather than to inform.

d. Avoid over-technical language, and should be expressed to the extent possible in language comprehensible to the layman.

e. Explain, if the consequence or effects of the information on the company's future prospects cannot be assessed, why this is so.

f. Clarify and point out any reasonable alternatives where the public announcement undertakes to interpret information disclosed.

CSE Rule 8.8-2 - Announcement Preparation - The following guidelines for the preparation of press release and other public announcements should help companies to ensure that the content of such announcements will meet the requirements discussed above.

a. Every announcement should either be prepared or reviewed

by (i) a company official having familiarity with the matters about which disclosure is to be made, and (ii) a company official familiar with the requirements of the Exchange, as well as any applicable requirements of the securities laws.

b. Since skill and experience are important to the preparation and editing of accurate, fair and balanced public announcements, the Exchange recommends that a limited group of individuals within the Company be given this assignment on a continuing basis (Since a press announcement usually must be prepared and released as quickly as possible; however, the group charged with this assignment should be large enough to handle problems that arise suddenly and unexpectedly).

c. Issue of press release and other public announcements must be made under the authority of the management.

CSE Rules 8.9 - Exchange Surveillance Procedures - The Exchange Listing Department is primarily responsible for day to day relations between listed companies and the Exchange.

When unusual market action occurs, it is reported to the Manager. In many cases, by checking with Market Surveillance, the Manager will try to trace the reason for the action to a specific cause such as recently disclosed information, or rumours. Market Surveillance may also check broker firms as to the source and reason for activity stemming from their particular firms. (This latter information, if it should be noted, must remain confidential to the Exchange). If no explanation of the unusual activity is revealed the Exchange may call officials of the Company to determine whether the cause of the action is known to them. If the action appears to be attributable to a rumour or report, or to material information that has not been publicly disseminated, the Company is requested to take appropriate corrective action, and it may be advisable, to halt trading until such action has been taken.

CSE Rules 8.10 - Consultation with the Exchange Listing Manager - Listed companies are urged to contact the Exchange as early as possible whenever problems are encountered or anticipated in interpreting or applying the Exchange's disclosure policies. By means of such advance consultation, effective liaison between companies and the Exchange can be maintained.

219. LISTINGS - OTHER REQUIREMENTS

CSE Rules 3.3 - Audited Company Financials - The Company shall prepare and circulate before the expiry of 6 months from the close of the Financial Year a balance sheet and a profit and loss account in accordance with the accounting standards and pronouncements of the Institute of Chartered Accountants of Sri Lanka and certified accordingly by the Company's auditors.

Such published accounts shall contain among other information:

- a. A full list of investments (quoted and unquoted) held outside the group as trade investments by the Company.
- b. Holdings in Associate and Subsidiaries with the relative percentage.
- c. A distribution schedule of each class of equity security setting out the number of

holders and percentage in the following categories:

- Less than 500 shares
- 501 to 5,000 shares
- 5,001 to 10,000 shares
- 10,001 to 20,000 shares
- 20,001 to 30,000 shares
- 30,001 to 40,000 shares
- 40,001 to 50,000 shares
- 50,001 to 100,000 shares
- 100,001 to 1,000,000 shares
- over 1,000,000 shares

CSE Rules 3.4 - Certificate Issuance - Companies shall issue definitive certificates before the expiry of 21 market days of:

- a. Lodging of a valid transfer (including for the balance if any)
- b. Closing of the offer.
- c. Date for acceptance.
- d. The expiration of any rights to renunciation, and shall not levy a fee for such issues or executions.

If for any reason, the transfer cannot be registered, notice shall be given to the lodging broker within 5 market days with reasons for such refusal.

CSE Rules 3.5 - Transfer List Disclosure - The companies shall disclose to the Exchange on request an extract of the Stock or Share register showing full details of all entries relating to the registration of stocks or shares entered or deleted under any particular name and the names into which any stocks or share may have been transferred.

CSE Rules 3.6 - Lost or Stolen Certificates - The Companies shall inform the Exchange as and when a report is lodged with the Company on any loss of certificates or when the Company discovers a forgery in a certificate of the Company.

3.7 - Listed Company Directors Responsible for Compliance - All companies whose shares are listed on the Exchange whether or not such listing has taken place prior to these requirements shall, where applicable be bound by these requirements and such additions, variations etc. made from time to time.

It is the duty of the Board of Directors of a Company to ensure that all the requirements

are met on a continuing basis so long as the Company remains on the official list of the Exchange. In the event of any breach of such requirement the Directors of the Company, in their personal capacity will be liable for a fine of not less than Rupees 5,000/- for any one offence and such fine shall be paid to the compensation fund of the Securities Council.

CSE Rules 3.8 - Listed Companies, No Off-Exchange Trades - On and after the 10th September, 1987, all shares of Public Companies listed with the Exchange shall be sold on the trading floor of the Exchange.

Provided however, where the transaction of such shares are intended to take place under exceptional circumstances in private or are to be transferred by way of gift, the broker member, or seller shall apply through the Exchange to the Securities Council for prior approval to effect such transaction. Where the Securities Council grants such approval the transaction may be effected. Such application for approval shall be in the form set out in the schedule hereto. (Appendix 5)

In every instance the brokers may assist the parties involved to finalise the transfers and levy a nominal fee instead of brokerage.

P102, Listed Company Proxies, Member Distribution - Whenever a person soliciting proxies shall furnish a Member with a) copies of all soliciting material which such person is sending to registered holders, and b) satisfactory assurance that he will reimburse the Member for all out-of-pocket costs incurred, including reasonable clerical costs, such Member shall transmit to each beneficial owner of stock in its possession and control the material furnished.

The Member shall transmit with such material either a) a signed proxy indicating the number of shares held for such beneficial owner, a symbol identifying the proxy with the Member's proxy records, and a letter concerning the importance of being represented at the meeting, or b) a request for voting instructions and an explanation of whether the Member may vote the shares without instructions under the conditions following.

After a reasonable time with no response from the beneficial owner, such shares may be voted by the Member if there is no known contest on action to be taken at the meeting or authorization for merger, consolidation of any other matter which may affect substantially the rights or privileges of such stock.

SC Rules 90 18. - Listed Company Disclosure, Audits, Finances - (1) Every issuer of listed securities shall file with the stock exchange, Annual Reports certified by their Auditors. Such Reports shall be made available to the public.

(2) Listed public companies shall report to their shareholders on a regular and consistent basis, as required by the rules of the stock exchange.

(3) Listed public companies' financial year end provisional results shall be announced within four months of the end of each companies' financial year.

(4) (a) Every listed public company shall prepare and furnish to the Council accounts in accordance with the provisions of the Companies Act No.17 of 1982 in respect of each financial year;

(b) The Auditors shall certify that such accounts are presented in accordance with accounting standards as laid down by the Institute of Chartered Accountants of Sri Lanka,

(5) The report of a listed public company shall disclose any occurrence or events which in the view of the Directors may materially affect the following -

(a) Nature of the business;

(b) Objectives;

(c) Consideration as a going concern;

(d) Valuation of assets;

(e) Assessment of liabilities including contingent liabilities;

(f) Profits and/or losses;

and the extent to which provision had been made in the accounts in respect of such occurrence or event.

(6) The Directors of a holding company shall ensure that, except where in their opinion there are good reasons to the contrary, the financial year of each of its subsidiaries shall coincide with the company's own financial year.

(7) (a) A listed public company shall submit to the shareholders, as well as to the stock exchange of which it is a member, an interim financial statement within ninety days from the end of six months of the financial year, in such format as may be prescribed by the stock exchange. The interim statement shall be signed by any two Directors of the company and certified as to whether such accounts are audited or unaudited.

(b) The stock exchange upon receipt of the interim financial statement, shall, if such statement conforms to prescribed standards forward such statement to the members of such stock exchange.

CSE Rules 4.5 - Letters of Allotment, Acceptance, Rights - a. Allotment letters and letters of Rights shall (unless the Committee orders otherwise) be renounceable and shall contain provision for splitting and split letters shall be certified by a responsible official of the Company.

b. Where a right of renunciation is given:
1. the period for renunciation shall not exceed 11 market days from the date of issue of the Allotment letter/ letters of Rights while the period for splitting shall not exceed 10 market days;

11. the form of renunciation shall be printed on the back of or attached to the document in question.

Provided that, if the law permits, the foregoing periods may respectively be extended to a maximum of six weeks and minimum of three weeks.

c. The documents shall be serially numbered, printed on good quality paper, and shall be examined and autographically signed by a responsible official of the Company.

d. Letters of allotment and acceptance shall, wherever possible, contain the distinctive numbers of the shares to which they relate.

e. Provisional Allotment Letters, Letters of Rights, and Allotment Letters issued upon conversion or In capitalisation of reserves shall state the names of all joint holders.

f. Letters shall state how the next payment of dividend on the security will be calculated.

CSE Rules 4.6 - Additional Information - NOTE: The requirements of this section are not exhaustive. Additional information, according to the particular nature of the issuer and of the securities for which listing is sought, shall be included to the extent necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the issuer and of the rights attaching to such securities, notwithstanding that such information is not specifically required by this section or any other section of these rules or procedures.

CSE Rules - Appendix 1 - Listing Agreement - UNDERTAKING BY COMPANY IN SUPPORT OF ITS APPLICATION FOR ADMISSION TO THE OFFICIAL LIST OF THE COLOMBO SECURITIES EXCHANGE

To:

The Colombo Securities Exchange (Gte)Ltd

We.....("the Company")of.....In consideration of the Colombo Securities Exchange (Gte)Limited ("the Exchange") granting the company's application for admission to the Official List of the Exchange("the Official List") and for Official quotation of the securities described in the Company's form of Application, HEREBY ACKNOWLEDGE that the Company shall remain on the Official List, and Official Quotation of any of the Company's securities shall be continued only during the pleasure of the Exchange and HEREBY UNDERTAKE AND AGREE to comply with the Listing Requirements of the Exchange and be bound by the Rules of the Exchange which shall be in force from time to time insofar as the same shall apply to the Company.

We further undertake that securities of the Company shall not be withdrawn from the Official List without prior approval of the Exchange.

Given under the common seal of the Company this day of..... in the presence of

.....
(Name) Director

.....
(Name) Director/Secretary
.....19.....

CSE Rules - Appendix 1 - 2.1-1 Listing Process Steps - shall be:

- i. The Company decided to apply for listing;
- ii. The Company submits application to the Exchange through a member firm; such application is submitted to the Capital Issues Committee for evaluation and decisions;
- iii. The Exchange conveys the decision of the Capital Issues Committee to the Company as well as the sponsoring broker within 14 market days;
- iv. The Exchange informs the Company through the sponsoring broker the Prospectus requirements of member firms;
- v. The Company supplies the Exchange with the total number of Prospectus copies and applications at least 5 market days before the opening of the list;
- vi. The Company issues Prospectus to the public and offer period opens;
- vii. The Company announces basis of allotment;
- viii. The Company publishes the distributor schedule in at least one leading national Sinhala, Tamil and English newspaper;
- ix. The Company issues shares pursuant to the allotment;

- x. The Company is admitted to the official list of the Exchange for trading, 4 market days after the despatch of allotment letters.
- xi. The Exchange suspends trading in the Company's shares immediately after the expiry of the Renunciation Period.
- xii. The Company despatches all share certificates within a period of 21 market days from the final date for renunciation and confirms such despatch to the Exchange.
- xiii. The Company's quotation is restored for trading at the expiry of four (4) market days from the date of receipt of confirmation of the despatch of all the share certificates.

CSE Rules - Appendix 1 2.2-1 - Initial Listing Application - Each initial application for listing shall consist of the following:

- i. the application itself prepared as outlined below;
- ii. the separate supporting papers specified in 2.4 of this section;

2.2-2 Note: No prepared or blank forms are available for the listing application. The applicant

shall prepare its own application in typewritten narrative form, following the instructions outlined in 2.3 below.

CSE Rules - Appendix 1 - 2.3 INITIAL/ADDITIONAL LISTING APPLICATION FORM -

A- Title Page

(Name of Company)
Address:.....
.....

Date:

To:
The Manager
The Colombo Securities Exchange(Gte)Limited
2nd Floor
Mackinnons Building
York Street
COLOMBO 1

Dear Sir

Application for a Listing of Securities

We hereby apply for a quotation for the undermentioned securities issued/to be issued by this Company and agree and undertake in the event of our application being accepted:

- a. to conform to the Rules and Regulations of the Exchange governing quotations:
- b. to observe the continuing listing requirements of the Exchange;
- c. to abide by the published conditions of sale and any amendments of such rules and regulations, continuing listing requirements or conditions of sale.

- 1.....
- 2.
- 3.

The particulars endorsed below are correct.

This application is accompanied by the relevant documents (*)

Yours faithfully

..... Limited

.....
(Name) Director/Secretary

Submitted through:

.....
Member of the Colombo Securities Exchange

* A list of relevant documents is given in 2.4 of this section. These documents are not required for a subsequent issue.

Note: 1. State how the Securities are proposed to be issued (i.e. whether by prospectus offer for sale, circular or placing). If Securities have already been issued state when, how and to whom, and whether it is intended to make an offer for sale or placing or merely to introduce them.

2. If a placing is intended, a request to that effect shall be included, supported by reasons desiring this procedure. All applications of this nature shall in addition be guided by stipulations laid down elsewhere in these rules for such placements (vide 1.3-3)

3. State whether the issue is (a) an original issue by prospectus or offer for sale, by placing or introduction or by circular (Note: an original issue is one of which the security will not be or become identical with an already quoted security)(b) whether the issue is a further issue.

4. The continuing listing requirements referred to in the application are set out in section 3 of these rules.

B- Particulars of the Company

Name of Company:

Date of Incorporation:

Place of Incorporation:

Address of Registered Office:

Authorised Capital:

Unissued Capital:

Issued capital (excluding that for which the present application is made)

| Class of Security | Number Issued | Nominal Value | Amount Paid |
|-------------------|---------------|---------------|-------------|
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. | | | |
| 5. | | | |

C: PARTICULARS OF NUMBER OF SHARES TO BE QUOTED

.....Limited

SECURITIES FOR WHICH QUOTATION IS APPLIED

No. Distinctive No.

1. Number and Distinctive Numbers of shares and/or amount of stock for which application is now made

2. Number and Distinctive Numbers of shares and/or amount of stock

(a) which have been allotted for cash or in conversion

a. A list of the names of the twenty largest shareholders and their respective holdings together with a certificate of distribution of such holdings signed by an Officer of the applicant, showing the distribution of the security for which the application is made in the following format:

| No of Holders Holdings | Total | % |
|-----------------------------|-------|---|
| Holding | | |
| less than 500 shares | | |
| 500 to 5,000 shares | | |
| 5,001 to 10,000 shares | | |
| 10,001 to 20,000 shares | | |
| 20,001 to 30,000 shares | | |
| 30,001 to 40,000 shares | | |
| 40,001 to 50,000 shares | | |
| 50,001 to 100,000 shares | | |
| 100,001 to 1,000,000 shares | | |
| over 1,000,000 shares | | |

b. A list of Directors and their respective direct and indirect shareholdings. eg: Nominee holdings, family holdings, and holdings by Companies in which such Director has substantial holding.

ix. Listing Undertaking

One copy of undertaking in the form set out in Page 14 of the rules which should conform to the continuing Listing requirements of the Exchange set out in Section 3 of these Rules, duly executed under the common seal of the Company.

Note: A statement that shares are in all respects identical shall be understood to mean that:

- (1) They are of the same nominal value, and that the same amount per share has been called up;
- (2) They are entitled to dividends at the same rate, and for the same period, so that at the next ensuing distribution the dividend payable on each share will amount to exactly the same sum net and gross; and
- (3) They carry the same rights as to unrestricted transfer, attendance and voting at meetings, and in all other respect.

A statement that stock is in all respects identical is understood to bear a corresponding meaning.

Note: Here fill in a date or period as per section 394) of the continuing listing requirements.

**CSE Rules - Appendix 2 -
AFFIDAVIT OF COMPLIANCE
(Original Issues)**

We.....
and.....
a Director and the Secretary respectively of
.....Limited(hereinafter called
"the Company") do solemnly and sincerely
declare/make oath and state as follows:-

1. That all documents required by the Companies Act to be filed with the Registrar of Companies in respect of the Company have been duly filed and that compliance has been made with all other legal requirements in connection with the formation of the Company and the issue/offer of any of its Shares, Debenture Stock or other securities.

2. That.....shares of
Rs.....each
Nos.....to.....(Inclusive).....
.....shares of Rs.....each Nos.
.....to.....(Inclusive)
Rs.....Debenture Stock/Debenture
Notes
Nos.....to.....(Inclusive)
have been subscribed/purchased for cash and duly allotted/transferred to the Subscribers/Purchasers (and that the said Shares have been converted into Rs.....Stock)

3. That the issue/offer price was as follows (and all money due to the Company in respect thereof has been received by it):-

(Here give details of shares/debenture stock/debenture notes comprised in the issue, namely number, class, nominal amount, issue/offer price and, in the case of debenture stock/debentures/notes, state whether secured or not.)

4. Thatshares of
Rs.....each Nos.....to
.....Inclusive.....shares of
Rs.....each Stock/Debentures/Notes
Nos.....to.....(inclusive) have been issued credited as fully paid by way of conversion/exchange/consideration for property acquired/other consideration not being cash and have been duly

allotted/transferred to the persons entitled thereto (and that the said Shares have subsequently been converted into Rs.....Stock)

5. That the Share/Stock Certificates/Debenture Stock Certificates Debentures/Notes have been/are ready to be delivered.

6. That completion has taken place of the purchase by the Company of all property shown in any Prospectus, Offer for Sale, Statement or Circular to Members to have been purchased or agreed to be purchased by it and that the purchase consideration for all such property has been duly satisfied.

7* That the mortgage/trust deed/deed poll relating to any debentures/debenture stock/notes issued by the Company has been duly executed, completed and tendered for registration as required by law, and that the Colombo Securities Exchange (Gte)Ltd will be notified upon due registration, having been effected. Also that a copy thereof has (if so required by the Companies Act) been filed with the Registrar of Companies and a further copy has been lodged with the Colombo Securities Exchange(Gte)Ltd

8. That all the Shares/Debentures/Debenture Stock/Notes of each class of which quotation exists are in all respects identical.

9. That there is no other fact bearing on the Company's application for quotation which, in our opinion, should be disclosed to the Colombo Securities Exchange.

Sworn/declared at thisday of19.....before me.

.....
Justice of the Peace

*to be adapted as necessary to meet the facts and circumstances of each particular case.

**CSE Rules - Appendix 2 -
AFFIDAVIT OF COMPLIANCE
(Further Issues) -**

We.....
and.....
a Director and the Secretary respectively of
.....Limited
(hereinafter called "The Company:") do
solemnly and sincerely declare/make
oath and state as follows:

1. That all document required by the Companies Act to be filed with the Registrar of Companies in respect of the Company have been duly filed and that compliance has been made with all other legal requirements in connection with the formation of the Company and the issue/offer of any of its Shares, debenture Stock or other securities.

2. Thatshares of Rs.....each
Nos.....(inclusive).....shares
of Rs.....each Nos(inclusive)
Rs.....Debenture
Stock/Debentures/Notes Nos.....to
.....(inclusive) have been
subscribed/purchased for cash and duly
allotted/transferred to the Subscribers/
Purchasers (and that the said shares have
been converted into Rs.Stock)

3. That the issue/offer price was as follows
(and all money due to the Company in
respect thereof has been received by it):

(Here give details of shares/debenture
stock/debentures/notes comprised in the
issue, namely number, class, nominal
amount, issue/offer price and, in the case of
debenture stock/debentures/notes, states
whether secured or not)

4. Thatshares of Rs.....each
Nos.....to.....(inclusive).....share
s of Rs.Nos.....to(inclusive)
Rs.....Debenture
Stock/Debentures/Notes Nos.....to
.....(inclusive) have been issued
credited as fully paid by way of
conversion/exchange/consideration for
property acquired/other consideration not
being cash and have been duly
allotted/transferred to the persons entitled
thereto (and that the said shares have

subsequently been converted into Rs.....stock).

5. That the Share/Stock Certificates/Debenture Stock certificates/ Debentures/Notes have been/are ready to be delivered.

6. That completion has taken place of the purchase by the Company of all property shown in any Prospectus, Offer for Sale, Statement or Circular to Members to have been purchased or agreed to be purchased by it and that the purchase consideration for all such property has been duly satisfied.

7. That the mortgage/trust deed/deed poll relating to any debentures/debenture stock/notes issued by the Company has been duly executed, completed and tendered for registration as required by law, that the Colombo Securities Exchange(Gte)Limited will be applicant notified upon due registration having been effected. Also that a copy thereof has (if so required by the Companies Act) been filed with the Registrar CSE Rules Appendix 3 - Form of Profit & Loss Statement

of Companies and a further copy has been lodged with the Colombo Securities Exchange(Gte)Limited.

8. That all the further Shares/Debentures/Debenture Stock/Notes of each class for which quotation has been granted are in all respects identical with those that were already quoted.

9. That there is no other fact bearing on the Company's application or quotation which, in our opinion, should be disclosed to The Colombo Securities Exchange(Gte)Ltd.

Sworn/Declared at.....this.....day of19.....Before Me.

.....
Justice of the Peace

*To be adapted as necessary to meet the facts and circumstances of each particular case.

A B C LIMITED
SUMMARISED PROFIT & LOSS ACCOUNT FOR
THE SIX MONTHS/YEAR ENDED

6 months/year Last year

| | | |
|----------------------------------|---------|---------|
| Turnover | ..... | ..... |
| | ----- | ----- |
| Trading Profit | ..... | ..... |
| Other Income | ..... | ..... |
| | | |
| Profit before Taxation | ..... | ..... |
| Provision for Taxation | (.....) | (.....) |
| | | |
| Profit after Taxation | ..... | ..... |
| Extraordinary Items | ..... | ..... |
| | | |
| Profit after extraordinary items | ..... | ..... |
| Unappropriated profits b/f | ..... | ..... |
| | | |
| Appropriation | | |
| Transfer to reserves | (.....) | (.....) |
| Interim Dividend | (.....) | (.....) |
| Proposed Final Dividend | (.....) | (.....) |

Balance of _____

The above figures are provisional & subject to audit

..... Name
Director

..... Name
Secretary

CSE Rules Appendix 4 - Form of Balance Sheet -

ABC LIMITED
Summarised Balance Sheet as at

| | 6 months/yr | Last Year |
|--------------------------------|-------------|-----------|
| Issued Share Capital | | |
| Capital Reserves | | |
| Revenue Reserves | | |
| | | |
| Total Share Capital & Reserves | | |
| Long Term Liabilities | | |

Represented by:

| | | |
|--------------------------------------|-------|-------|
| Fixed Assets | ..... | ..... |
| Investments | ..... | ..... |
| Net Current Assets/ (Liabilities) | ..... | ..... |
| | ----- | ----- |

The above figures are provisional and subject to audit:

..... Name
DIRECTOR

..... Name
SECRETARY

CSE Rules Appendix 5 - Form for Share Transfer -

To: The Securities Council through the Colombo Stock Exchange

For the Transfer of Shares
of a Public Company Listed with the Exchange
Outside the Trading Floor

Please grant approval to effect the undermentioned transfer outside the Trading Floor of the

Exchange.

1. Name & Address of Broker if any:
2. Name & Address of Transferor/Seller:
3. Name & Address of proposed Transferee/Buyer:
4. Relationship if any between Transferor/Seller and proposed Transferee/Buyer:
5. Nature of Transaction:
(eg: Gift, Sale, Exchange etc)
6. Exceptional circumstances relating to the proposed transaction:
7. Consideration, if any:
8. Number of shares:
9. Name of Public Company in which shares are to be transacted:

Date:.....
Signature of Broker/Seller/Transferor

Recommendation of Exchange

.....
Authorised Officer of Exchange

220. EXHIBIT 6 SECURITIES COUNCIL DELISTING QUESTIONNAIRE

SC Delisting Questionnaire Securities Council

Application for Approval to Delist - Questionnaire

A. General

1. For how long have the shares of the company been listed? Please give date of listing.
2. List all reasons for your wish to be delisted.
3. Have any arrangements been proposed to purchase shares of dissenting members and if so, at what price?
4. Give the names of the company's subsidiary companies and associate companies, if any, and the extent of the shareholdings.
5. Other information which you think is relevant to your request to be delisted.

B. Shareholdings

1. State number, class, par value and rights of each type of issued share in your company.
2. Give the following information relating to shareholders.
 - a. Name of the ten largest shareholders of each class of shares
 - b. Number of shares held by each director and members of his immediate family.
N.B. immediate family being defined as spouse, child, parent, brother or sister.
 - c. Number of shares held by the company's employees other than directors but including executives.
 - d. The total number of shares held by non-citizens.
 - e. Shareholdings spread as follows -

No. of Shareholders

- 0 - 100 shares
- 100 - 500 shares
- 500 - 1000 shares
- 1000 - 5000 shares
- 5000 - 10000 shares
- Over 10000 shares

C. Share Valuation

1. At what price and when were your shares last traded?
2. What are the present offers for buying and selling each class of share?

3. What is the value of each share on the following bases?

- a. earnings**
- b. dividends yield**
- c. (i) net asset at book value (ii) net assets at current market value**

N.B. for the purpose of (c) above the current market value may be estimated by the Directors. If the company has any subsidiaries or associate companies, then the shares of these companies should also be valued on the above bases.

d. Has the company any carried forward tax losses? If yes, state the amount.

D. Changes since the last audited published accounts

1. State all material changes to the company's financial position since the date of the last audited published balance sheet.

2. State all material contingent liabilities of the company as at the date of the application.

E. Activities and Objects of the company

Give details of any significant changes in the activities and/or objects of the company contemplated in the future including any new activities.

F. Reconstructions, Mergers and Acquisitions

If the following is contemplated, please give details -

- 1. reconstruction of the company**
- 2. merger with another company or group**
- 3. acquisition of another company**
- 4. splitting up of the existing company.**

G. Buy Outs

Are you aware of any person or group of persons interested in acquiring a controlling interest or majority shareholding in the company?

H. Documents

1. Please attach the last audited statement of accounts and balance sheet of the company and copy of the most recent unaudited balance sheet which shall be made up to a date no earlier than three months prior to the date of application.

2. Draft of the letter you propose to send to the shareholders in the event the proposed delisting is approved.

SC Rule 9/5/89 - Delisting of Companies -

Upon listing a company shall agree that any of its securities listed in the stock exchange shall remain on the list entirely at the discretion of the stock exchange and that the stock exchange shall have the right to suspend or remove the said securities from the official list at any time for any reason which the stock exchange considers proper in its absolute discretion, subject to appeal to the Council by any party which is aggrieved by the decision of the stock exchange.

Unless the Council agrees otherwise, a company shall not, without previous permission in writing from the Council, withdraw its adherence to the agreement

with the stock exchange for a listing of its securities.

In addition, a public quoted company which decides to delist shall obtain the approval of 3/4ths majority of the members present, provided there is a quorum and due notice of the meeting has been given to the shareholders.

In the event the resolution to delist the public quoted company is passed with the required majority, the Directors of the company shall make provision for the purchase of shareholdings of any dissenting shareholders who wish to sell their shareholdings, at a price to be determined by the stock exchange, based on the market value of the shares.

Chapter Three - Trading

301. TRADING RESTRICTED TO EXCHANGE

Act 28. - Trades Restricted, Shareowners - No person holding shares in a public company listed in a licensed stock exchange, shall sell such shares except in compliance with the trading procedure adopted by such licensed stock exchange.

Act 29. - Trades Restricted, Broker Dealers - No licensed stock broker or licensed stock dealer shall trade in listed securities outside the licensed stock exchange of which he is a member.

SC Rules 90 7. - Trading Limited to Exchange - (1) All transactions in respect of listed securities shall take place according to existing trading procedures of such stock exchange which have been approved by the Council or any rules or procedures as may be formulated from time to time by that stock exchange and approved by the Council.

(2) Any person wishing to buy or sell shares listed in the official list of the stock exchange shall do so only through a stockbroker or

stock dealer who is a member of that stock exchange.

CSE Trading Rule 3. - Trading in Listed Securities - Member firms shall not trade in listed securities outside the Trading Floor of the Exchange nor shall they be a party to any such deal concluded outside the Floor unless prior approval has been obtained from the Council in terms of the Securities Council Act.

302. PRIVATE TRANSACTIONS EXCEPTION

SC Guidelines 4. - Dealings in Securities Outside the Trading Floor, Private Transaction Exceptions - No licensed stock broker or stock dealer shall deal in listed securities outside the stock exchange of which he is member except in the following situations and subject to the prior approval of the Council, obtained through the stock exchange:

(i) A gift of listed securities by a member of a family to a close relation.

(ii) A gift of listed securities to a religious body, trust or other charitable organization approved by the Minister of Finance & Planning under the provisions of the Inland Revenue Act.

(iii) Setting off the value of listed securities that are pledged against a loan from an approved credit agency in Sri Lanka, in settlement of such loan at the current established market value of such listed securities by mutual agreement between such agency and borrower, and certified by the stock exchange as being a fair market price for such securities.

A transfer of listed securities by an Executor or an Administrator.

(v) Sale of listed securities by a company to an employee or by an employee to such company where an employee benefit Trust has been established in compliance with all applicable requirements including any requirements established by the stock exchange or the Council.

(vi) A purchase by a citizen of Sri Lanka of listed securities held by foreign citizens resident abroad or in Sri Lanka from foreign exchange earned abroad and lodged in a Non-Resident Foreign Currency Account in Sri Lanka and where the proposed transaction has been approved by the Controller of Exchange, if such approval is necessary, provided that the purchase price is fixed at least at two-thirds of the prevailing market value of the shares.

(vii) Any other transaction or gift of listed securities of an exceptional nature and that the stock exchange and the Council consider to be proper and acceptable.

SC Guidelines 5. - Private Transactions, Approval by the Council - Where it is intended to effect a private transaction or gift of listed securities as described under Guideline 4, a broker member shall on behalf of the shareholder, make a written application with the required information and documents in support, to the stock exchange seeking approval for such transaction. Where the stock exchange is satisfied that the application

may be approved, it shall submit the details of such application, together with its recommendation to the Council for its approval.

CSE Trading Rule 3. - Private Transfer Assistance - In instances where prior approval has been obtained from the Council to effect private transfer of shares, member firms may assist the parties involved to register such transfers and charge a nominal fee not exceeding RS>100/- instead of Brokerage. (Also See Commissions)

303. BROKER/DEALER DUAL CAPACITY PROHIBITED

Act 31. - Dual Capacity Broker/Dealer Prohibited - No body corporate or an individual licensed under the provisions of this Act as a stock broker or stock dealer as the case may be, or any holding, subsidiary or an associate company of such licensee, or any Director of such licensee shall -

(a) where such body corporate or an individual is licensed as a stock broker, be granted a licence as a stock dealer; and

(b) where such body corporate or individual is licensed as a stock dealer, be granted a licence as a stock broker.

SC Rules 9/24/90 21. - Broker not to buy or sell in own name - A licensed stock broker who is a member of a licensed stock exchange shall only act on behalf of their clients in the buying or selling of securities and shall not buy or sell any securities in their own name or that of any firm, company, or any pension or provident fund or such other fund in which they have any interest.

SC Rules 9/24/90 22. - Broker Prohibited Interest in Dealing - A stock broker shall not have an interest in any firm or company, wholly or partly, overtly or covertly engaged in the business of dealing in shares.

SC Rules 9/24/90 23 - Broker trade prohibited in interest ed securities - A licensed stock broker shall not be permitted to buy, sell or otherwise deal in securities in which they have an interest and quoted in red on the boards of the trading floor.

SC Rules 9/24/90 24. - Prohibited Personnel Trades thru Member - No director or other employee of member firms and their spouses and minor children shall buy, sell or otherwise deal in securities directly or through nominees or companies where they have an interest, through the member firm he/she is affiliated with. They may do so through other member firms.

CSE Article 11A - Broker not to buy or sell in its own name - Any Broker who is a member of the Exchange shall only act on behalf of its clients in the buying and selling of securities and shall not buy or sell any securities in its own names or that of any firm or company in which they have an interest; nor shall a Broker have an interest in any firm or company wholly or partly, overtly or covertly, engaged in the business of dealing in shares. The Executive Committee shall promulgate bye-laws defining what a Broker may, or may not, do under this Article and the decision of the Committee of these matters shall be final.

304. SECURITIES DEFINITIONS

P210A, Definitions, Securities
- The term "security" or "securities" shall have the common meaning of stocks, bonds and similar financial instruments.

The term "stock" includes voting trust certificates, certificates of deposit for stocks, rights, warrants, and other securities of a type classified for trading as stocks by the Exchange.

The term "bond" includes debentures, notes, certificates of deposit for bonds, debentures or notes and other securities of a type classified for trading as bonds on the Exchange.

P210B, Orders, Permissible types -
Cash - a transaction for settlement the same day between brokers directly,

Regular Way - a transaction for settlement on the Settlement Date as established by the Board. Any default in settlement by a broker creates a new contract for a fail-to-deliver vs, a fail-to-receive.

Delayed delivery - a transaction fixed by contract of the parties for settlement directly between brokers at a date later than regular way settlement.

Market - an order to timely buy or sell a specific quantity of a security at the best price available in the exchange market pursuant to the procedures of the exchange.

Limit - an order to buy or sell all or part of a specified quantity of a security at a stated limit price or better as soon as possible pursuant to the procedures of the exchange.

All or None - An order to buy or sell a specific amount of a security larger than one trading unit simultaneously and not partially - but the total may be to more than one broker.

Not-held - An order to buy or sell all or part of specific amount of a security using the broker's judgement as to timing, and not holding the broker responsible to acquire or dispose of the maximum quantity for which without timing judgement he might compete in the market.

P212, Short Sales - Members shall not accept or execute orders to sell securities not beneficially owned by the seller (short sales). (Note- When with growth of the market, this rule is changed to permit short selling, it should be replaced by rules requiring every order to be marked as short or long, prohibiting short sales accelerating a declining market, and requiring margin for short sales. Provisions for borrowing to make delivery are in Rule 721)

P210C, Not-held prohibition - A market maker in a security shall not accept a not-held order in the same security in which he is making a market. A dealer shall not execute an order for account of the member or associated or related party while holding a

not-held order for a customer in the same security.

305. TRADING ON FLOOR

CSE Trading Rule Preamble The Trading Floor of the Exchange shall be governed by rules prescribed by the Committee from time to time. Any changes to the prevailing rules shall be notified by circular (bearing serial number identifying by year and suffix) to the accredited representatives of member firms and shall take effect from the date notified in the circular.

CSE Trading Rule 5. - Dress & Decorum.-5.1 No representatives of Member Firms or any employee of any agent of a member Firm shall be present in the Public Gallery of the Exchange on any circumstances during trading hours unless such party has specifically obtained prior permission from the Manager. 5.2 Infraction of Rule 5.1 for any reason shall be reported to the Executive Committee who may impose a penalty on the offending member firm.

5.3 Member firms shall ensure that their representatives are properly and soberly attired when attending trading sessions and would always conduct themselves with dignity and decorum while on the Floor.

5.4 Representatives of Member Firms operating on the floor shall not enter into any arguments with each other and any matter in dispute shall be brought to the notice of the Trading Floor Manager. If however, a representative feels that the ruling given by the Trading Floor Manager is unfair he is at liberty to bring this to the notice of the Manager of the Exchange who will arrive at a decision which shall be regarded as final and binding.

P201, Change of Ownership - An orally agreed trade between authorized trading attorneys of Members on the Exchange constitutes a binding contract pursuant to the rules of the Exchange. Ownership of the traded securities changes at the time of such agreement, with all the rights and privileges of that security as

approved for trading by the Exchange at that time, subject to close out on default by either party.

P202, Member Responsibility to Customers - Members are responsible to their customers for completion of open trades whether settled with contra members or not.

P204, Order Priorities, Auction - Customer orders shall always have priority for execution at the same price over orders of Members, their employees and immediate families.

P205, Order Priorities, Customer - Each customer order shall be recorded by a Member in writing with the time and date received. Priority of execution shall be given by Members to customer orders in the same security at the same price in accordance with a system approved by the Committee. The presently approved alternative systems are:

(1) Executions at the next trading session shall be in the que order of time received. Limited price orders which become executable shall be entered into the que at their entry time.

(2) All customer orders held by a Member at the time trading opens shall be given parity, sharing in proportion to the size of each order in the total executions of such member in that trading session up to the total of such orders at the average price for such orders executed by the Member. Limited price orders held by the Member as such trading opens shall be included in the allocation to the extent that they would have been individually executable during such trading. Customer orders received after trading opens shall be que'd by time and executed after the Member completes executions of orders on the same side of the market held at the opening as in (1).

P206, Discretion by Trading Attorneys - Member attorneys participating in an auction shall be prohibited from exercising discretion for customers except for time and price. Orders as transmitted to the Auction should not disclose the identity of the Customer.

P207, Cash or Delayed Delivery Transactions - All transactions shall be for settlement at the settlement date fixed by the Committee unless made for cash or for a stated delayed delivery date. Cash transactions are for settlement on the same day.

P208, Erroneous Reports - The price at which an order was executed and locked in shall be binding notwithstanding the fact that an erroneous report in respect thereto may have been rendered.

P209, Orders, Records of and Changes in - Every order shall be recorded in writing at the time received, including the name and amount of the security, the terms of the order, the time when received, the time when transmitted, whether agency or principal, and the time at which any cancellation or execution report is received, and the name or designation of the account for which the order is to be executed. No change in the account name or designation shall be made unless authorized in writing by a principal executive officer of the member who shall be personally informed as to the essential facts relative thereto.

306. TRADING SESSIONS

CSE Trading Rule 6.1 - Opening, Closing of Trading - No quotation shall be put on the Board before the bell rings and no business shall be transacted until the call-over is completed.

CSE Trading Rule 6.2 - Orders, Acceptable - All bids and offers on the Trading Floor boards shall represent orders from clients, shall be firm, and shall represent at least one (1) Board Lot.

CSE Trading Rule 6.3 - Round Lots - The minimum Board Lots shall be prescribed by the Committee from time to time. The prevailing limits in terms of market value are as follows:

Up to Rs.5/-, lot with a minimum consideration of Rs.1,000/- No. of Shares 300

Over Rs.5/- up to Rs.10/- No. of Shares 200

Over Rs.10/- up to RS.50/- No. of Shares 100

Over Rs.50/- No. of Shares 50

CSE Trading Rule 6.4 - Odd Lots - All other parcels which are less than the Board Lots shall be displayed on the Special Board provided for the purpose and the prices for these parcels shall not be considered as market indicators.

CSE Trading Rule 6.5 - Board Trading Procedures - The Exchange shall not entertain more than two broker trading numbers at any one time in the columns meant for brokers code numbers on the Boards at the Floor.

6.6 The broker whose trading number appears first in the appropriate column, to buy or sell, shall have preference over the other broker whose number appears in the same column to buy or sell, at the same price. As long as the broker indicates that he is a further buyer or a seller this right shall be maintained. Once he fails to maintain his position in the market the broker whose number is next shall automatically take his place.

6.7 If the broker whose number already on the board or any other broker on the Trading Floor raises the bid price or lowers the offer price, he shall immediately have precedence over anyone else and shall continue to deal at the new price until either he loses his market or is replaced by another broker at a more competitive price.

6.8 All trading on the Floor shall be conducted to and from the Trading Floor Boards only. The price at which business is reported shall correspond either to the offer price or the bid price as appearing on the Board.

6.9 Whenever the price at which business is reported is first indicated on the Board as the offer/bid, price, the broker indicating such a quotation shall not conclude a transaction on his own account without first permitting the other brokers the opportunity of buying/selling such parcel at a higher/lower price.

307.CROSS (PARCEL) TRADING

P203, Crosses (Parcels) - Members holding orders to purchase and sell the same security at the same price (a possible cross or parcel), shall announce their intention to the trading session and shall satisfy offers to buy or sell at better prices before executing the cross.

SC Rules 90 25 - Large parcels with widespread interest - Whenever parcels of shares, with widespread of interest, representing 1% of the issued capital of a company or 10,000 shares, whichever is lower, are introduced to the Trading Floor, the Exchange Manager shall use his discretion to leave the bid open, if necessary for such period not exceeding seven (7) market days.

Any attempt to circumvent this rule by introducing such large parcels into the market in smaller lots, will be immediately investigated by the Manager and if necessary, business that had already taken place, will be set aside and the entire parcel reintroduced to the market as a whole.

CSE Trading Rules 7. - Quotations In Red - (Invalidated by SC Rule 25 above) Quotations of broker firms who have a director in common with the quoted Company for which either a bid or an offer is indicated on the Board, shall indicate such quotation in "Red" in order to disclose their interest in the Company to the other brokers.

7.1 Transactions in respect of such Companies to be concluded by a member firm quoted in "Red" on his own shall be first reported as a "Bid" prior to conclusion. If any other member firm is willing to buy or sell shares at the "Bid Price" the firm quoted in "Red" shall "sell to" or "buy from" the other member firms prior to matching his own "buy" and "sell" orders.

7.2 Where two member firms are quoted as buyers or sellers for securities marked in "Red" and where the order of priority to "buy" or "sell" is in favour of the member firm

quoted in "Red" such firm shall share the parcel on offer if the transaction is to be reported at the quoted buying or selling price.

CSE Trading Rules 8. - Large Parcels with Widespread Interest - Whenever large parcels of shares with widespread interest are introduced to the Floor the Exchange Manager shall use his discretion to leave the bid open, if necessary for such period not exceeding seven (7) market days.

SC Rules 90 17. - Limit Prices - (1) The movement of price of any securities of either ten per centum or more up or down from that of the last transaction in a previous trading day, shall be immediately reported to the Manager of the stock exchange, who shall inquire into such price movement and shall approve such sale only if he is satisfied that trading conditions justify such price movement.

(2) Where the Manager decides not to approve the proposed transaction, he shall refer such decision to the Director General whose decision shall have effect pending an appeal to the Council, if any.

(3) Either party to the transaction who is dissatisfied with the decision made by the Director General may appeal to the Council against such decision stating the grounds for such appeal, within seven days of such decision. The Council shall inquire into such appeal and after affording the applicant the opportunity of being heard, shall communicate its decision to the stock exchange. The decision of the Council shall be final.

SC Guidelines 4/20/90 - Complement to Council Rule 17 - Share price less than Rs.10/- - movement allowed up to Rs.1/-

Share price at Rs..0/- and above - movement allowed up to 10%.

In the circumstances, described below, the Council is of the view that reasons for movement of share prices of either twenty per centum or more up or down from that of the last transaction in a previous trading day

should be investigated and the Manager of the Exchange should allow the transaction only if he is satisfied that trading conditions and the reasons adduced, satisfy such price movement:

1. Company news of significance;
2. Benefit announcement;
3. Considerable time has passed since the last transaction and current transactions warrant such an increase;
4. Infrequently traded securities.

CSE Trading Rules 9. - "All or None" Transactions - Transactions on an "all or none" basis would be permitted only if the parcel introduced constitutes either ten percent (10%) or more of the issued capital of the Company.

9.1 The member firm introducing the "all or none" parcel shall disclose to the Manager of the Exchange the name/names of the buyer/s and seller/s before introducing the parcel.

9.2 Parcels on offer on an "all or none" basis shall be kept open for a period not exceeding seven (7) market days.

9.3 Counter bids in respect of "all or none" parcels shall be on the entire parcel on offer. However the seller should ensure that the required number of transfers would be made available so that even a minimum Board Lot could be purchased by any buyer as long as the entire parcel could be sold.

9.4 Buyer/Buyers involved in an "all or none" transaction shall be obliged to buy further quantities up to ten percent (10%) of the parcel on offer at the price at which the "all or none" transaction is concluded. If the subsequent parcels offered exceed 10% of the "all or none" parcel concluded, quantities to be accepted from each party shall be determined in proportion to the shares offered by such party at the date of conclusion along with proof of ownership of such shares.

308. CONFIRMATION OF TRADES

CSE Trading Rule 6.10 - Temporary Chits - Representatives of member firms reporting transactions on the Floor shall immediately confirm such transaction by issuing a temporary chit which shall be in triplicate with the first copy handed over to the Exchange and the second copy in the case of inter-broker transactions either to the buying or the selling broker's representative.

6.11 A separate temporary chit shall be issued for each contract and such "chits" shall contain the contract number, stock, price, corresponding broker's name and settlement date and shall be initialed by the person issuing.

CSE Trading Rule 5.12A - Reconfirmation Daily - All transactions reported on the Floor on any trading day shall be confirmed in writing to replace the chit to the Exchange in the prescribed "Daily Return" form before the commencement of the next Trading Day.

CSE Trading Rule 6.12B - Crosses. Client Name Reporting - In the case of intra-broker transactions the names of the buying and the selling client shall also be reported to the Exchange Manager, in writing, before the commencement of the next Trading Day, which information shall be treated as confidential and not be divulged except to the Director General of the Securities Council.

309. COMMISSIONS AND FEES

SC Guidelines 7. - Commissions - (a) The amount of commission to be charged by a licensed stock broker on buying or selling on the stock exchange, on behalf of clients shall be 1 1/2%, as currently fixed, or such rate as may be fixed by the stock exchange from time to time and approved by the Council.

(b) No licensed stock broker or stock dealer may offer a private discount on stock exchange transactions at any time.

CSE Trading Rules 4. - Commissions, Brokerage - The

present rate of brokerage applicable for quoted Company shares is 1.5% from both the seller and the buyer engaged in the transaction and is not negotiable.

4.1 For transactions of a value of less than Rs.1,000/- member firms shall charge Rs.15/- as brokerage from both buyer and the seller subject to the following exceptions.

4.2 In the case of Government Securities member firms shall charge both the seller and the buyer as follows: -

| | |
|--------------------------------|-----------|
| Up to Rs.10,000/- of par value | - Rs.15/- |
| Over Rs.10,000/- of par value | - 0.2% |

P117, Commissions - The commission to be charged on brokerage transactions in securities traded on the Exchange shall be not less than the rates established by the Exchange from time to time without any rebate, return, allowance or discount in any shape or manner whatsoever or by any method or arrangement direct or indirect or by any bonus, percentage or portion of a commission, and no remuneration shall be given, paid or allowed by or on behalf of a Member directly or indirectly to any person

for business sought or secured for any Member, except as follows:

- a) to Agents on transactions for their customer accounts but not for own account - up to 50% of the non-member commission.
- b) to employee representatives of the Member for their customer accounts, but not for own account, up to 40% of the non-member commission.
- c) to other Members by whom customer advice, order soliciting or servicing, execution, settlement or carrying of a customer account is performed, such division of commission as is mutually agreed.

Confirmations of qualified transactions to non-members shall be rendered with the full amount of non-member commission and any permissible discount allowed shown separately.

SC Guidelines 6. - Fees for Private Transactions - The standard brokerage fee shall not be payable for a private transaction of listed securities. But, a nominal charge may be levied as a fee with the prior agreement of the transferor.

Chapter Four - Settlement of Contracts

401. ACCOUNT RESPONSIBILITY

P301, Account Introduction - A member who does not wish to have custody of customer funds and securities, to clear and settle exchange contracts, or otherwise carry customer accounts may contract with another member to carry its customer and proprietary accounts on a disclosed and confidential basis and to settle all transactions entered into on the exchange. Such a member may execute transactions on the exchange or engage the carrying member to do so. Transactions self-executed shall be given up to the carrying member for settlement. The introducing member shall be responsible for investment advice, accuracy of receipt and transmission of orders, other services to its customers and compliance with securities regulations in its servicing of customer accounts.

The carrying member shall receive, deliver and maintain custody of all customer and proprietary securities and cash, shall confirm transactions to each party promptly, shall render statements of account as required by these rules, shall effect transfers, claim dividends and other distributions, and otherwise have responsibility for proper conduct of each account. Where a single customer has transactions introduced by different brokers, separate accounts shall be maintained.

If an introducing member as a convenience to a customer accepts securities or moneys from, or transmits securities or moneys to a customer, such property shall be transmitted to the receiving carrying member or customer on the same day.

The carrying member shall confirm transactions and render statements

indicating that the account is introduced and serviced by the introducing member and carried by the carrying member. The respective functions shall be explained to each customer at the opening of the account in a form of letter approved by the Committee which shall explain the respective functions and responsibilities for at least the following: a) opening, approving, and monitoring of accounts, b) extension of credit, c) maintenance of books and records, d) receipt and delivery of funds and securities, e) safeguarding of funds and securities, e) confirmations and statements, f) acceptance of orders and execution of transactions, g) investment information and advice.

Introducing members shall be financially responsible to the carrying member for the completion of any contract entered by the introducing member on the Exchange, and for timely payment of monies or delivery of securities by introduced customers, and for any lack of fidelity or other loss caused by its personnel or agents. The carrying member shall be financially responsible to customers for the functions specified for carrying members above and for any lack of fidelity by personnel of the introducing member or its agents in delivering securities or moneys entrusted for delivery to or from the carrying firm.

Each introducing member shall maintain on deposit with the carrying member such sum as mutually agreed as a guarantee against its obligations.

P302, of Account Self-Carrying - With the approval of the Committee upon showing of appropriate financial and operational capability, a Member may carry its own and introduced customer accounts, and settle exchange transactions.

Act 23. - Contracts on Ceasing Membership - Where a licensed stock broker or a licensed stock dealer dies, resigns, or is expelled from the membership of a licensed stock exchange, or becomes incapable of carrying on the business as such stock broker or stock dealer by reason of illness or due to any other cause or the licence granted to such stock broker or stock dealer is canceled, the Council shall direct the licensed stock exchange of which such

stock broker or stock dealer was a member to arrange for another licensed stock broker or a licensed stock dealer, as the case may be, to take over the outstanding contracts of such a stock broker or stock dealer.

402. CUSTOMER RESPONSIBILITY

CSE Conditions of Sale 1. - Payment by Buyer - The buyer shall pay his broker on or before settlement day the price including charges of all shares purchased by him during the period of dealing for that settlement. If the buyer defaults he shall be liable to his broker for all loss or damage sustained or incurred. If for any reason payment has not been made or specially arranged for before the close of business on settlement day interest will accrue from the day after the settlement date on the outstanding amount at a rate to be determined by the Executive Committee of the Exchange from time to time and notified on the floor of the Exchange. In addition the buying broker shall have the absolute discretion to re-sell, within one calendar month from settlement day, the shares at the buyer's risk and the buyer shall be liable to the buying broker for any loss or damage sustained or incurred.

CSE Conditions of Sale 2. - Delivery by Seller - The seller shall deliver valid documents to his broker when placing the order for a sale. If for exceptional reasons delivery has not been made in time for the selling broker to deliver documents to the Clearing House of the Exchange by the settlement day, the seller shall be liable to the selling broker for an overdue interest at 0.5% of the value of the transaction per day which shall be deducted by the selling broker when payment is made to the seller.

If for any exceptional reason the required documents are not delivered by the seller to the selling broker within five market days from the close of the settlement, the selling broker shall report such non-delivery to his buyer or the buying broker, as the case may be who, with the authority of the buyer, shall have the following options.

- i. Extend the time of delivery subject to the overdue interest.
- ii. Require the same shares to be purchased by the selling broker at the risk of the seller.
- iii. Cancel the contract for non-delivery and levy the overdue interest of 0.5% per market day and the difference in the market price between the date of cancellation applicable in respect of such transaction.

These options must be exercised within five market days from the date of notification of non-delivery and are at the sole discretion of the buyer. Any loss or damage caused as a result of the extensions of time or late delivery or re-purchase of the share shall be the liability of the seller to the selling broker.

Payment shall be made to the seller by the selling broker only in exchange for or and after delivery of valid documents.

Valid documents are:

- i. Transfer duly signed by the seller together with the relative share certificate.
- ii. A transfer duly signed by the seller certified by the registrar of the Company that the relative scrip is held by them.
- iii. A transfer duly signed by the seller with a separate receipt from the registrar of the Company that they hold the relative share certificate.
- iv. A transfer form duly signed by the seller accompanied by a deliver order issued by any member of the Colombo Securities Exchange (Gte) Ltd.

P307, Delivery Against Payment - Delivery of securities sold or payment for securities purchased may be delayed until the exchange of money and securities in good delivery form can be made in the instance of accounts prohibited by law or national practice from paying or delivering without receipt of value; but interest shall be charged for related financing.

403. SETTLEMENT PROCESS

P303, Settlement Date - Transactions made regular way shall be recorded in customer accounts and delivered or recorded as delivered between the Members executing the transaction on a settlement date fixed by the Committee. Settlement date on transactions for cash shall be same day, and for delayed delivery as agreed at the transaction. All contracts in securities falling due while the transfer books of such securities are closed shall be settled on the opening of the books.

Any Member failing to meet its obligations at a settlement in an amount not larger than its deposit in the settlement fund shall be suspended from making any transactions other than liquidating transactions at subsequent trading sessions until such obligation is satisfied; for failing to meet its obligations in an amount larger than its deposit in the settlement fund, a Member shall be deemed insolvent.

CSE Trading Rules 10. - Clearing House Procedures - 10.1 Documents in respect of all inter-broker transactions concluded on the floor shall be delivered to the buying broker through the clearing house of the Exchange not later than settlement day.

10.2 In the case of documents accompanied by a delivery order and when such delivery order originates from the selling broker, a copy of the covering letter sent to the Secretaries/Registrars when lodging the share certificate shall be attached to the set of documents. Such covering letters shall be duly endorsed by a responsible officer of the Company.

10.2(a) In the case of intra-broker transactions the member firms shall lodge with the Exchange a copy of the covering letter sent to the Secretaries/Registrars when lodging the documents for registration.

CSE Trading Rules Appendix I - Form of Document Delivery in Clearing

Name of Broker Firm:

Address:

Settlement:

To:

Dear Sirs

We enclose the following documents. Kindly acknowledge receipt.

Date Our Control No. Your Control No.
Amount Due Stock Documents

Signature.....

CSE Rules 10.3 - Clearing Payments

10.3-1 All documents delivered to the Clearing House for the current settlement on or before the Monday preceding settlement day shall be considered as being in order to receive payment on settlement day.

10.3-2 Payments in respect of Documents delivered to the Clearing House after Monday preceding settlement day but before settlement day shall be made by the Buying Broker before the expiry of the third working day from the date of advice.

10.3-3 Payments in respect of documents delivered to the Clearing House after the settlement day shall be made by the Buying Broker before the expiry of the third working day from the date of advice.

10.3-4 All payments made to the Clearing House shall be accompanied by a covering letter in triplicate in the form as set out in Appendix 2 of this booklet.

CSE Trading Rules Appendix 2 - Form for Payments in Clearing

Name of Broker Firm:

Address:

Settlement:

To:

Dear Sirs

We enclose the following payments. Kindly acknowledge receipt.

Date Stock Our Control No. Your Control No. Value

Signature.....

CSE Rules 10.4 - Clearing, Late Delivery of Documents - Documents delivered to the Clearing House later than the settlement date shall be subject to a fine of 0.5% of the Market Value of the documents per day. The date of delivery of documents and the due date of payment shall not be considered when computing the fine.

10.4-1 In the case of delivery of documents in respect of split re-sales within the same settlement the Selling Broker shall be allowed a grace period of seven (7) market days from the date of settlement to deliver such documents.

However the Trading Floor representatives shall convey details of such re-sales to the Exchange at the time of concluding the transaction on the Floor by indicating in the temporary chit the code number of the broker firm from whom he has purchased the shares together with the contract number and the date of such purchase.

10.4-2 Fine payable to the Buying Broker due to the late delivery of documents shall be deducted by the Buying Broker when making payment to the Selling Broker.

CSE Rules 10.5 - Clearing, Delayed Payments - Payments received later than the due date shall be subject to a fine of 0.5% of the Market Value of the documents per day. The due date of payment and the date of delayed payment shall not be considered when computing the fine.

CSE Rules 10.6 - Clearing, Returned Documents - Whenever documents submitted for registration are returned by the Secretaries/Registrars due to the non-availability of the share certificate or for any other cause which results due to the negligence of the Selling Broker, the Buying Broker shall have the option of either canceling the contract or buying against the Selling Broker in consultation with the

Manager of the Exchange. Either option must be exercised within seven (7) market days from the delivery of returned documents to the Clearing House after allowing the Selling Broker three (3) market days to rectify the transfer documents.

CSE Trading Rules 11 - Dividends, Shares Sold with - 11.1 Documents in respect of shares sold cum dividend shall be delivered to the Clearing House at least ten (10) market days before the closure of Transfer Books.

11.2 If the Selling Broker fails to deliver documents to the Clearing House within the required time period as specified in (10.1) above he shall deduct such pending dividend when making payment to the client.

11.3 In instances where time available to the Buying Broker is insufficient to register the transfers in the name of his client, the Buying Broker may deduct such pending dividend when making payment to the Selling Broker and shall ensure that the shares are not registered in the name of the client until after the date of entitlement.

CSE Trading Rules 12. - Bonus, Shares Sold with - 12.1 Documents in respect of shares sold cum bonus shall be delivered to the Clearing House at least ten (10) market days before the closure of transfer books.

12.2 In instances where the time available to the Buying Broker is insufficient to register the shares in the name of his client the Selling Broker shall make arrangements to hand over the letter of allotment to the Buying Broker at least ten (10) market days before the last date for renunciation.

12.3 Whenever the Selling Broker fails to comply with the requirements of Rule 12.2 the Buying Broker shall report such non-compliance to the Exchange and shall buy such bonus entitlement in the market in consultation with the Manager of the Exchange and shall forward the debit note to the Selling Broker for settlement.

P312, Partial Deliveries - In instances where for good cause a Member may be unable to deliver the full amount of shares executed in a transaction on settlement date, partial delivery in round lots shall be accepted. (Also see 309)

404. TRANSFER PROCESS

SC Rules 90 14. - Transfer Procedures by Broker - The procedure of transferring and registering a change in ownership of listed securities shall be as follows -

(a) The seller shall surrender his share certificate to his selling broker.

(b) The selling broker shall forward the share certificate along with a transfer form signed by the seller to the stock exchange clearing house on or before the established settlement date.

(c) The clearing house shall give the share certificate and the signed transfer form to the buying broker at settlement in return for payment for the purchase.

(d) The buying broker shall retain the share certificate and send a confirmation of the purchase along with the transfer form signed by the seller to the buyer for his signature and return it to the buying broker.

(e) Upon receipt of the transfer form signed by the buyer, the buying broker shall send the share certificate and the completed transfer form to the company whose shares are to be transferred, and a copy of the share certificate to the buyer.

SC Rules 90 15. - Transfer Procedures by Listed Companies - (1) Where a listed public company receives notice of transfer of shares, it shall effect the transfer in its books and shall issue a new share certificate in favour of the new buyer without delay, and in any event, not later than fourteen market days from the receipt of a valid transfer.

(2) If for any reason a company is unable to register the transfer of shares in the name of the new buyer within a period of fourteen market days, it shall inform the lodging

broker within five market days stating the reasons therefor.

(3) A listed company shall not charge a transfer fee.

P310, Signature Guarantee - Signatures authorizing transfer of securities shall be guaranteed by the introducing Member or the carrying Member.

405. SIGNATURE FILE

P306, Signature file - The Exchange shall maintain an authorized signature file of persons authorized to sign for Members and others frequently delivering securities. Parties registering with the signature file shall submit legal documents authorizing the signature(s) to be used and thereafter shall promptly notify the Exchange of any changes in such authorizations with proper documentation for any replacement signature(s). The Exchange shall make available reproductions of the authorized signatures for Members carrying accounts and others having a legitimate interest for a reasonable fee.

406. DIVIDENDS, RIGHTS, ALLOTMENTS

CSE Trading Rules 13. - Allotment Letters, Trades for Cash - All transactions on letters of allotment shall be on a cash basis.

CSE Conditions of Sale 3. - Dividends - Unless the broker's note provides otherwise, where dividends are paid on or subsequent to the date of the broker's note they shall belong to the buyer. If the buyer does not complete and forward the share transfer form promptly on receipt he will absolve the buying broker from all claims pertaining to the dividend.

CSE Conditions of Sale 4. - Rights, etc. Attached to Shares - Unless otherwise stated in the broker's note the buyer is entitled to all rights accruing to the shares as on the date of the broker's note provided that the buyer complies with the following:

i. Makes payment on settlement day or earlier as required by the buying broker.

ii. Duly completes the transfer form and returns same to the buying broker promptly to permit the buying broker to lodge the documents prior to the closure of Transfer Books relative to the share transfer.

Transactions involving allotment letters shall be on an immediate cash basis and the selling broker shall ensure that he is in possession of the renounced letters of allotment prior to a sale.

Trading in rights and bonuses shall commence after four market days from the date of dispatch of the allotment letters and shall cease three market days prior to the closure of the books of the company concerned.

In the case of rights issues the buyer shall not be entitled to apply for any additional shares.

407. RECLAMATION

P304, Good Delivery and Reclamation - The seller of securities is responsible for the genuineness and complete regularity thereof and a security which is not valid or is not in proper negotiable or transferable form shall be replaced forthwith by one which is valid and is in proper negotiable or transferable form.

A security with an irregularity which has been delivered may be returned or reclaimed on a settlement date through the settlement after notice has been given to the other party at least one day prior to the settlement. The party to whom the irregular security is being delivered shall substitute a like security in good delivery form or pay the current market value thereof and be deemed to be failing to deliver. Securities with title called into question, reported to have been lost or stolen, or the transfer of which is prohibited or restricted by law or government action shall also thus be returned to the party originally introducing the certificate to the market. Securities partially called may be returned to the party holding such certificate at the time it ceased to be a good delivery.

408. ASSIGNMENTS

P305, Assignments - A registered security as a good delivery shall be accompanied by a proper assignment executed either upon the certificate itself or on a separate paper for each such certificate. When the name of a party has been inserted in such an assignment as assignee, a power of substitution shall be signed in blank by such party. When the name of a party has been inserted as substitute in such a power of substitution, a new power of substitution shall be executed in blank by such substitute party.

Any alteration or correction in an assignment, power of substitution or other instrument shall be accompanied by an explanation or the original instrument, signed by the party executing the same.

The signature on such documents shall be technically correct, i.e. it shall correspond with the name written upon the certificate in every particular without alteration or enlargement or any change whatsoever, except that in the case of a firm "and" or "&" or "Company" or "Co" or "Co." may be written either way.

Certificates shall be good delivery only if in a form and with authorizations as required by Rule 156 and for transfer under the laws of the country of jurisdiction.

Standard forms used for Assignments and Substitutions are published by the NYSE following its Rules 225 and 259.

409. CLOSING DEFAULTED CONTRACTS

P308, Closing of Obligations - When a Member is found insolvent by the Exchange, other Members holding open contracts with such insolvent member shall without unnecessary delay close out such contracts unless the Board orders a deferment.

Application may be made to the Exchange for temporary deferment of close-out for unusual circumstances and unsuccessful efforts to borrow and if the Exchange finds that a fair market in which to close the contract is not available but no such

deferment will relieve the party in default from any resulting damages.

A Member receiving notice that a contract is to be closed out shall immediately re-transmit such notice to any other Member from whom the securities involved are due, and a subsequent close out against the contra Member shall also close out against the retransmitted Member. Any money difference resulting from a contract closing shall be specified in immediate statements to contra and retransmitted Members and shall be paid at the next settlement.

When a loan of money is not paid before the end of the day upon which it becomes due, the borrower shall be considered in default and the lender may, without notice, sell sufficient of the securities pledged therefore to liquidate the loan.

410. BORROWING AND LENDING SECURITIES

Act 27. - Security Borrowing & Lending - No licensed stock broker or licensed stock dealer shall lend or arrange for the lending of, any securities carried for the account of any customer without the customer's written consent, or borrow, or arrange to borrow, using the securities, carried for the account of any customer, as collateral, without the customer's written consent.

P309, Borrowing and Lending Securities - Every reasonable means to borrow securities in order to make delivery on open contracts shall be employed by members. Members shall not lend or borrow any security to or from any non-member except pursuant to a written contract or confirmation providing at least for: terms for the simultaneous transfer of securities against money or equivalent collateral and the reverse thereof on demand or a date certain and liquidation rights to the Member in any event of insolvency by the non-member.

411. CREDIT EXTENSION (MARGIN)

SC Rule 9/24/90 24B - Margin Accounts - In the case of margin trading,

the stock broker shall indicate to the Exchange on the In-House transaction form, the names of all buyers and sellers who are parties to the margin trading accounts.

CSE Business Conduct Rule 7. - Margin Accounts - Members shall not effect a transaction in securities in a margin account in a manner contrary to any requirements established by the Exchange or the Securities Council.

P311. Credit (Margin) - A Member or Approved Person may extend credit to an account collateralized by readily marketable values in such account pursuant to the rules of the Exchange or such more stringent standards as determined by the Member or Approved Person.

Interest shall be charged on any balance unpaid by settlement date in either a regular account or a credit account.

No Member shall permit a customer or employee to make a practice of meeting payment obligations by liquidating the same or other security or delivery obligations by buying the same security.

Credit accounts shall have a minimum equity of Rs 20,000 (An amount sufficient to discourage credit purchases by customers who should not afford risk)

Minimum equity for a new purchase in a credit account shall be at least 50% of the values to be in the account after the purchase. Whenever values in a credit account decline to a 35% equity, the customer shall be called to restore the equity to at least 40%. Values shall not be allowed in an account for this purpose which exceed for each security that amount which can be readily liquidated at a discount of 10% from the market price.

Whenever a person extended credit on securities fails to meet a call for equity, sufficient securities shall be sold out at the next trading session to bring the account into compliance with the above requirements unless the Exchange on application of the responsible Member finds that a fair market would not be maintained.

No Member or Approved Person shall arrange for the extension of credit on securities at better terms than such Member or Approved Person can offer pursuant to Exchange rules.

Chapter Five - Qualification of Stock Exchanges, Members, Brokers, Dealers, Principal Officers, Employee Representatives, Agents, Agent Representatives, Trading Attorneys, Approved Persons

501. LICENSING REQUIRED

Act 15. - Entities Required to be Licensed - Subject to the provisions of section 30 from and after the appointed date: -

(a) any body corporate which is carrying on or intends to carry on the business of operating a stock exchange; or

(b) any person who is carrying on or who intends to carry on the business of a stock broker or of a stock dealer,

shall make an application in the prescribed form together with the prescribed fee to the Council, for the grant of a licence as a stock exchange or as a stock broker or stock dealer, as the case may be.

Act 19.(i) - License Decision, Term, - On receipt of an application made under section 15, the Council having considered the particulars stated therein and, where it deems necessary, having given the applicant an opportunity of being heard, in person or by a representative, shall by

written notice to the applicant, inform the applicant whether he is being granted licence or not.

(2) Where the Council grants a licence to -

(a) a body corporate to carry on the business of a stock exchange, it shall issue a certificate to that effect for a period of five years; or

(b) any person to carry on the business of a stock broker or stock dealer, it shall issue a certificate to that effect for a period of one year.

Act 20.(1) - License Renewal - A licensed stock exchange may apply to the Council for a renewal of its licence within six months prior to the expiry of the licence.

(2) A licensed stock broker or a licensed stock dealer as the case may be, may, within three months prior to the expiry of the licence, make an application to the council in the prescribed form together with a prescribed fee for a renewal of his licence.

(3) In granting a renewal of a licence, the Council shall satisfy itself that the licensed stock exchange, the licensed stock broker or the licensed stock dealer as the case may be, has at no time been guilty of contravening any provisions of this Act or any rules or regulations made under this Act.

Act 25 - License Facts Change Approval - Where a licensed stock exchange, a licensed stock broker or licensed stock dealer as the case may be, proposes to alter any particulars already furnished or undergoes or intends to undergo a change from its state specified in the application for a licence as a stock exchange, stock broker or stock dealer, as the case may be, to inform the Council and obtain its prior consent before such alteration of change is effected.

Act 30. - Name Use - (1) From and after the appointed date, no body corporate or an individual shall use the words "stock exchange", "stock broker" or "stock dealer" as the case may be unless such body

corporate or individual as the case may be, has been licensed as a stock exchange or stock broker or stock dealer, by the Council under this Act.

(2) From and after the appointed date, no body corporate or an individual shall carry on business as a stock exchange, stock broker, stock dealer as the case may be, such body corporate or individual is authorized to do so under a licence granted under the provisions of this Act.

Provided, however, any body corporate or an individual who, immediately before the appointed date was carrying on business as a stock exchange, stock broker or stock dealer as the case may be, shall be entitled to carry on such business without obtaining a licence under this Act-

(a) for a period of three months from the appointed date; and

(b) if prior to the expiration of that period an application is made for a licence under this Act, until the licence is granted or finally refused or the application is withdrawn.

(3) Any body corporate or an individual who contravenes the provisions of subsection (1) or (2), shall be guilty of an offence under this Act and shall on conviction be liable to a fine not exceeding one million rupees.

Act 31. - Dual Registration Prohibited - No body corporate or an individual licensed under the provisions of this Act as a stock broker or stock dealer as the case may be, or, any holding, subsidiary or an associate company of such licensee, or any Director of such licensee shall-

(a) where such body corporate or an individual is licensed as a stock broker, be granted a licence as a stock dealer, and

(b) where such body corporate or individual is licensed as a stock dealer, be granted a licence as a stock broker.

SC Rules 5/18/90 2. - License Fee - There shall be paid-

- (1) in respect of every application under regulation 2(1), a fee of Rs. 10,000; and
- (2) in respect of every application under regulation 2(2) and regulation 2(3) a fee of Rs. 3,500 which shall be paid into the account of the Securities Council as designated by the Council.

SC Rules 5/18/90 4. - License Certificate -. (i) The certificate issued to a stock exchange under section 19(2)(a) of the Act shall be in such form as specified in Form 'D' in the Schedule hereto and shall be valid for a period of five years.

(2) The certificate issued to a stock broker under section 19(2)(b) of the Act shall be in such form as specified in Form 'E' in the Schedule hereto and shall be valid for a period of one year.

(3) The certificate issued to a stock dealer under section 19(2)(b) of the Act shall be in such form as specified in Form 'F' in the Schedule hereto, and shall be valid for a period of one year.

502. STOCK EXCHANGE QUALIFICATION

Act 16. - License, Stock Exchange, Reference to Schedule, Part 1 - No licences shall be granted under this Act to any body corporate as a stock exchange which does not comply with the terms and conditions set out in Part I of the Schedule hereto.

Act Schedule Part 1 - License Requirements, Stock Exchange - Requirements and conditions to be satisfied for the purpose of granting a licence as a stock exchange to a body corporate are as follows:-

(a) that the applicant is-

(i) a public limited liability company incorporated under the Companies Act, No. 17 of 1982; or

(ii) an association registered as a company with limited liability under section 21 of the Companies Act, No. 17 of 1982;

(b) that the articles or association of the applicant company referred to in paragraph (a) do not permit any distribution of profits to members;

(c) that the articles of association of the applicant company restricts the membership of the stock exchange to brokers and dealers only;

(d) that at least six members of the applicant company will carry on brokering business in securities independently of and in competition with each other and that at least four members have experience in brokering in securities during the last five years;

(e) that the applicant company is engaged solely in the business of operating a stock exchange;

(f) that the Board of Directors and the chief executive of the applicant company consists of persons of business integrity;

(g) that the Board of Directors of the applicant company consists of five members who are individual stock brokers or stock dealers or nominees of any company licensed as a stock broker or stock dealer elected by the general membership;

(h) that the applicant company's location and activities will enable the creation of a more orderly market for securities in Sri Lanka;

(i) that the applicant company's financial standing is satisfactory; and

(j) that the rules of applicant company make satisfactory provision-

(i) for admission of members;

(ii) for exclusion from membership of persons who are not of good character and high business integrity;

(iii) for the expulsion, suspension or disciplining of members for conduct inconsistent with just and equitable principles in the transaction of business or for a contravention of or failure to comply

with rules of the stock exchange or the provisions of this Act;

(iv) for appointment of authorized representatives and clerks;

(v) with respect to the conditions under which securities may be listed for trading in the market;

(vi) with respect to conditions under which listing of a particular security may be revoked;

(vii) with respect to the conditions governing dealings in securities by its members;

(viii) with respect to timely and accurate disclosure of all material information required for investors to make informed investment decisions;

(ix) with respect to the protection of investors in securities from misrepresentation, misleading information, fraud, deceit and other adverse practices in the issue and trading of securities and for the abuse of certain persons of privileged information not yet made available to the general public;

(x) with respect to prohibition of securities market manipulation of any form including false trading, market rigging, &c.;

(xi) for investigating into trading in securities and financial transactions of stock brokers and stock dealers for conducting surprise checks on the members;

(xii) for suspension of trading of any given security for the protection of investors or for the conduct of orderly and fair trading;

(xiii) with respect to the conduct of securities trading of stock brokers and stock dealers and the manner in which information relating to transaction be maintained; and

(xiv) for ensuring that the customer's funds are segregated from other business of the security brokers or dealers.

SC Rules 2. (1) - License, Stock Exchange Application Documents - Every application made by a body corporate for the grant of a licence or renewal of a licence to operate a stock exchange shall be accompanied by -

(a) Two copies each of the Memorandum and Articles of Association of the applicant company and Rules and By-laws of the applicant company in respect of regulation and control of contracts in securities;

(b) Two copies of the Rules applicable to listed companies;

(c) Two copies of duly completed Form 'A' set out in the Schedule 1 hereto;

(d) Two copies of a list containing the names, designations and addresses of the members of the stock exchange;

(e) Two copies of the list of companies listed with the stock exchange;

(f) Two copies of the audited balance sheets and accounts of the applicant company for the three preceding years or any other financial information acceptable to the Council if the applicant company has not been in business during the three preceding years; and

(g) A copy of the receipt in proof of payment of the application fee.

SC Rules 5/18/90 2. - License Exchange Application Forms, - (i) Every application under section 15 of the Act by any body corporate which is carrying on, or intends to carry on the business of operating a stock exchange for the grant of a licence as a stock exchange and every application by such a licensed stock exchange for a renewal of its licence shall be in such form as specified in Form 'A' in the Schedule hereto;

SC Rules 5/18/90 - License Renewal Schedule, Form A, Stock Exchange

Application for a License/Renewal of a Licence as a Stock Exchange

To: Chairman,
Securities Council,
Colombo.

I,
We.....of.....hereb
y apply for a licence/renewal of a licence as a
stock exchange under the provisions of the
Securities Council Act, No. 36 of 1987, and
agree to undertake, in the event of our
application being accepted, to abide by the
rules and procedures of the Securities
Council established under the Act.

2. The following documents are enclosed:

(1) Two copies of the Memorandum and Articles of Association and Rules and By-Laws for the regulation and control of contracts in securities.

(2) Two copies of the Rules and Regulations applicable to listed companies.

(3) Two copies of the annexure hereto duly completed.

(4) Two copies of the list of names, designations and addresses of the members of the exchange.

(5) Two copies of the list of companies list with the stock exchange.

(6) Two copies of the audited balance sheet and accounts for the year....., and, or other financial information acceptable to the Council if applicant has not been in business for three years.

3. We confirm that the information supplied in the annexure to this form is correct.

4. Bank Receipt No. dated the for Rs. is attached, being licence fees for

Yours faithfully,

Signature of Applicant
Name and Designation of Applicant

Date:-

Part I - General

1. Registered Name and Address of Applicant:

2. Is the organisation-

(a) A public limited company incorporated under the Companies' Act No. 17 of 1982? (State Date of Incorporation) or

(b) An Association registered as a Company with Limited Liability and incorporated in Sri Lanka? (State Date of Registration) or

(c) A Company limited by Guarantee?

3. Address of Trading Floor

4. Name of Consultant, if any and Telephone No.

5. Name of Chief Administrator or Manager and Telephone No.

6. Days/Hours of Business

7. Is your organisation engaged solely in the business of operating a stock exchange?

8. Please confirm the following:

(a) that the Articles of Association of the Organisation do not permit any distribution of profits to members

(b) that the Articles of Association of the Organisation restricts the membership of the stock exchange to brokers and dealers only

Part II - Membership

9. Please list the names of members of your Organisation who will carry on stock broking business independent of and in connection with each other. Give details and period of experience in brokerage of securities of each member

(Please attach certified list)

10. Please submit the rules of your organisation relating to:

(a) Admission of Members;

(b) Exclusion from membership of persons who are not of good character and high business integrity;

(c) The expulsion, suspension or discipline of members for conduct inconsistent with just and equitable principle in the transaction of business or for contravention of or failure to comply with the rules of the stock exchange or the provisions of the Securities Council Act;

(d) Appointment of authorised representatives;

(e) The conditions under which securities may be listed for trading in the market;

(f) The conditions under which listing of a particular security may be revoked;

(g) The conditions governing dealings in securities by your members;

(h) The timely and accurate disclosure of all material information required for investors to make informed investment decisions;

(i) The protection of investors in securities from misrepresentations, misleading information, fraud, deceit and other adverse practices in the issue and trading of securities and from the abuse by certain persons of privileged information not yet made available to the general public;

(j) The prohibition of securities market manipulation of any form, including false trading, market rigging, etc;

(k) Investigating into trading in securities and financial transactions of stock brokers and stock dealers for conducting surprise checks on the members;

(l) The suspension of trading of any given security for the protection of investors or for the conduct of orderly and fair trading;

(m) Conduct of securities, trading of stock brokers and stock dealers, and the manner in which information relating to transactions be maintained;

(n) Ensuring that customers' funds and securities are segregated from the other business of the stock brokers or stock dealers.

ii. State whether there is any provision, resolution or convention for limiting the number of members and whether in pursuance thereto you have fixed a ceiling on the number of members that you would wish to admit.

12. Do you insist on any minimum qualifications and experience before enrolling new members? Please attach details.

13. State the security deposit required from each member, admission fee and the rate of annual subscription.

Part III - Governing Body

14. Please state the names of members of your Board of Directors/Council Members and the Chief Executive, together with details of the positions they hold in other companies and their business experience.

15. Please list the members of your Board of Directors who are individual stock brokers or stock dealers or nominee of any licensed company who have applied for a licence as a stock broker or stock dealer elected by the general membership.

16. What is the present strength of your governing body? Give details of the constitution, power of management, election and tenure of office of members of the governing body, and the manner in which its business is transacted.

17. Are any trade or commercial interests represented on your governing body? If so, give details of interests represented.

18. Are any shareholders' or investors' associations represented on your governing body? If so, state the manner in which it is done.

19. Are there any government representatives on your governing body? If so, furnish their names.

20. Do your rules provide for the direct election by members of any other bodies or committees apart from the governing body? If so, give details of their constitution, tenure, powers and functions.

due compliance by members of the regulations of the stock exchange and generally to ensure proper standard of business conduct.

Part IV - Miscellaneous

21. Do you have any provision for the appointment of standing or ad hoc subcommittees of the governing body? If so, furnish details of the method of appointment, terms of office, powers and functions. Please give names of members of such standing or subcommittee, and if any members are not members of the governing body, furnish details of the positions they hold in other companies and their business experience.

24. Do you have the machinery for arbitration of disputes between members and/or between members and their constituents? Give details.

25. What provision have you made for the levy and recovery of fees, fines and penalties? Please furnish details.

22. Give the designations, powers and duties of principal officers of your exchange.

We confirm that all attachments are individually certified as being correct

23. What are the disciplinary powers available to the governing body to enforce

Signature of Applicant
Name & Designation of Applicant

Date

SC Rules 5/18/90 - Schedule Form D, Form of Stock Exchange License

Securities Council,
(Incorporated under Act, No. 36 of 1987)
2nd Floor, Mackinnons Building,
York Street, Colombo I.

Grant of a Licence/Renewal of a licence to a Stock Exchange

The Securities Council, having considered the application for the grant of a licence/renewal of a licence made under Section 15/20 of the Securities Council Act, No. 36 of 1987 by of, hereby grants in the exercise of the powers conferred by Section 19 of the Securities Council Act, No. 36 of 1987 a licence to the said Stock Exchange for the period from to 19.....

Seal
Dated this.....day of, 19.....

Chairman

SC Rules 90 9. - Inquiries of Stock Exchanges - The Director General or any other person authorised to do so by the Council, may conduct such inquiry or inquiries, including the examination of books of account, receipts, vouchers, documents and any other records in relation to the affairs of the Governing Body of the stock exchange or the affairs of any member of such stock exchange, in relation to the

securities market, as the Director General or the Council may deem necessary for the purpose of enabling the Council to exercise, perform and discharge any of its powers, duties or functions under the Act.

SC Rules 90 10.- Stock Exchanges, Annual Reports - (1) Every stock exchange shall, before the 31st day of March in each year, or where the Council grants an extension of time, within such time, furnish to the Council annually, a

report of its activities during the preceding calendar year which shall, inter alia, contain information on the following matters -

- (a) Amendments, if any, made to the rules and by-laws of the stock exchange;
- (b) Changes in the composition of the Governing Body;
- (c) Any new sub-committees set up and changes in the position of existing ones;
- (d) Admission, re-admission, deaths or resignations of members;
- (e) Disciplinary action taken against members;
- (f) Arbitration of disputes (nature and number) between members;
- (g) Defaults;
- (h) Action taken to combat any emergency in trade;
- (i) Securities listed and de-listed;
- (j) Securities brought on, or removed from the forward list, where applicable.

(2) Every stock exchange shall hold its Annual General Meeting within four months from the end of the financial year, at which meeting there shall be presented an Annual report and duly audited accounts. Such report and audited accounts should be submitted to the Council within two weeks thereafter.

SC Rules 90 11. - Stock Exchanges, Quarterly Reports - Every licensed stock exchange shall furnish to the Council, quarterly returns relating to -

- (a) Purchases and sales during the preceding quarter;
- (b) Names of companies which have not submitted annual and bi-annual reports;
- (c) The number of securities listed and delisted during the previous three months.

SC Rules 90 16. - Stock Exchanges, Other Reports - (1) A

stock exchange shall file with the Council a daily list of transactions of securities made on the trading floor, stating the price and number of securities transacted.

(2) A stock exchange shall issue a statement of all share transactions, including private transactions and gifts, and their values, for each day, to the Council, at least fortnightly.

(3) A stock exchange shall issue to the public media, at the end of each day, the details of shares transacted, including the price and number of shares in each company.

(4) A stock exchange shall issue to the public media, a report on the shares transacted and price movements in the securities market, at least once every fortnight.

(5) A stock exchange shall, make available for reference to the public investor, details of the published accounts of listed companies, the details of shares transacted and the prices at which shares have been transacted during the year.

503. BROKER, DEALER LICENSING

Act 17. - License, Broker, Dealer Reference to Schedule, Part 2 - No licence shall be granted under this Act to any body corporate as a stock dealer or a stock broker as the case may be, which does not comply with the terms and conditions set out in Part II of the Schedule hereto.

Act 18. - Individual, Reference to Schedule, Part 2 - No licence shall be granted under this Act to any individual who does not comply with the terms and conditions set out in Part II of the Schedule hereto.

Act Schedule Part II - License Requirements, Broker or Dealer - Terms and conditions to be complied with for the purpose of granting a licence as a stock broker or stock dealer to a body corporate are -

(a) that the applicant company is a member of a stock exchange licensed under this Act;

(b) that the applicant is a company incorporated under the Companies Act, No. 17 of 1982;

(c) that the Directors of the applicant company-

- (i) have never been declared bankrupt;
- (ii) have never been themselves, or been Directors of, a company that has been denied a licence as a stock broker or stock dealer; or
- (iii) have never been themselves or been Directors of, a company whose licence as a stock broker or stock dealer had been removed by the appropriate authority;

(d) that at least one Director and at least one employee who will be the chief employee of the applicant company, is certified by a stock exchange licensed under the provisions of this Act, as sufficiently trained in stock exchange operations; and

(e) that the applicant company has lodged security in such sum as may be determined by the Minister, having regard to the value of transactions that are likely to be carried on by such applicant or an equivalent in bank guarantee with a stock exchange licensed under the provisions of this Act.

SC Rules 2. (2) - License Application Documents, Broker, Dealer - Every application made by a body corporate for the grant of a licence or renewal of a licence to carry on the business of a stockbroker or stock dealer shall be accompanied by -

(a) Two copies each of the Memorandum and Articles of Association of the applicant company;

(b) Two copies of a list containing the names and designations of the Directors of the applicant company;

(c) Two copies of duly completed Form 'B' set out in the Schedule I hereto;

(d) Two copies of a statement listing the names of holding companies, subsidiary companies, associate companies or partnerships, in which such applicant company has any interest;

(e) Two copies of the audited balance sheets and accounts of the applicant company for the three preceding years or any other financial information acceptable to the Council if the applicant company has not been in business during the three preceding years;

(f) Where the application relates to a renewal of a licence, two copies of the Certificate of Membership in a stock exchange; and

(g) A copy of the receipt in proof of payment of the application fee.

SC Rules 5/18/90 2. - License Application Forms, Broker or Dealer
-(2) Every application under section 15 of the Act by any body corporate which is carrying on, or intends to carry on, the business of a stock broker or stock dealer for the grant of a licence as a stock broker or stock dealer and every application by such a licensed stock broker or stock dealer for a renewal of its licence shall be in such form as specified in Form 'B' in the Schedule hereto;

SC Rules 5/18/90 2. - License Application Forms, Broker or Dealer
- Schedule Form B -

Application for a Licence/Renewal of a Licence as a Stock Broker or a Stock Dealer

To: Chairman,
Securities Council,
Colombo

I. We,of hereby apply for a licence as under the provisions of the Securities Council Act, No. 36 of 1987 and agree to undertake, in the event of our application being accepted, to abide by the rules and procedures of the Securities Council established according to the Act.

2. The following documents are enclosed:

(1) Two copies of the Memorandum and Articles of Association.

(2) Two copies of the list of names and designations of the Directors.

(3) Two copies of the annexure hereto duly completed.

(4) Two copies of the statement listing the names of Holding Companies, Subsidiary Companies, Associate Companies or Partnerships, in which such stock broker or stock dealer has any interest.

(5) Two copies of the Audited Balance Sheets and Accounts for the year.... and/or other financial information acceptable to the Council if the applicant has not been in business for three years.

(6) Two copies of the Certificate of Membership in a Stock Exchange where application relates to renewal of a licence.

3. We confirm that the information supplied in the annexure to this form is correct.

4. Bank Receipt No. dated the For Rs. is attached, being licence fees for

Yours faithfully,

Signature of Applicant
Name & Designation of Applicant

Date:

Annexure to Form B

1. Registered name and address of Applicant

2. Telephone No.

3. Is your company incorporated in Sri Lanka? (State Date of Incorporation)

4. Capital Structure of your company (Authorised and issued Capital)

5. Names of Holding Companies, Subsidiary Companies and Associate Companies or Partnerships in which your Company has any interest

6. Names & Designations of the Directors of your Company

7. Please confirm that the Directors of your Company-

(a) have never been declared bankrupt

(b) have never been themselves, or as Directors of a company been denied a licence as a stock broker or stock dealer

(c) have never been themselves or as Directors of a company been subjected to the removal of their licence as a stock broker or stock dealer

8. Are your Directors on the Boards of other companies? If so, please give details

9. Please name the Director/Directors and employees who are certified by the Colombo Securities Exchange (Gte) Ltd. as sufficiently trained in stock exchange operations. (Please attach certificates)

10. Please confirm that your company will lodge security in such sum that may be determined by the Minister in charge of the subject of Finance. (Such sum will be based on the value of the transactions that are likely to be carried on by your company or an equivalent in bank guarantee with the Colombo Securities Exchange)

We confirm that all attachments are individually certified as being correct.

Signature of Applicant
Name & Designation of Applicant

Date

to carry on the business of a stockbroker or stock dealer, shall be accompanied by -

(a) Reports from all Bankers of the applicant in respect of the applicant's financial standing in such form as may be prescribed by the Council;

(b) Copies of the Returns of Income Tax and Wealth Tax for the two years immediately preceding, certified by the Department of Inland Revenue;

(c) Two copies of duly completed Form 'C' set out in the Schedule I hereto;

(d) Where the application relates to a renewal of a licence, two copies of the Certificate of Membership in a stock exchange; and

SC Regulations 5/18/90 Schedule Form C - Individual License Application.- Application for a Licence/Renewal of a Licence as a Stock Broker of a Stock Dealer by an Individual Who is Carrying on or Who Intends to Carry on the Business of a Stock Broker or a Stock Dealer

To: Chairman,
Securities Council,
Colombo

I, of..... hereby apply for a licence as a under the provisions of the Securities Council Act No. 36 of 1987 and agree to undertake, in the event of my application being accepted, to abide by the rules and procedures of the Securities Council established under to the Act.

2. The following documents are enclosed:-

(1) Two copies of the Certificate of membership in a Stock Exchange where the application relates to a renewal of a licence.

(2) Two copies of a certificate issued by the Stock Exchange of which I am a member confirming that I am sufficiently trained in stock exchange operations.

(3) Two copies of the annexure hereto duly completed.

(4) A report from all my Bankers in accordance with the format prescribed by the Council.

(5) Returns of Income Tax and Wealth Tax for the years 19.../ & 19... certified by the Department of Inland Revenue.

3. I confirm that the information supplied in the annexure to this form is correct.

4. Bank Receipt No.dated the for Rs. is attached, being licence fees for

Yours faithfully,

(e) A copy of the receipt in proof of payment of the application fee.

SC Rules 5/18/90 2. - License Application Forms, Individual -(3)
Every application under section 15 of the Act by any individual who is carrying on or who intends to carry on the business of a stock broker or stock dealer for the grant of a licence as a stock broker or stock dealer and every application by such licensed stock broker or stock dealer for a renewal of its licence shall be in such form as specified in Form 'C' in the Schedule hereto.

Signature of Applicant

Date

Annexure to Form C

1. Name and Address of Applicant

.....

2. Telephone No.

3. Nationality.....

4. Identity Card No.

5. Please confirm that you-

(i) have never been declared insolvent or bankrupt.

(ii) are of sound financial standing.

(iii) will lodge security in such sum as may be determined by the Minister in charge of the subject of Finance having regard to the volume of transactions that are likely to be carried on by you or an equivalent in bank guarantee with the Colombo Securities Exchange.

(iv) have not been expelled or debarred from membership of any stock exchange licensed under this Act.

6. Are you a Director on the Board of any listed company? If so, please give details.

7. Are you a shareholder in any company listed with the stock exchange? If so, please give details.

8. Please name your employees who are certified by the Colombo Securities Exchange (Gte) Ltd. as being sufficiently trained in stock exchange operations (please attach certificates).

Yours faithfully,

Signature of Applicant

Date

504. MEMBER QUALIFICATION

CSE Memorandum 5. - Members, First - The first members of the Exchange shall be the signatories to the Memorandum and Articles of Association of the Exchange and the first associate members of the Exchange shall be those admitted by the Executive Committee soon after incorporation who after the expiry of a period of one year from the date of incorporation of the Exchange shall become members provided they have complied with the provisions of these presents.

5(i). Any Broker desirous of becoming a Member of the Exchange shall sign and send or deliver to the Secretary of the Exchange hereinafter referred to, an application in the form of or to the effect following:

To the Colombo Securities Exchange

Gentlemen,

We desire to become a member of the above Exchange and we hereby authorize you in the event of our election to enter our names on the Register of Members of the Exchange: we undertake to abide by the Articles of the said Exchange and Bye-Laws

and any other Regulations duly made thereunder.

Full Name:

Address:

.....

.....

.....

Signature

Date: etc:

CSE Articles 6. - CSE Member Qualification - Every applicant for Membership of the Exchange:

(a) shall be a Broker as defined in Clause 2 of the Articles

(b) shall have had experience acceptable to the Committee as a Stock and/or Share Broker

(c) should not have been suspended or expelled from the Exchange or any other recognised Stock Exchange

(d) should not have had a receiving order made against him or been adjudicated bankrupt

Executive Committee's Right to Refuse Membership

P402, CSE Member Qualification - The Committee shall not approve a corporation as a Member and a corporation shall not continue as a Member unless:

a) each director of such corporation, each person who controls such corporation, and every person which engages in a securities or kindred business and is controlled by or under common control with such corporation is an approved person.

b) every principal executive officer, every person who is an employee designated to trade on the Exchange, and every person who solicits and services securities business as an employee representative, agent or agent representative is approved by the Exchange as such.

c) The Board of Directors of such corporation designates its principal executive officers who shall exercise senior principal responsibility over the various areas of the business of such corporation in such areas as the rules of the Exchange may prescribe, including operation, finance and credit, compliance with law and rules, sales, underwriting, research and administration.

d) The corporation, its officers, employees, representatives, agents, agent representatives and approved persons agree to comply with applicable rules of the Exchange as they exist or may be amended in the future.

Control Prevention - Whenever an approved person of a Member fails or ceases to be so approved, the Member shall promptly redeem or convert to a fixed income security such of its outstanding voting stock as to terminate that party's ability, if any, to exercise controlling influence over the management or policies of such Member.

For this purpose, each certificate of incorporation of a Member shall contain provision authorizing the Member to redeem or convert to a fixed income security all or part of the outstanding voting stock owned by any person required to be approved by the Exchange who fails or ceases to be approved as may be necessary to reduce such party's ownership of voting stock below that level which enables such party to exercise controlling influence over the management or policies of such Member.

If the certificate of incorporation provides that a stockholder may compel redemption, it must provide that without the prior written approval of the Exchange, the redemption may only be effected on a date not less than six months after receipt by the Member and the Exchange of a written request for redemption given no sooner than six months after the date of original issuance of such shares or any predecessor shares.

Prohibitions - Without the written approval of the Exchange, no Member shall:

a) reduce its equity or debt capital other than by loss or amend its charter, certificate of incorporation, or by-laws. The Exchange may at any time in its

- discretion require the Member to restore or increase its capital or surplus, or both,
- b) issue any fixed debt in a form qualifying as capital of the Member,
 - c) amend, modify or cancel any agreement made by it or any of its stockholders relating to the management of the Member or the issue or transfer of securities of the Member,
 - d) redeem or repurchase any shares of its stock on less than six months notice given to the Exchange not less than six months after the original issuance of such shares or any predecessor shares, and shall notify the Exchange if any redemption or repurchase is postponed because prohibited by this rule,
 - e) issue stock except for cash or such other consideration as the Exchange determines will not impair the financial responsibility and operational capability of such Member.

CSE Articles 7 - CSE Refusal of Membership - The Executive Committee shall have power at its absolute discretion and without assigning any reason therefor to decline to admit any Broker to the Membership of the Exchange.

CSE Articles 8.- CSE Member Applicant Sponsors - The application shall be accompanied by a writing signed by two members of the Exchange as Proposer and Seconder of the applicant.

CSE Articles 9 - CSE Sponsor Information - The Applicant and his Proposer and Seconder shall be bound to give all such information regarding the applicant's antecedents as may be required of them by the Secretary and all information so given in pursuance of this Article shall be deemed privileged and confidential and no part thereof shall be communicated to any person except the members of the Committee.

CSE Articles 10 - CSE Election Notice - On the admission of an applicant as a member such admission shall be notified to him in writing and a copy of These Presents shall be sent to the applicant together with the Bye-Laws or any other Regulations duly made hereunder together

with a request for payment of all monies required to be paid hereunder and the furnishing of such securities as is hereinafter provided and on due compliance therewith the applicant shall become a member of the Exchange and be bound by the Rules of the Exchange and all Bye-Laws or any other Regulations duly made thereunder.

CSE Articles 11 - CSE Membership Agreement - Every applicant on being notified by the Secretary of his admission to the Exchange shall forthwith sign an undertaking in the following form and post the same to the Secretary.

"We the undersigned being a licensed Stock or Share Broker, hereby agree to comply with the provisions of the Articles and the Rules and Bye-Laws of the Exchange for the time being and from time to time."

CSE Articles 12 - CSE Membership Resignation - Subject to the provisions of Article 20 of the Articles of Association any member may withdraw from the Exchange by giving one month's notice in writing to the Secretary.

CSE Articles 13 - CSE Membership Rights - The rights and privileges of membership of the Exchange shall be personal to each member but shall be exercised by one director of such member from time to time, appointed on that behalf. Any member shall ipso facto cease to be a member if for any reason it shall not be lawfully entitled to carry on the business of Brokers or if it shall be wound up or be liquidated.

CSE Articles 14 - CSE Past Member Liability - Any company which shall for any reason cease to be a member shall nevertheless remain liable for and shall pay to the Exchange all monies which at the time of his ceasing to be a member shall be due from such member to the Exchange in addition to the guarantee referred to in Article 15 (ii) of These Presents.

CSE Articles 15 - CSE Member Subscriptions - Subscriptions to the

Exchange shall be such sum or sums as may from time to time be fixed by the Committee and shall be paid by every member as and when called upon so to do by the Secretary or such other Officer of the Exchange duly authorized by this purpose.

CSE Articles 16 - CSE Member Entrance Fee - Every applicant joining the Exchange after the date of its incorporation shall pay by way of entrance fee a sum of Rupees One Hundred Thousand (Rs. 100,000/-) within one week from the date of election as a member of the Exchange.

CSE Articles 17 - CSE Entrance Deposit - Every member shall deposit with the Secretary a sum of Rupees Forty Thousand (Rs. 40,000/-) as a guarantee for the due observance of These Presents but shall be entitled to have such deposit refunded to it at such time as the Executive Committee may determine subject to any charge or deductions that may have to be made in terms of These Presents.

CSE Articles 19 - CSE Fee Upon Re-election - In the event of any company being re-elected a member such company shall not upon such re-election be required to pay any further entrance fee.

CSE Articles 20 - CSE Refunds - In the event of any member resigning or being expelled from the Exchange he shall not be entitled to receive back any entrance fee or subscription already paid.

CSE Articles 21 - CSE Member Advance of Subscription - Notwithstanding Article 15 any member who is elected during the currency of any period to which any subscription is applicable may at the discretion of the Committee be required to pay the proportion of the current period's subscription in advance if in the opinion of the Secretary it will be convenient for him so to do, and thenceforth to pay his subscription on being required to do so by the Secretary in accordance with the provisions relating thereto.

505. PERSONNEL QUALIFICATION

P401. Personnel Approvals - Each Member, principal officer, trading attorney, employee representative, agent, or agent representative of a member, and each other person required to be approved shall meet the qualification standards of the Exchange and be approved in the capacity applied for.

P403. Principal Executives, Officers, Trading Attorneys, Agents, Employee or Agent Representatives - The Exchange shall not approve persons as principal executives, officers, trading attorneys, employee representatives, agents, agent representatives or individual Members unless satisfied that:

- a) the applicant has honestly submitted application information as required and is of legal age.
- b) the applicant is of good business reputation and integrity
- c) the applicant meets such other requirements as the Securities Council or Exchange may establish from time to time as to sponsorship, experience in the securities or equivalent business, written or oral examination of knowledge, or otherwise, and
- d) such person in writing agrees to comply with the rules of the Exchange as they exist or may be amended.

CSE Trading Rules 1. - CSE Trading Attorneys, Member Representatives - 1.1 Each member firm of the Exchange shall be permitted to nominate not more than four (4) representatives on behalf of each member firm to operate on the Trading Floor.

1.2 Accredited representatives shall possess a certificate of competence issued by the Exchange and a valid broker's licence to operate on the floor.

CSE Trading Rules 2. - CSE Trading Attorney Replacements. - Replacements for accredited representatives leaving employment of member firms shall be nominated by member firms after giving prior notice to the Manager of the Exchange.

2.1 Such new representatives nominated by member firms shall not negotiate business

on the floor and shall function as an "Observer" for at least thirty (30) market days before being permitted to operate on the floor.

2.2 During such Interim period the Exchange shall conduct a training programme for the new representative/s and require such person/s to attend such programmes after Trading Hours.

2.3 Non attendance at the training programme by new representatives shall be reported to the Executive Committee who will take appropriate action.

2.4 Member firms shall make arrangements to obtain a broker's licence for such new representative before the expiry of the interim period.

SC Agent Guideline 1.- Agent Registration - Every agent of a member company who is permitted to solicit business on behalf of a member company and has been duly approved by the Executive Committee, shall have his name entered in an "Agents' Register" which shall be maintained by the Exchange.

SC Agent Guideline 2. -Agency Conditions - (a) Every agent shall, upon selection, by a member company enter into an agency appointment with the member company as principal.

(b) The commission of an agent shall be one half of the brokerage charged to the clients that he introduces to his member company.

(c) No agent shall be an employee of a member company and no agent shall be entitled to receive any of the benefits and entitlements that the member company gives or extends to its employees, whether such benefits or entitlements are required to be given or extended to employees by law or otherwise.

(d) The member companies shall be responsible for all acts of omission and commission of their agents.

P403C - Agent Indemnity - Members are responsible to customers without limit for the acts of such persons in conduct of

securities business, but may be indemnified by contract with agents for any losses arising from the conduct of agents or their agent representatives.

SC Agent Guideline 3 - Agent Qualification - (I) Appointment:

(a) Every member company shall supply the Exchange with a list of its agents as at the date of the coming into effect of these Guidelines or at such times as the Exchange may require.

(b) A member company terminating the appointment of an agent shall give immediate notice of such termination to the Exchange.

(c) Member companies shall be allowed to appoint agents who are approved and authorized by the Committee, and any member company desirous of appointing an agent shall apply on such application form/s that may be decided by the Committee from time to time.

(d) No individual or nominee of a corporate body shall be appointed as an agent unless such individual or nominee of a corporate body complies with the following conditions -

(i) **Acceptability** - In determining a candidate's acceptability for registration the Executive Committee looks for evidence of—

(a) The integrity of the candidate and a record of high standard of business conduct, as shown in the investigations and observations of his member company, employer, previous employers, educational institutions attended and other relevant references.

(b) His potential ability to perform in a satisfactory manner the duties of an agent as shown by a period of specific training for these duties in a member company's office or some equivalent office in the securities business.

(ii) **Training** - The minimum training requirements for candidates without previous experience shall be one month. The training period may be reduced or waived at the absolute discretion of the Exchange if the candidate for registration

has had some previous experience in the securities business.

During the training period, each trainee should undertake actual 'on the job' training in the firm, but must not deal in any securities.

(ii) Examinations - A candidate must have passed, or been exempted therefrom, such qualifying examinations as may be conducted, or duly authorized to be conducted, by the Executive Committee or a Board of Examiners appointed by the Executive Committee.

The examinations will be conducted at such times during the year as may be determined by the Committee or the Board of Examiners and regulations governing such examinations may be drawn up by the Committee or the Board of Examiners from time to time.

The examination requirements may be waived at the absolute discretion of the Committee.

SC Agent Guideline (II) - Agent Prohibitions - (a) An agent who shall in any circumstances, either directly or indirectly, divide or share his remuneration or commission, as the case may be, with any person shall forthwith be struck off the appropriate register by the Committee and the member company shall render itself liable to be dealt with by the Committee for a breach of the Rules & Regulations of the Exchange if it is a party to or has knowledge of the agent's violation.

(b) No person shall be registered as an agent of more than one member company.

(c) The appointment of unauthorised agents is considered as a serious offence and a violation of the Rules & Regulations of the Exchange and shall be dealt with accordingly.

P405, CSE Member Approved Persons - The Board shall not approve persons otherwise required to be approved unless they satisfy the conditions of sections a), b) and d) of the first paragraph of P403.

P404, Personnel Changes - A Member shall promptly give notice to the Exchange in writing of:

- a) The death, discharge, retirement or other termination of association of any person who required Exchange approval, together with the reasons therefore,
- b) dissolution of the corporation
- c) any material change in the stockholding of any approved person
- d) any proposed change in the directors or principal executives
- e) any proposed change in the charter, by-laws or other documents on file with the Exchange, or
- f) any failure to comply with all the conditions of approval specified in P201.

Each approved person shall promptly notify his Member of any material acquisition or disposition of stock of the Member.

P406, Personnel Investigation Authorization - Each person required to be approved by the Exchange in any capacity shall authorize in writing "the Exchange and any agent to conduct an investigation of my character, credit worthiness, ability, knowledge, business activities, educational background, previous employment and reason for termination thereof. I authorize and request any of my former employers and any other person to furnish to the Exchange and its agents any information they may have concerning me in those respects and I hereby release each such employer or person from any and all liability of whatsoever nature by reason of furnishing such information to the Exchange and its agents. I recognize that I will be the subject of an investigative report ordered by the Exchange and acknowledge that I have been informed of my right to request information from the Exchange concerning the nature and scope of the investigation requested."

P407, Employees & Agents - The Exchange may require any information to be furnished by any employee or agent of a Member, or by any Member concerning such a person to permit it to enforce compliance with Exchange rules. The Exchange may discipline any such person or disapprove his/her employment by a Member.

Employee Investigation - Members shall make a thorough inquiry into the previous

record and reputation of persons whom they contemplate employing, including at least personal conversations with employers during the prior three years.

Employee Records - Members shall obtain before employment, maintain as changes occur during employment, and preserve for at least three years after termination of employment the following information for each employee and employee representative, agent or agent representative:

- a) name and address,
- b) starting date of employment and dates of promotions or approvals to new responsibilities,
- c) educational institutions attended with dates and whether graduated,
- d) complete consecutive record of business connections for the prior ten years, including reason for leaving each, and whether full or part time,
- e) any denial of approval for membership, registration or otherwise or any disciplinary action or injunction or any finding that he was a cause of a disciplinary action or injunction in any securities, financial or kindred business
- f) any arrest or indictment for any felony or misdemeanor, except minor traffic violations
- g) any other names by which he has been known or has used,
- h) whether any surety bond has ever been denied, revoked or surety paid because of such person
- i) a recent photograph at employment and at ten year intervals thereafter.

P408, CSE Acceptability Hearings - The Exchange may disapprove the application of a prospective Member or of any person required to be approved by the Exchange, or any change in status of such a person requiring Exchange approval after being given the opportunity to be heard by an Acceptability Committee pursuant to this rule.

Any applicant being considered for disapproval shall be furnished with a written memorandum setting forth the pertinent information relevant to the applicant's acceptability, including specific grounds for disapproval under consideration, at least 15 calendar days before an Acceptability Committee is to consider the matter. The

applicant shall have an opportunity to reply in writing and to appear before the Acceptability Committee and present any relevant information or witnesses.

An Acceptability Committee shall consist of three persons designated by the Chief Executive Officer, not excluding himself, from the officers and executive staff of the Exchange and members of the Executive Committee. Each Acceptability Committee shall designate one from among themselves as Chairman. The decisions of a majority of the members of an Acceptability Committee shall be final, except subject to appeal as otherwise provided.

506. DEFINITIONS

Act 55. - Definitions - In this Act, unless the context otherwise requires-

"investor" means a person who invests in securities purchased or transacted through a licensed stock broker of a licensed stock exchange;

"listed public company" means any public company which has its securities listed or quoted on a licensed stock exchange;

"listed securities" means securities of any listed public company;

"securities" means debentures, stocks and shares in a public company or corporation, funds or bonds of any government or of any body, corporate or unincorporate, including any right or option in respect thereof or any other certificate or interest bought or sold on a stock exchange;

"stock exchange" means a market, exchange or other place at which securities are regularly offered for sale, purchase or exchange, including any services connected with such business;

"stock broker" means any individual or body corporate engaged in the business of buying or selling of securities on behalf of investors in return for a Commission;

"stock dealer" means any individual or body corporate engaged in the business of buying or selling of securities or in the dealing or jobbing or trading of securities, or the underwriting or retailing of securities.

P403B - Definition, Representatives - The terms "employee representative, agent, agent representative" refer to persons engaged in the solicitation of orders

for the purchase or sale of securities or similar instruments for the accounts of customers or members or in the solicitation of management investment service on a fee basis by a member.

SC Rules 5/18/90 2. - Definition, Act - In these regulations- "Act" means the Securities Council Act, No. 36 of 1987.

Chapter Six - Ethical Conduct

601. GOOD BUSINESS CONDUCT

CSE Rules of Business Conduct 1 - Good Business Conduct - Members shall adhere to good practice and Just and fair principles of trade in the conduct of business affairs.

P501, Good Business Practice - Every Member and each employee, agent and agent representative of a Member shall at all times adhere to the principles of good business practice in the conduct of his or its business affairs, and shall act in a manner consistent with enhancing the welfare and reputation of the Exchange.

CSE Rules of Business Conduct 8. Managed Accounts - Members who undertake to manage the investment of a client (whether or not on a discretionary basis) shall set out in writing the terms and conditions including:

- (a) the scope of discretion and investment objectives;
- (b) the fees to be charged for management and the basis on which they are calculated;
- (c) arrangements for custody of securities and cash;
- (d) any arrangements for payment of interest on uninvested balances;
- (e) arrangements for reporting and valuations.

602. MANIPULATIVE ACTIVITY

SC Rules 90 - Manipulation - 19. No person shall create, cause to be created or do anything that is calculated to create a

false or misleading appearance or impression of active trading, or a false or misleading appearance or impression with respect to the market for, or the price of any securities listed in a stock exchange.

CSE Rules of Business Conduct 6(b) - Manipulation - Members shall not execute or cause to be executed purchases of any listed security at successively higher prices, or sales of any such security at successively lower prices, for the purpose of creating or inducing a false, misleading or artificial appearance of activity in such security or for the purpose of unduly or improperly influencing the market price for such security or for the purpose of establishing a price which does not reflect the true state of the market in such security.

SC Rules 90 20 - Wash Sales - No person shall by means of purchases or sales of any securities that do not involve a change in the beneficial ownership of those securities or by any fictitious transactions or by any other means create a false market in any securities listed in a stock exchange.

CSE Rules of Business Conduct 6(c) - Wash Sales - Members shall not, for the purpose of creating or inducing a false or misleading appearance of activity in a listed security or creating or inducing a false or misleading appearance with respect to the market in such security:

- (i) execute any transaction in such security which involves no change in the beneficial ownership thereof; or (2) enter any order or orders for the purchase of such security with the knowledge that an order or orders of

substantially the same size at substantially the same price, for the sale of such security, has been or will be entered by the same or different parties; or (3) enter any order or order for the sale of any such security with the knowledge that an order or orders of substantially the same price, for the purchase of such security, has been or will be entered by or for the same or different parties.

603. PERSONAL CONDUCT

P502, Employment Outside Member - Individual Members, and employees and employee representatives, agents and agent representatives of Members shall not create conflicts of interest with the business of their Member employer by other employment, or potential confusion by customers as to which employer is represented. For this purpose, any other employment by such persons shall be requested in writing and approved in writing: for Principal Executives of Members by the Exchange, and for employees and employee representatives, agents and agent representatives of members by such Member. Similar request and approval shall be required for any non-employee type of engagement in any other business, or compensation by others, or financial interest in any other securities, financial or kindred business.

CSE Rules of Business Conduct 14. - Exchange Employee, Gratuity or Compensation to - Members may not, without the prior written approval of the Governing Body, give any compensation or gratuity to any employee of the Exchange. A gratuity shall include a gift of any nature.

P503, Gratuities - Except with the prior written consent of the employer, no Member, member employee or employee representative, agent or agent representative shall employ or compensate any person or give any gratuity to any principal, officer, or employee of the Exchange, its subsidiaries, the Securities Council, another Member, financial institution, news or financial information media, or non-member broker or dealer in securities, commodities or money instruments.

A gift of any kind is considered a gratuity. Records shall be retained for at least three years of all such gratuities and compensation for inspection by the Exchange. When close relatives work in different financial organizations, gifts arising from the family relationship are not subject to this rule.

P504, Questionable Conduct Reports - Each Member shall promptly report to the Exchange whenever such member or any employee or employee representative, agent or agent representative:

- a) has violated any rule of the Exchange or any law or regulation (other than minor traffic violations) or has engaged in conduct which is inconsistent with just and equitable principles of trade or detrimental to the interests and welfare of the Exchange.
- b) is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery
- c) is arrested, arraigned, indicted, or convicted or pleads guilty or no contest to any criminal offense (other than minor traffic violations)
- d) is associated in any way with any financial organization disciplined by any jurisdictional organization or which is convicted of or pleads no contest to any felony or misdemeanor.
- e) is the subject of any claim for damages or a defendant or respondent in any civil litigation or arbitration which has been disposed of by judgement, award or settlement for an amount exceeding (a significant amount in national currency).
- f) is disciplined by the Member by suspension, termination, withholding of compensation or fines in excess of (a significant amount) or any other significant limitation of activities for cause.

Each employee or registered representative, agent or agent representative shall promptly report to his/her employer the existence of any of the conditions specified in the prior paragraph.

P505, Misleading Names - No Member shall do business under a name found by the Exchange to be misleading. No agent or agent representative shall represent that it is

P508, Rumor Circulation - No Member or employee or employee representative, agent or agent representative thereof shall circulate in any manner rumors of a sensational character which might reasonably be expected to effect market conditions on the Exchange generally or in particular securities. Discussion of unsubstantiated information published by a widely circulated public media or the subject of broad inquiry within the financial community is not prohibited when its source and unsubstantiated nature are also disclosed. Report shall be promptly made to the Exchange of any circumstances which give reason to believe that any rumor or unsubstantiated information might have been originated or circulated for the purpose of influencing prices in listed securities.

604. ACCOUNT CONDUCT

CSE Rules of Business Conduct 4. - Suitability of Recommendations - (a) Members shall not recommend the purchase of a security to a client without reasonable grounds to believe that the recommendation is suitable for such client on the basis of information furnished by such client concerning the client's investment objectives, financial situation, and needs and any other information known by such members. Members shall maintain in their files the basis for such recommendations.

(b) Members shall not withhold information that will be in the interests of the client or prejudicial to the interests of the client.

CSE Rules of Business Conduct 5. Accounts, Client - (a) Members shall not guarantee a client against loss in any securities account of such client with the member or in any securities transaction effected by the member for such client.

(b) Members shall not share directly or indirectly in the profits or losses in any account of a client with such member.

P505, Guarantees and Sharing in Accounts - No Member, employee or employee representative, agent or agent representative shall guarantee the payment of a debit balance in another person's account, or guarantee a customer against loss, or represent that the Member will guarantee a customer against loss, or take or receive or agree to take or receive a share in

the profits or losses of any customer's account or transaction.

This rule does not prohibit participation in a joint account or investment partnership with the prior written consent of the Member. It does not prohibit the sharing in losses after the Member has established that the loss was caused in whole or in part by the action or inaction of such Member, employee or registered representative.

CSE Rules of Business Conduct 3. - Discretionary Accounts - Members shall not exercise any discretionary power in a client's account to purchase or sell securities listed on the Exchange unless such client has given prior written authorisation.

P507, Discretion - No employee or employee representative, agent or agent representative of a Member shall exercise any discretionary power in a customer's account without the written authority of the customer and without first notifying and obtaining the approval of another person delegated by the Member with authority to approve the handling of such accounts. Every order entered on a discretionary basis must be so identified on the order at the time of entry. Such accounts shall receive frequent appropriate supervisory review by a delegated person who is not exercising such discretion pursuant to a written statement of supervisory procedures.

No employee or employee representative, agent or agent representative shall exercise and no Member shall permit the exercise of discretion in any customer's account to effect purchases or sales of securities which are excessive in size or frequency in view of the financial resources of such customer.

The provisions of this rule shall not apply to discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite amount of a specified security shall be executed.

P511, Account Transfers - Upon notice from a customer of his instruction to transfer his account(s) or the servicing of his accounts from one Member to another, such transfer shall be expedited by any carrying Member. Upon failure of prompt transfer upon application of any party and opportunity to be heard by all parties, the

Exchange may direct the establishment of collateralized fails between the carrying parties.

P514, Disclosure of Conflicting Interest - Disclosure shall be made in advance of any transaction to any customer where a Member or associated person has a conflicting interest, including but not limited to

- a) instances where compensation is to be paid by the contra party
- b) instances where the broker is distributing or acquiring securities for a fee, or receiving a fee
- c) positions are held by the broker

605. REGULATORY INFORMATION PRIVACY

P509, Privacy of Regulatory Information - The Exchange, Members, employees or employee representatives, agents or agent representatives thereof shall maintain the privacy of all financial and other competitive information obtained in their capacity as regulators and servicers of securities business, except in response to process of law or Exchange rule. Matters of such privacy which may merit attention of the Committee shall be first reported by the Exchange Chief Executive Officer to the Chairman or a designated Committee Member who is not representing Members for decision on the extent of such information to be reported to the Committee. Otherwise Committee Members are not entitled to access to private financial and competitive information obtained by the Exchange. This rule does not apply to communication between Members concerning accounts introduced by one Member to another Member.

CSE Rules of Business Conduct 2(b) - Trade Information Privacy - Members of the Governing Body may not give instructions or question officers of the Exchange on matters relating to transactions in securities in which they or the company/body corporate they represent have any interest.

606. NEW ISSUES

P512, Fair Corporate Financing - Members shall not participate in any distribution of securities when the

underwriting or other arrangements in connection with or related to the distribution, or the terms and conditions relating thereto, are unfair or unreasonable.

P513, Free Riding and Withholding - A Member and its associated persons shall not fail to make a bona-fide public distribution of a public offering which is expected to or does trade at a premium in the secondary market whenever such secondary market begins. Members and associated parties shall

- a) not continue to hold any such securities acquired by underwriting or otherwise in own account(s)
- b) not sell any such security to any person associated with any broker/dealer; or to any senior officer or person trading or brokering securities or influencing securities trading or brokering for any financial institution; or to any finder in respect to the public offering; or to any fiduciary to the managing underwriter or the issuer such as attorneys, accountants and financial consultants; or any member of the immediate family of any such person to which such person contributes support; or to any broker/dealer, bank or other conduit without assurance that such purchase is not for such prohibited parties.
- c) except that sales are not prohibited to such parties where both the aggregate sold to such parties and the amount to each individual is insubstantial and not disproportionate as compared to sales to members of the public and in accordance with the normal investment practice of the purchasers.

607. INSIDER DEALING

Also See Insider Dealing in Listing Chapter.

Act 32(1). Insider Dealing, Own Company - Subject to the provision of subsection (8), an individual who is, or at any time during the six months immediately preceding the appointed date has been, knowingly connected with a company shall not trade in listed securities of that company if he has information which-

- (a) he holds by virtue of being connected with the company;

(b) it would be reasonable to expect a person so connected and in the position by virtue of which he is so connected, not to disclose except for the proper performance of the functions attaching to that position; and

(c) he knows is unpublished price sensitive information in relation to those securities.

Act 32(2). Insider Dealing, Associated Company - Subject to the provisions of subsections (8) and (9), an individual who is or at any time in the six months immediately preceding the appointed date has been knowingly connected with a company shall not trade in listed securities of any other company if he has information which-

(a) he holds by virtue of being connected with the first mentioned company;

(b) it would be reasonable to expect a person so connected and in the position by virtue of which he is so connected to disclose except for the proper performance of the functions attaching to that position;

(c) he knows is unpublished price sensitive information in relation to those securities of that other company; and

(d) relates to any transaction whether actual or contemplated, involving both the first mentioned company and that other company or involving one of them and securities of the other or to the fact that any such transaction is no longer contemplated.

Act 32(3). Insider Dealing, Privileged Party - Subject to the provisions of subsections (8) and (9) where-

(a) any individual has information which he knowingly obtained, whether directly or indirectly, from another individual who is connected with a particular company, or was at any time in the six months immediately preceding the date of obtaining of the information so connected and who the former individual knows or has reasonable cause to believe, held the information by virtue of being so connected; and

(b) the former individual knows or has reasonable cause to believe that, because of the latter's connection and position, it would be reasonable to expect him not to disclose the information except for the proper performance of the functions attaching to that position,

then, the former individual-

(i) shall not himself trade in listed securities of that company if he knows that the information is unpublished price sensitive information in relation to those securities; and

(ii) shall not himself trade in listed securities of any other company if he knows that the information is unpublished price sensitive information in relation to those securities and it relates to any transaction whether actual or contemplated, involving the first mentioned company and the other company or involving one of them and securities of the other or to the fact that any such transaction is no longer contemplated.

Act 32(4). Insider Dealing, Takeovers - Subject to the provisions of subsections (8) and (9) where an individual is contemplating or has contemplated, making, whether with or without another person, a takeover offer for a company in a particular capacity, that individual shall not trade in listed securities of that company in another capacity if he knows that the information that the offer is contemplated or is no longer contemplated is unpublished price sensitive information in relation to those securities.

Act 32(5). Insider Dealing, Third Parties - Subject to the provisions of subsections (8) and (9) where an individual has knowingly obtained, whether directly or indirectly, from an individual to whom the provisions of subsection (4) apply, information that the offer referred to in subsection (4) is being contemplated or is no longer contemplated the first mentioned individual shall not himself trade in listed securities of that company if he knows that the information is unpublished price

sensitive information in relation to those securities.

Act 32(6). Insider Dealing, Advice to Others - Subject to the provisions of subsections (8) and (9) an individual who is for the time being prohibited by any provision of this section from trading in listed securities shall not counsel or procure any other person to deal in those securities, knowing or having reasonable cause to believe that person would trade in such listed securities.

Act 32(7). Insider Dealing, Advice to Counselors - Subject to the provisions of subsections (8) and (9), an individual who is for the time being prohibited as aforesaid from trading in listed securities by reason of his having any information, shall not communicate that information to any other person if he knows or has reasonable cause to believe that or some other person will make use of the information for the purpose of counseling or procuring any other person to trade in such listed securities.

Act 32(8). - Insider Dealing, Exclusions - The provisions of this section shall not prohibit an individual by reason of his having any information from-

(a) doing any particular thing otherwise than with the view to the making of a profit or the avoidance of a loss, whether for himself or another person by the use of that information;

(b) entering into a transaction in the course of the exercise in good faith of his functions as liquidator, receiver, or trustee in bankruptcy; or

(c) doing any particular thing if the information was-

(i) obtained by him in the course of the business of a stock broker or a stock dealer in which he was engaged or employed; and

(ii) of a description which it would be reasonable to expect him to obtain in the ordinary course of that business,

and he does that thing in good faith in the course of that business.

(9) And individual shall not, by reason only of having information relating to any particular transaction, be prohibited-

(a) by the provisions of subsection (2), paragraph (ii) of subsection (3), subsection (4) or subsection (5) from trading in listed securities; or

(b) by the provisions of subsection (6) or subsection (7) from doing any other thing in relation to listed securities which he is prohibited from trading in by any of the provisions referred to in paragraph (a),

if he does that thing in order to facilitate the competition or carrying out of the transaction.

Act 32(10). Insider Dealing, Trustees - Where a trustee or legal representative, or where a trustee or legal representative is a body corporate, an individual acting on behalf of that trustee or legal representative, who, apart from the provisions of paragraph (a) of subsection (8) would be prohibited by the provisions of this section from counseling or procuring any other person to trade in listed securities, trades in those listed securities, or counsels or procures any other person to trade in them, he shall be presumed to have acted as referred to in that paragraph if he acted on the advice of a person who-

(a) appeared to him to be an appropriate person from whom to seek such advice; and

(b) did not appear to him to be prohibited by this section from dealing in those securities.

Act 33(1) Insider Trading, Public Servants - The provision of this section shall apply to any information which-

(a) is held by a public servant or former public servant by virtue of his position or former position as a public servant or is knowingly obtained by an individual (directly or indirectly) from a public servant or former public servant who he knows or has

reasonable cause to believe, held the information by virtue of any such position;

(b) it would be reasonable to expect an individual in the position of the public servant or former position of the former public servant not to disclose except for the proper performance of the functions attaching to that position; and

(c) the individual holding it knows, is unpublished price sensitive information in relation to listed securities of a particular company (hereafter in this section referred to as "relevant securities").

(2) The provisions of this section shall apply to a public servant or former public servant holding information to which this section applies and to any individual who knowingly obtained any such information (directly or indirectly) from a public servant or former public servant who, that individual knows or has reasonable cause to believe, held the information by virtue of his position or former position as a public servant.

(3) An individual to whom the provisions of this section apply-

(a) shall not trade in any relevant securities;

(b) shall not counsel or procure any other person to trade in any such relevant securities, knowing or having reasonable cause to believe that other person would trade in them; and

(c) shall not communicate to any other person the information held or, as the case may be, obtained by him as referred to in subsection (2) if he knows or has reasonable cause to believe that that or some other person will make use of that information for the purpose of counseling or procuring any other person to trade in such relevant securities.

(4) An individual shall not, by reason only of having information relating to a particular transaction, be prohibited by any provision of this section from doing anything, if he does that thing in order to facilitate the completion or carrying out of the transaction.

Act 34 - Insider Trading Definitions,

Connected with a Company - (1) For the purposes of this Part of this Act, an individual is connected with a company if, and only if-

(a) he is a director of that company or a related company; or

(b) he occupies a position as an officer (other than director) or employee of that company or a related company or a position involving a professional or business relationship between himself (or his employer or a company of which he is a director) and the first company or a related company which in either case may reasonably be expected to give him access to information which, in relation to listed securities of either company, is unpublished price sensitive information and which it would be reasonable to expect (a person in his position not to disclose except) for the proper performance of his function.

Unpublished Price Sensitive Information (2) Any reference in this Part of this Act to "unpublished price sensitive information" in relation to any listed securities of any company is a reference to information which-

(a) relates to specific matters relating, or of concern, (directly or indirectly) to that company that is to say, is not of a general nature relating or of concern to that company; and

(b) is not generally known to those persons who are accustomed or would be likely to deal in those listed securities but which would if it were generally known to them be likely to affect materially the price of those securities.

(3) In this Part of this Act except where the context otherwise requires-

"company" means a listed public company within the meaning of this Act;

"related company", in relation to any company means any body corporate which is that company's subsidiary associate or

holding company, or a subsidiary of that company's holding company;

"take-over offer for a company" means an offer made to all the holders (or all holders other than the person making the offer and his nominees) of the shares in the company to acquire those shares or a specified proportion of them, or to all the holders, or all the holders other than the person making the offer and his nominees, of a particular class of those shares to acquire the shares of that class or specified proportion of them.

Act 47. - Securities Council Personnel & Penal Code - All member, officers and servants of the Council shall be deemed to be public servants within the meaning and for the purposes of the Penal Code.

Act 48. - Securities Council & Bribery Act - The Council shall be deemed to be a Scheduled institution within the meaning of the Bribery Act, and the provisions of that Act shall be construed accordingly.

CSE Rule of Business Conduct 15 - Personnel Related Company Activity - All directors and employees of member firms shall file a report not later than ten market days after the happening of the event.

All management or board level interest in any quoted company or a company associated with or a subsidiary of a quoted company by the director or employee or by any member of his or her immediate family (spouse and minor children)

All directors and employees of member firms are required to file a report not later than ten market days after the end of each calendar quarter as to:

All shares held by the individual director or employee in quoted companies. They shall cover any shares as above held in trust by/for said individual or held by members of his/her immediate family as stated in 1 above.

608. COMMUNICATIONS WITH PUBLIC

SC Guidelines 2. - Definitions - (f) "Advertisement" means any material for use in any newspaper or magazine or other public medium or by radio, telephone, recording or television.

(g) "Sales Literature" means printed or processed material detailing the facilities and services offered by a member company or its personnel to the public.

SC Guidelines 8. - Advertising and Articles in Public Media -

(a) No member company shall:

(1) publish or broadcast any material which is not of a strictly legitimate business character or any material which may be in the opinion of the stock exchange, detrimental to the interest of the stock exchange generally or any of the member companies in particular.

(2) allow its name to be included in an advertisement containing a list of member companies of the stock exchange unless the list includes the names of all member companies or the prior approval of the stock exchange has been obtained.

(b) All advertisements and sales literature issued by a member company shall be approved in advance by the Board of Directors of the company.

It shall be the responsibility of the Board of Directors of the member company to ensure that all advertisements and publicity materials:

(1) are designed to advertise the member company and its willingness to seek the custom of the public and not to attack, offend or discredit other member companies and institutions directly or by implication.

(2) do not contain claims that are unwarranted, exaggerated or incapable of substantiation. No claims or comparisons

which are misleading about expertise or service may be included.

(3) are truthful, factual, accurate and in good taste.

(4) are not of a character which would be likely to bring the stock exchange or its member companies into disrepute.

(5) are written in such a way so as not to prejudice the interests of the investing public or retard or distort the proper development of the capital market.

(c) Member companies shall be responsible for the accuracy and contents of their advertisements and sale literature and if required by the stock exchange must be able to justify the contents. Where a member company is found to be in breach of this regulation, the stock exchange shall have the power to require the member company to refer to it all future advertisements and sale literature for prior approval. In any review of advertisement or publicity material, the stock exchange cannot be held responsible for the accuracy and completeness of factual information nor the opinions held or alleged objectives of the member company.

P510. Communications with the Public - Traditional standards of truthfulness and good taste shall apply to any form of communication by Members, their employees and employee representatives, agents or agent representatives. Specifically prohibited are:

- a) any untrue statement or omission of a material fact or communication which is otherwise false or misleading,
- b) promises of specific results, exaggerated or unwarranted claims,
- c) opinions for which there is no reasonable basis, or
- d) projections or forecast of future events which are not clearly labeled as such.

Recommendations (even though not labeled as such) must have a basis which can be substantiated as reasonable. When recommending a purchase or sale or switch of specific securities, supporting information must be provided or offered. The market

price at the time of recommendation is made must be indicated.

Disclosure shall be made (excluding extemporary interviews) in recommending purchase or sale of specific securities if the Member usually makes a market in such security or the transaction is to be on a principal basis with the Member, or the Member was manager or co-manager of the most recent public offering of the issuer, or if any director or principal executive of the Member or its employees preparing the communication have positions in securities or options of the issuer or is a director of such issuer.

Performance records or statistics of past recommendations or actual transactions of the Member shall be balanced and

- a) confined to a specific universe that can be fully isolated and circumscribed and that covers at least the most recent 12-month period,
- b) include the date and price of each initial recommendation or transaction and end of period when liquidation was first recommended or effected. Such detail may be summarized, averaged or offered rather than provided provided that there is included the total number of items recommended or transacted, the number that advanced or declined and an offer of the complete information on request.
- c) disclose relevant costs and all material assumptions used for annualization,
- d) indicate general market conditions during the period covered and any comparison to an overall market indicator such as an index are valid,
- e) that the results presented should not and cannot be viewed as an indicator of future performance, and
- f) documents and working papers on which the record is based are retained for Exchange review for at least three years.

Projections and predictions must contain the bases or assumptions upon which they are made and offer the bases and assumptions of such materials used.

Comparisons with a Member's service, personnel, facilities or charges with those of others must be factually supportable.

Dating of reports shall be appropriate with identification of any significant information which is not reasonably current.

Sources shall be disclosed of communications not prepared under the direct supervision of the Member.

Testimonials concerning the quality of investment advice must make clear that such statement may not be representative of the experience of other clients and is not indicative of future performance or success.

If more than a nominal sum is paid for the testimonial, the fact that it is a paid testimonial shall be indicated. If the testimonial concerns a technical aspect of investing, the person testifying must have knowledge and experience to form a valid opinion.

Exchange review of all or particular communications with the public by Members in advance of or following publication may be required by the Exchange.

Chapter Seven - Supervision and Control

701. SUPERVISION OF BUSINESS

CSE Rules of Business Conduct 2. - Compliance by Personnel - (a) Members shall establish, maintain and enforce procedures which will enable them to supervise properly the activities of their employees to assure compliance with the Securities Council Act, Rules and Regulations promulgated thereunder and with the By-laws, Rules and Regulations of the Exchange.

P601, Business Supervision - a) Each office, department or business activity of a Member shall be under the supervision and control of the Member establishing it and of the personnel delegated such authority and responsibility. Each person employed as an agent or agent representative and each office and department of an agent conducting any securities business shall be by contract subject to control and inspection of its securities business by the Member or the Exchange.

The person in charge of a group of employees or employee representatives, agents and agent representatives shall reasonably discharge his duties and obligations in connection with supervision and control of the activities of those persons related to the business of the Member and compliance with securities laws and regulations.

b) The directors of each Member shall provide for appropriate supervisory control and shall designate a chief executive officer to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities law and regulation. This person shall:

- (1) delegate to qualified employees responsibility and authority for supervision and control of each office, department or business activity, and provide for appropriate procedures of supervision and control.
- (2) establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.

c) The prior consent of the Exchange shall be obtained for each office established by a Member other than the main office, by a showing that proper supervision and financing for the office and business to be produced is available.

d) Qualified persons acceptable to the Exchange shall be in charge of any office of a Member, any regional or other group of offices, any sales department or activity. Any person who is a candidate for acceptability under this rule should have a creditable record as a registered representative or equivalent experience, and is to demonstrate in such other manner as the exchange may determine that he has the knowledge and competence to supervise the proposed activity.

e) the amounts and types of credit extended or guaranteed by a Member shall be supervised by employees qualified by experience for such control in the types of business for which credit is extended.

f) Duties of supervisors of employee representatives, agents and agent representatives ordinarily should include at least approval of new accounts and review of correspondence of employee representatives, agents and agent representatives, transactions, and customer accounts. Appropriate records should be maintained evidencing the carrying out of supervisory responsibilities such as a written statement of the supervisory procedures currently in effect and initialling of correspondence, transactions, blotters or statements reviewed in the supervisory process.

g) Members shall provide for the supervision and control of each general ledger bookkeeping account and account of like function on the basis specified in P353.

P602, Offices - shall be physically located or organized in such a way as to eliminate any confusion by customers as to the entity with which they are doing business.

702. KNOW YOUR CUSTOMER

P603, Diligence as to Accounts - Every Member is required through a principal executive or person designated under the provisions of P300 to

- a) Use due diligence to learn the essential facts relative to every customer, every order, every cash or credit account accepted or carried by or for such Member and every person holding power of attorney over any such account.
- b) Supervise diligently all accounts handled by employee representatives, agents and agent representatives of the Member
- c) Specifically approve the opening of an account prior to or promptly after the completion of any transaction for the account of or with a customer. The person approving the account shall be personally informed as to the essential facts relative to the customer and to the nature of the proposed account and

shall indicate approval in writing on a document which is part of the permanent records of the Member.

For a credit (margin) account of a non-member corporation, definite knowledge should be had that the corporation has the right under its Charter and By-laws to engage in credit transactions for its own account and that the persons from whom orders are received are duly authorized to so act by the corporation. Copies of the corporate charter, by-laws and authorizations are advisable, otherwise the Member should file a signed memorandum of reasons for believing that credit transactions are legal and authorized.

For a cash account of a non-member corporation, the Member should assure itself through a principal officer of the corporation that the person entering orders has the authority to do so.

For an agency account, the name of the principal for whom the agent is acting and written evidence of the agent's authority should be obtained.

For estate and trustee accounts, Members should have counsel's advice as to documents to be obtained.

Information as to citizenship of a customer is an essential fact.

703. ACCOUNT SUPERVISION

P604, Account Name - No Member shall carry or guarantee an account in the name of a person other than that of the customer, except that an account may be designated by a number or symbol provided that the Member has on file a written statement signed by the customer attesting the ownership of the account.

CSE Rules of Business Conduct 6(a). Employee Trades - Members shall not transact any securities business for the account of an employee or in which an employee has any direct or indirect interest.

P605, Employee Accounts - No Member shall carry or guarantee an account or effect a transaction, without the prior written consent of the employer, in which an employee, agent or agent representative of

another Member, or an employee of the Exchange, its subsidiaries or the Securities Council is directly or indirectly interested.

Duplicate reports and statements shall be sent promptly to the employer, attention of a designated principal executive, other than the interested employee.

No Member shall carry or guarantee a credit (margin) account or transaction, without the prior written consent of the employer, in which an employee of a financial institution or business is directly or indirectly interested.

No employee, agent or agent representative of a Member and no employee of the Exchange, or its subsidiaries shall open an account or enter orders for transactions with other Members, non-member broker/dealers or banks without the prior written consent of a principal executive other than himself designated to sign such consents, and shall arrange for duplicate confirmations and statements to be sent to such person.

704. COMMUNICATION WITH PUBLIC

P606, Public Communications - Any communication generally distributed or made available by a Member to customers or the public shall be approved in advance by a principal officer or other delegated person qualified for such supervision. Such communication includes but is not limited to advertisements, market letters, research reports, books, sales literature, electronic communications of like content, communications with or by means of the media, and wires or memoranda to branches, employees or employee representatives, agents and agent representatives which are

shown or distributed to customers or the public. Letters containing investment advice or information by employee representatives, agents and agent representatives shall also be reviewed in advance of mailing by a competent delegated person.

P606B - Definitions, Research Reports - Research reports are generally defined as an analysis of individual companies, industries, market conditions, securities or other investment vehicles which provide information reasonably sufficient upon which to base an investment decision, and shall be prepared and then approved by different individuals competent for such preparation and the supervision thereof. Supervision may be by employees of the Member or part time competent consultants retained for that purpose. When in Sri Lanka securities analysis becomes a developed profession, the Exchange shall establish qualification standards for supervisory analysts and require approval of research reports by such persons. Basic analysis in research reports by a person without technical expertise in some areas of the report shall be co-approved by a product specialist so qualified.

For this purpose approval of the Exchange of specific arrangements shall be required for any office jointly occupied with any other business. Acceptable methods of differentiation of businesses in joint tenancy include ceiling high or partial walls with prominent signage at entrances, wearing of badges by employees, barring of any customers from the space, different telephone numbers, and no stationery or advertising showing both organizations.

Chapter Eight - Financial & Operational Responsibility

801. CAPITAL REQUIRED

P701, Member Capital Required - A Member introducing all accounts on a disclosed basis to the Settlement Agency shall maintain net worth of Rs 1 million.

A Member carrying customer or proprietary accounts and settling exchange transactions shall at all times maintain minimum net capital equal to the greater of Rs 1 million or 7 percent of aggregate debit items computed with the Formula for Determination of Reserve Requirements for such Members

below. The 7% requirement shall be subject to adjustment by the Executive Committee as experience with this requirement is gained.

The term net capital means the net worth of the Member adjusted by

- a) adding or deducting unrealized profits or losses with all long or short security positions marked to their market value,
- b) excluding liabilities subordinated pursuant to a satisfactory subordination agreement approved by the Exchange,
- c) deducting fixed assets and other assets not readily convertible to cash such as real estate, furniture and fixtures, exchange fees not amortized; prepaid items, goodwill; unsecured or partially secured advances, loans, customer and other accounts; fixed bank accounts not callable (usable) within 10 business days, assets doubtful of collection.
- d) deducting the market value of all short security differences unresolved 14 days after discovery, and the market value of any long securities differences sold before adequately resolved less any reserves established therefore,
- e) Deducting for securities or money market instruments in the proprietary or other accounts of the Member 5% of the market value of any security issued or guaranteed by the government of Sri Lanka, 30% of the market value of any listed security up to the quantity which is readily marketable at a 10% discount, and 100% for all other securities (Lesser deductions will be allowed for securities accepted as adequate collateral by a bank at the percentage loaned by the bank, or where a ready market on a foreign Exchange and currency convertibility can be demonstrated),
- f) deducting the amount of cash required in each carried or guaranteed account of a customer, employee or registered representative needed to meet the maintenance requirement of the Exchange for credit extension accounts and outstanding five business days or more.

P702. Capital, Aggregate Indebtedness Formula - Add the following:

1. Amount of customers' money balances required to be held in separate bank accounts.
2. Moneys borrowed collateralized by customer securities.
3. Contract values of customer securities purchased by open exchange contract and funds not yet received from buying customer or securities not received in good delivery form from selling customer.
4. Moneys payable against customer securities loaned.
5. Market value of stock dividends, splits and similar distributions receivable outstanding more than 30 days.
6. Market value of securities in transfer more than 40 calendar days and not confirmed as in process by issuer or transfer agent during that time.
7. Unsecured and unsubordinated bank overdrafts and borrowings from banks or others.
8. Drafts or checks not yet reflected in any bank balances.

P705. Capital, Subordinated - Loans of to a Member may be subordinated to the claims of all creditors through a form supplied by the Exchange of an agreement for cash or secured demand note collateralized by securities, and requiring Exchange approval in order to be credited as capital of the Member. Such subordinations by others than principal executives and approved persons of the Member shall not exceed 70% of total capital allowed as the net worth of the Member in computation of capital for a period of not longer than 90 days or such longer period as the Exchange upon application of the Member determines to be in the public interest or for the protection of investors.

For the purpose of increasing a Member's protection of customers and the Settlement Agency, a Member may enter into subordination agreements which are not allowed as good capital, placing at the risk of the business margin accounts, securities, collateral in excess of face value of secured demand notes, personal accounts, and the

like. Such subordinations must be in a form acceptable to and filed with the Exchange and shown separately in financial statements and similar documents.

NYSE forms of subordination are available for adaptation to the law of Sri Lanka.

P706, Capital Withdrawal - No equity capital may be withdrawn by action of a stockholder or through payment of dividends or other distribution, nor may any loan be made to a stockholder or employee or registered representative if, after giving effect thereto and to any other such withdrawals, advances, loans, and any payment or payment obligations under satisfactory subordination agreements which are scheduled to occur within six months following such time, either its net capital should fall to equal 150% of that required.

P707, Capital Decline - A Member shall forthwith notify the Exchange if its net capital after deduction of all capital withdrawals including maturities, if any, scheduled during the next six months falls below 150% of that required by Rule.

P708, Special Capital Requirement - The Exchange may at any time or from time to time with respect to a particular Member or all Members, or new Members prescribe greater net capital requirements than those prescribed by Rule, including more stringent treatment of items in computing net capital or net worth.

P709, Capital, Restriction - The exchange may restrict growth of business or require business reduction by a member whose net capital is less than 150% of its capital requirement by Rule, or for whom the deduction of capital withdrawals including maturities scheduled during the next six months would so result, or whose records of customer accounts and securities transactions are materially deficient in accuracy and currency.

P710, Loan and Advance Restriction - No drawing, unsecured or partially secured loans or advances of funds shall be made by a Member to any associated or approved party or parties associated with approved persons, except with prior written approval of the Exchange, when the Member's net capital is less than 150% of its capital

requirement or the deduction of capital withdrawals including maturities scheduled during the next six months would so result, or the Exchange restricts the member organization.

Except with the prior written approval of the Exchange, a Member which has outstanding any such obligations by such parties shall forthwith reduce or eliminate such obligations from such borrowers or otherwise restore its net capital to the point where it is less than 150% of its capital requirement under P355 or the deduction of capital withdrawals including maturities scheduled during the next six months would so result, or the Exchange restricts the member organization.

P711, Capital Financing Arrangements - No Member shall consummate a sale or financing arrangement intended to improve its capital computation before submitting related documentation to the Exchange for approval. Such events include sale and leasebacks of any assets, sale or factoring or financing of unsecured accounts receivable, loans by a bank upon collateral otherwise deemed not readily marketable, etc.

802. SECURITY DEPOSIT

Act Schedule Part II (section 18) (e) - Security Deposit - Security Requirement for Member brokers and dealers - the applicant company has lodged security on such sum as may be required by the Minister, having regard to the value of transactions that are likely to be carried on by such applicant or an equivalent in bank guarantee with a stock exchange licensed under the provisions of this Act.

Act Schedule Part III (section 18) (d) Security Requirement for individual stock brokers or dealers - the applicant has lodged security in such sum as may be determined by the Minister, having regard to the value of transactions that are likely to be carried on by such applicant or an equivalent in bank guarantee with a stock exchange licensed under this Act; and

SC Rules 90 3 - Security Deposit Proof - 3. Where the Council requests, a stock exchange shall forward to such Council, the relevant documents in proof of the fact that security of a bank guarantee has been lodged with such stock exchange by every stockbroker or stock dealer who is a member of such stock exchange.

CSE Article 18(i) - Security Deposit - Every member shall furnish security of the nature hereinafter specified for the payment of any monies which may at any time in the opinion of the Committee be or become due by such member to the Exchange or any other member or members of the Exchange or client or clients of such member and the decision of the Committee whether upon an arbitration under Article 59 or otherwise and the decision of the Committee that any monies are due or payable by such member either in Law or in accordance with the customs and usage of and amongst Brokers to the Exchange or to any other member or members shall be final and conclusive as between such member and his surety and the sureties on the one hand and the exchange and such other member or members on the other hand.

(ii) The security to be furnished shall be :-

(a) Rupees Two Hundred and Fifty Thousand (Rs.250,00/-) by the first members and such associate members as are admitted prior to such date as may be determined by the Executive Committee.

(b) Rupees One Million (Rs. 1,000,000/-) by any other member admitted after such date as may be determined by the Executive Committee. Provided that any company which is admitted as an associate member of the Exchange after the date referred to in Article 18 (ii) (a) shall be liable to furnish security initially in a sum of Rupees Two Hundred and Fifty Thousand (Rs.250,000/-) but on admission as full member shall be bound to furnish a further security of Rupees Two Hundred and Fifty Thousand (r. 250,000/-)

~~(iii) The security to be furnished under the provisions of Article 18 (ii) shall be either:~~

(a) Government Securities of a market value equivalent to the amount of the security to be furnished and such securities shall be transferred in and registered in the name of the Exchange.

(b) A guarantee from a Bank for the appropriate amount in such form as the Exchange shall require and shall renew the guarantee from time to time.

(iv) Where a member has furnished as security Government Securities, such member shall if the market value of such securities fall below the value for which securities is required (a) forthwith furnish and secure to the Exchange such further Government Securities as shall be required to make up the security to the required amount and (b) transfer such further Government Securities to the Exchange and sign such documents as he may be called upon to sign by the Exchange in relation thereto.

P704, Security Deposit - Each member shall maintain on deposit with the exchange the larger of the amount required by either (A) or (B) following:

(A) Such amount as required by Section 17, Part II(e) and Section 18, Part III(d) of the Securities Council Act No. 36 of 1987 and Section 18(ii) of the Articles of Association of the Exchange. (Currently 0.5% of the annual turnover of a member during the prior calendar year with a minimum of Rs 500,000 and a maximum of Rs 1,500,000). Annual turnover is the total value of buy and sell side contracts, separately included, executed on the exchange to buy or sell securities.

(B) 5% of the second highest total value of open buy and sell side contracts, separately included, at the close of business on the day prior to any settlement day during the prior three months, as determined at the close of business at each month end and effective as a requirement on the fifth business day of the next month. The 5% figure shall be subject to adjustment by the Executive Committee as experience with this requirement is gained

Any guarantee from a bank deposited as such security in a form required by the Exchange shall not satisfy the security deposit requirement when it has less than two months to expiration or extended expiration, but shall not be withdrawable until its termination date.

Any bank guarantee qualifying as a security deposit shall be supplemented by a copy of any document collateralizing or guaranteeing any sum called by the exchange. No pledge of a separate bank account for customer funds or excess collateral in a loan secured by customer securities shall be acceptable.

(The present form of guarantee required by the exchange shall be amended to: a) provide that the bank has no right of set off against member assets it may hold other than those specifically pledged, b) subordinate claims of the guaranteeing bank to all claims of customers.)

The priorities for use of any called security deposit shall be to satisfy (a) net losses if any on close out of open exchange contracts, (b) debts to the exchange, (c) unsatisfied obligations to customers, in that order. If a failing member's security deposit is insufficient to satisfy net losses in any close out of open exchange contracts, then the balance of net losses on close outs shall be charged to other members pro-rata to their then required security fund deposit. When the Central Depository System becomes operational, the exchange shall agree by contract with the Depository that the security deposits held by the exchange will be collateral for losses on close out of open exchange contracts of any defaulting member. (See discussion in report for review of this provision by bankruptcy counsel.)

803. CUSTOMER RESERVE BANK ACCOUNTS

CSE Code of Business Conduct 11. - Separate Bank Accounts - (a) Members shall establish and keep in a bank or banks in Sri Lanka one or more accounts separate from their own operating accounts into which they shall pay :

(1) all amounts (less commissions and other proper charges) that are received from any client for the purchase of securities and that are not attributable to securities delivered to the member not later than the next bank business day following the day on which such amounts were received; and

(2) all amounts (less any commission and other proper charges) that are received for the account of any client from the sale of securities and that are not paid to that client or as that client directs not later than the next bank business day following the day on which they were received.

(b) All amounts received required by (a) above to be paid into a separate account shall be retained in such account until :

(1) such amount is paid to , as directed in writing by the person entitled thereto;

(2) such amount is withdrawn for the purpose of defraying proper charges as authorized by law.

P703. Customer Reserve Bank Account (Replacement for CSE Rule of Conduct #11, Separate Bank Accounts - Each Member carrying customer accounts shall maintain with a bank or banks "Special Reserve Bank Account for the Exclusive Benefit of Customers" and shall at all times maintain in such accounts cash or qualified securities totalling the cash held without lien for customers less such customer cash used to finance other customer's fully secured debt in respect to securities transactions.

"Qualified securities" means Sri Lankan government securities with a market value at least 105% of the sum they represent in such reserve bank accounts. "Cash held without lien" means cash held as credit balances in customer cash or margin accounts which is payable to brokers for settlement of open contracts or payable to or withdrawable by customers for any reason. "Other customer's fully secured debt" means (a) debts in customer margin accounts secured as required in Exchange rules or such higher requirement as normally required by the member carrying an account, (b) for a maximum period of three days after

settlement date, the contract value of securities purchases settled by the member but not yet paid by the purchaser, but excluding from both (a) and (b) debts of any customer whose securities are pledged directly or indirectly as security for any bank loan or otherwise.

Immediately thereafter close the transaction with the customer.

The Exchange will consider applications for extensions of time for buy-ins under this rule .

Such reserve bank accounts shall be subject to written contracts with the holding bank(s) providing that the cash and/or qualified securities are held by the bank for the exclusive benefit of customers of the depositing entity and shall at no time be used directly or indirectly as a fixed deposit, security for a loan to, overdraft facility for, guarantee in favor of, or any other accommodation to the depositing member by the bank and shall be subject to no right, charge, security interest, lien, or claim of any kind in favor of the bank or any person claiming through the bank. The title of the account in the records of the bank shall indicate that it is a "Special Reserve Account for the Exclusive Benefit of Customers." All debit balances constituting "other customers' fully secured debt" upon collection or liquidation of collateral shall be deemed "Special Reserves for the Exclusive Benefit of Customers" in the event that the Security Council directs the Exchange to take over or appoint others to take over the customer property of a member.

P719. Customer's Securities, Hypothecation of - No Member or employee thereof shall directly or indirectly hypothecate or arrange for or permit the continued hypothecation of any securities carried for customers under any circumstances that will permit:

- a) the commingling of securities carried for the account of any customer with securities carried for the account of any other customer without first obtaining the written consent of each such customer to such hypothecation,
- b) such securities to be commingled with securities carried for all accounts of any person other than a bona fide customer of such Member or Settlement Agency under a lien or loan made to such entity,
- c) securities carried for the account of customers to be hypothecated or subject to any lien or liens or claim or claims of the pledgee or pledgees for a sum which exceeds the aggregate indebtedness of customers on such day, provided that funds or securities in an amount sufficient to eliminate such excess are paid or placed in transfer to pledgees for the purpose of reducing the liens or claims to which securities carried for the account of customers are subjected as promptly as practicable after such reduction occurs, but before the lapse of one-half hour after the commencement of banking hours on the next banking day at the place where the largest principal amount of such loans are payable and in any event before such entity on such day has obtained or increased any bank loan collateralized by securities carried for the account of customers.

804 CUSTOMER SECURITIES

CSE Code of Business Conduct 9(c). - Delivery to Customers - Members shall not without written authorisation by a client, (i) mail any communication to the client in care of other persons, or (ii) permit anyone other than the client to take delivery of any contract notes, credit or debit notes or any statements.

P725. Customer Securities, Deliveries on Sale - If a member executes a sell order of a customer (other than an order disclosed to execute a sale of securities which the seller does not own) and if for any reason whatever the Customer has not deposited the security with the carrying entity within ten business days after the settlement date, the Member shall

The provisions of the prior paragraph shall not apply to hypothecation of securities carried for a customer in a cash account not yet paid for, provided that at or before the submission of the contract note to such customer, written notice is given or sent to such customer disclosing that such securities are or may be hypothecated under circumstances which will permit the

commingling thereof with other securities carried for the account of other customers. *(Obviously this should be provided by legend on the back of the confirmation or contract note)*

P720, Customer Securities, Custody of - Members shall promptly obtain and shall thereafter maintain physical possession or control of all customers fully-paid securities and all securities subject to lien in credit accounts in excess of 140% of the debit balances in such accounts. Violation shall not be deemed if solely as the result of normal business operations, temporary lags occur between the time when a security is required to be in possession or control and the time that it is placed in such status provided that the Member takes timely steps in good faith to establish such status.

Any customer property given to an employee or agent shall be transmitted on the same day to the member carrying the customer account.

P721, Customer Securities, Borrowing - Further, violation will not be deemed if the Member and a Securities Lender at or before the time of the loan, enter into a written agreement that at a minimum sets forth in a separate schedule or schedules the basis of compensation for any loan and generally the rights and liabilities of the parties as to the borrowed securities, provides that the Lender will be given a schedule of the securities actually borrowed at the time of the borrowing of the securities, and specifies that the borrower will provide the Lender on that day with collateral in cash, government bills or notes, or an irrevocable line of credit issued by a bank which full secures the loan of securities, and that at the close of each successive business day the loaned securities will be marked to the market and collateral if insufficient restored to at least 100% by the close of the next business day.

P722, Customers Securities, Control of - Control shall be deemed to be effected when such securities are:

- a) in the custody or control of the Member, a custodian bank, or securities exchange, the delivery of which does not require the payment of money or value, and if the books and records of the Member

Identify the customers entitled to receive specified quantities or units of the securities so held for such customers collectively,

- b) subject of bona fide items of transfer not older than 40 calendar days or confirmed in writing to be in process by the issuer or transfer agent.
- c) held in such other locations as the Exchange shall upon application find and designate to be adequate for the protection of customer securities.

P723, Short Security Differences - Buy-in shall be made of short security differences not resolved within 45 calendar days after the date of any required examination, count, verification and comparison of securities.

P724, Securities Movements - Not later than the next business day, a Member shall determine from its books and records as of the close of the prior business day the quantity of securities required to be in possession and control actually and not in such possession and control. (Inactive credit accounts may be not less than twice weekly.) Deficiencies in securities in possession and control shall be corrected by ordering if there are securities of the same issue and class in any of the following non-control locations: from money borrowed collateral accounts movement within two business days, from securities loaned movement within five business days, from securities failed to receive for 30 calendar days a buy-in procedure or otherwise, from security dividend receivable or stock split or similar distribution not received for 45 calendar days a buy-in procedure or otherwise.

805. RECORDS REQUIRED, STOCK EXCHANGES

SC Rules 90 8. - Stock Exchange, Required Records - (1) Every licensed stock exchange shall maintain and preserve the following books of accounts and documents, or such other acceptable alternative accounting records for a period of five years -

(a) Minute Books of the meetings of -
(i) Members,
(ii) Governing Body,
(iii) Any Standing Committee or Committees of the Governing Body or of the General Body of members.

(b) A register of members containing their full names and addresses. Where any member of a stock exchange is a company, the full names and addresses of all the Directors, and where any member is a Partnership, the full names and addresses of the Partners shall be shown;

(c) Register of accredited representatives and authorized assistants;

(d) Record of security deposits and bank guarantees;

(e) Ledgers;

(f) Journals;

(g) Cash Books;

(h) Bank statements and bank reconciliation account;

(i) List of names and addresses of Secretaries/Registrars of companies listed with the stock exchange.

806 RECORDS REQUIRED, BROKERS

CSE Code of Business Conduct 5(c) - Customer Account Records - Members shall maintain accounts of clients in an orderly form and manner including the following information: telephone number, occupation and name and address of employer; name, address, signature of the person accepting the account. Discretionary accounts shall also show the age or approximate age and occupation of the client, the signature of each person authorized to exercise discretion and the signature of the person authorizing such an account.

P717, Financial Statements to Customers - Members and the Settlement Agency shall file with the Exchange and send to each person specified below the following:

Audited statements within 90 days of the required annual audit date including

a) a balance sheet with appropriate notes prepared in accordance with Sri Lankan generally accepted accounting principles,

b) a footnote containing a statement of the amount of the entity's net capital and required net capital computed in accordance with Exchange rules and including summary financial statements of subsidiaries, consolidated when material, and the effect thereof on the capital required of the entity, and

c) if the independent accountant commented on any material inadequacies, a statement by the Member that a copy of such report and comments is currently available for the customer's inspection.

Unaudited statements containing the similar information as of a date six months from the audit date shall be furnished not later than 65 days after the as of date.

Persons specified to receive these statements are any person who has a claim for property or funds which is part of the capital of the Member or is subordinated to the claims of creditors of the Member, or with whom the Member has effected a securities transaction or carried or guaranteed a securities or money balance during the month before or after the balance sheet date.

CSE Code of Business Conduct 9(a) - Customer Confirmations of Trades - Members shall not later than the next business day send by ordinary post or delivery by hand with appropriate records of such posting or delivery to its client a contract note indicating any purchase or sale of securities executed for the account of the client.

CSE Code of Business Conduct 9(b) - Customer Account Statements - Members shall send by post

or delivery by hand a statement of account at least quarterly to each client in whose account there have been any securities transactions recorded. Statements shall be sent to all clients having open margin accounts on a monthly basis. Statements shall set forth, as of the statement date, the security position and the money balance carried forward.

CSE Rule 10. - CSE Member Records - (a) Members shall maintain orderly records in sufficient detail to show particulars of :

- (1) all monies received or paid;
- (2) all purchases and sales of securities by the Member, showing the specific orders received daily by clients, the name of each client, the time the order was received, the charges and credits arising therefrom, and all receipts and deliveries of scrip with respect to each order;
- (3) all income received from commission, and other sources, and all expenses;
- (4) all assets and liabilities including contingent liabilities;
- (5) all securities held showing for whom the securities or the documents of title to the securities are held.

(b) Members shall conduct as frequently as good business practice requires but no less than once a month, counts, verifications and reconciliations of physical scrips in hand or pledged with financial institutions with scrip position statements and reconciliation of shares and collateral deposited and held in clients' margin accounts with the physical scrip position.

CSE Trading Rules 6.2 4/4/90 - Records on Floor - All member firms shall maintain appropriate records of all bids and offers placed by the trading floor representative on behalf of clients that can be made available to the CSE surveillance department for verification.

SC Rules 90 8.(2) - Records Required, Brokers, Dealers - Every licensed stockbroker or stock dealer shall maintain and preserve the following books of account and documents, or such other acceptable alternative accounting records in their place, for a period of five years -

- (a) Register of Transactions - Contract-wise;
- (b) Register of Transactions - Company-wise;
- (c) Register of Transactions - Client-wise;
- (d) Clients' Ledger;
- (e) General Ledger;
- (f) Cash Book;
- (g) Bank Statements and Bank Reconciliation Account;
- (h) Members' contract books, showing details of all contracts entered into by him with other members of the same stock exchange, or counterfoils or duplicates of memos of confirmation issued to such other members;
- (i) Duplicates of contract notes issued to clients;
- (j) Written consent of clients in respect of contracts entered into as members, where available.

CSE Code of Business Conduct 5(d) - Records of Complaints - Members shall preserve a record of all written complaints of clients and the action taken by the member, if any.

807. AUDITS

SC Rules 90 12. - Audits - (1) In addition to any other existing requirements for an audit, every member shall, if directed by the Council, have its accounts audited by a firm of Chartered Accountants who are registered as Auditors.

(2) The Council where it deems necessary may appoint an independent auditor to conduct an audit at any time, without prior

notice on a member, and it may fix the remuneration to be paid by the member to such auditor.

CSE Code of Business Conduct 12 - Audit, Annual Financial - (a) Members shall have an annual audit by an auditor who shall be subject to prior Exchange approval.

(b) Members shall authorize the Auditors, to furnish or shall obtain and furnish the certificate to the Exchange and the Securities Council within four months after the close of the financial year -

(1) Whether in the opinion of the auditor, the Member's books of accounts and records are those generally kept in a business of that nature and appear to have been kept in a proper manner in accordance with the provisions of the Rules, Regulations and bye-laws of the Exchange and of the Securities Council and of the Securities Council Act No. 36 of 1987;

(2) whether in the opinion of the Auditor, the proper books of accounts have been maintained by the business/company;

(3) whether the auditor has obtained all the necessary information for the proper conduct of the audit.

(c) The Auditor shall, as authorized by the members, report immediately to the Manager of the Exchange, where in the performance of his duties as an Auditor for the member he becomes aware:

(1) of any matter which in his opinion may adversely affect the financial position of the Member to a material extent;

(2) of any matter which in his opinion may constitute a breach of any provision of the Securities Council Act No. 36 of 1987 or any Rules or Regulations promulgated thereunder or a criminal offence involving fraud or dishonesty;

(3) of any irregularities which have occurred that have or may have a material effect upon the accounts and jeopardize the funds or property of the Member's clients; or

(4) of any material inadequacies in the accounting system or internal accounting controls or procedures for safeguarding client funds or securities.

P713, Audits, Special - The Exchange may at any time require any Member or the Settlement Agency to cause an audit to be made by an independent public accountant of its accounts in accordance with requirements prescribed by the Exchange.

The annual audit report shall contain a Statement of Financial Condition, a Statement of Income, a Statement of Changes in Stockholder's Equity, and Statement of Changes in Liabilities Subordinated to Claims of General Creditors. Such statements shall be in a format and on a basis which is consistent with such statements filed monthly with the Exchange. If a Statement of Financial Condition is not consolidated, a summary of financial data, including the assets, liabilities, and net worth or stockholder's equity shall be included for subsidiaries not consolidated.

Supporting schedules shall include for all Members a computation of required capital, and for Members carrying accounts and the Settlement Agency a computation for determination of reserve requirements, and information relating to the possession and control requirements and shall be filed with said report. A reconciliation shall be supplied, including appropriate explanations, for any differences in the capital and reserve computations separately filed by the Member or Settlement Agency.

P714, Audit Requirements - An audit shall be conducted by a certified public accountant who shall be in fact independent and who shall file an opinion covering the required statements. Attached to the report should be an oath or affirmation by a duly authorized officer of the Member that the financial statements and schedules are true and correct and that neither the Member nor any officer or director has any proprietary interest in any account classified solely as that of a customer. The oath or affirmation shall be made before a person duly authorized to administer such oaths or affirmations.

The Exchange will recognize as a certified public accountant only persons duly

registered as such under the laws of Sri Lanka and in good standing both with accounting professional societies and the Exchange.

P715, Audit Objectives - The audit shall be made in accordance with Sri Lankan generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding securities including appropriate tests thereof for the period since the prior examination date. The audit shall include all procedures necessary under the circumstances to enable the independent public accountant to express an opinion on the statement of financial condition, results or operations, changes in financial position, the computation of capital, and, if any, the computation for determination of required security deposits and separate bank accounts and information relating to the adequacy of possession or control of customer securities.

The Scope of audit and review shall be sufficient to provide reasonable assurance of disclosure of any material inadequacies existing at the examination in the accounting system, internal accounting controls, procedures for safeguarding securities, and the practices and procedures followed by the Member (and related records) in making periodic computations of capital, security deposits, separate customer bank accounts, quarterly security counts and recordation of differences, in complying with the requirement for prompt payment for securities and in obtaining and maintaining physical possession or control of securities as required.

P716, Audit Technical requirements - the accountant's report shall be dated, signed manually, indicate the city and other governmental jurisdiction where issued, and identify without detailed enumeration the statements and schedules covered by the report.

Representations in the audit report shall state whether the audit was made in accordance with Sri Lankan generally accepted auditing standards, whether the accountant reviewed the procedures followed for safeguarding securities, and designate any auditing procedures deemed necessary by the accountant under the

circumstances of the particular audit which have been omitted and the reason for the omission. (Permissive omission is not implied of any procedure which independent accountants would ordinarily employ in the course of an audit made for the purpose of expressing the required opinions).

Opinion of the accountant shall be clearly expressed in respect to the financial statements and schedules covered by the report and the accounting principles and practice reflected therein and as to the consistency of application of the accounting principles, or as to any changes in such principles which have a material effect on the financial statements.

Exceptions taken by the accountant shall be clearly and specifically identified and to the extent practicable the effect of each such exception on the related financial statements shall be stated.

Accountant's material inadequacy findings shall be filed with the Exchange by the Member simultaneously with the accountant's supplemental report on his review of this area since the prior audit, including corrective action taken or proposed, or stating that the audit did not disclose any material inadequacies.

(Note - With the limitation of exchange members to brokerage only, it should be practical to shorten the deadline date for audit reports to approximately two months from audit date.

Audit agreements between each Member and an independent public accountant in a form prescribed by the Exchange and dated no later than December 1 shall be filed with the Exchange no later than December 10 of each year covering the Member's annual audit for the following year.

Retention of all required documents of the audit and all pertinent working papers and memoranda shall be for at least three years, and available for review by representatives of the Exchange at the office of the Member or the Accountant.

808. REPORTS TO EXCHANGE

CSE Code of Business Conduct 13. Monthly Reports - (a) Members shall submit to the Exchange and to the Securities Council by the 21st day of each month statements of assets and liabilities, nett capital, and aggregate indebtedness as on the last day of each preceding month in the prescribed form.

(b) Members shall adopt such uniform forms as the Exchange may prescribe to facilitate the orderly flow of transactions.

P712. Reports to Exchange - Members, agents and their employees shall submit to the exchange at such times as may be designated in such form and within such time period as may be prescribed such information as the exchange deems essential for the protection of investors and the public interest.

Each member shall file monthly with the exchange a report in a form prescribed by the exchange on its financial and operational condition, profitability and compliance with the capital and operational requirements of the exchange. Such report for the month of the member's annual audit by independent public accountants shall be audited and any adjustments reported to the exchange. The monthly reports shall be filed not later than the 15th of the following month. A member may be required to provide financial and operational reports for its affiliated and subsidiary organizations.

A fee of a significant amount shall be paid for every day that any required report is overdue, unless a temporary extension is granted upon application at least three business days before the due date. Any report with material inadequacies will be deemed not filed.

809. FIDELITY INSURANCE

P718. Insurance - The Committee may require Members to maintain such policy or policies of insurance as the Committee may consider desirable and available against losses caused by the dishonest acts of Member personnel and against losses caused by handling stolen and forged documents of title or securities or other

defective instruments, providing such insurance is available.

810. COMPENSATION FUND

Act 38 - Compensation Fund - (1) There shall be established a Fund called the Compensation Fund, for the purpose of granting compensation to any investor who suffers pecuniary loss resulting from the failure of a licensed stock broker or licensed stock dealer to meet his contractual obligations.

(2) The Compensation Fund shall consist of such sums of moneys as may be voted upon by Parliament for the purposes of the Fund.

(3) Moneys belonging to the Compensation Fund may be invested by the Council in such manner as may be determined by the Council.

Act 39. - Compensation Committee

(1) The Minister shall appoint from among the members of the Council, three members who shall comprise the Compensation Committee (hereinafter referred to as the "Committee") of the Council.

(2) The Committee appointed under subsection (1) 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 for all purposes be final and conclusive.

Act 40. - Compensation Claim

Application - (1) Any investor who has suffered pecuniary loss due to the failure of a licensed stock broker or a licensed stock dealer to meet his contractual obligation toward such investor may, within three months of the date on which he suffered such pecuniary loss, make an application to the Committee in the prescribed form claiming compensation from the Compensation Fund.

(2) The Committee may from time to time, require an applicant to produce any

document or other evidence in support of his claim for compensation. Where the applicant fails to comply with such request, the Committee may disallow his claim.

(3) If at any time the Committee considers it necessary so to do, it may hold an inquiry into the claim of the applicant and shall by notice in writing, inform the applicant to be present on such date, and at such time and place as may be specified in the notice. Where the applicant fails to appear for such inquiry on the date set out in the notice the Committee may disallow his claim.

Act 41. Compensation Claim Decisions - (1) 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.

(2) Where the Committee allows any claim it shall make an assessment of the amount of compensation payable and shall make an award in relation thereto. Notice of such award shall be given in writing to the applicant.

(3) The Council shall make rules relating to the assessment of compensation payable and the assessment of compensation by the Committee under subsection (2) shall be in accordance with such rules.

811. COMPENSATION FUND PROPOSED AMENDMENTS

Present law and rules in plain text. Proposed deletions in *[italics]*, proposed new material underlined.

Proposed Changes in Securities Council Act 36 of 1987

PAct 13 - Delete "For the purpose of carrying out its objects"

Rewrite 13g - To adopt such rules, issue such orders and directions and make such decisions as it may deem appropriate and in

the public interest for the purposes of defining, clarifying, interpreting, administering and enforcing this law or any provision of this law, or of the objects, powers, duties and functions of the Council established by this law, provided however, that before adopting any rule, the Council shall publish the proposed rule and accept and consider timely comment from interested parties.

PAct 23 - Where a licensed stock broker or a licensed stock dealer:

i) dies,

ii) resigns or is expelled from the membership of a licensed stock exchange,

iii) or becomes incapable of carrying on the business of such stock broker or stock dealer by reason of illness or due to any other cause,

iv) or the license granted to such stock broker or stock dealer is cancelled,

v) or whenever a licensed stock broker or stock dealer reports to an Exchange or the Securities Council that it is, failing to perform its Exchange contracts, is insolvent, or is in such financial or operating condition that it cannot be permitted to do business as a Member of the Exchange with safety to investors, creditors, other Members and the Exchange, or when an Exchange or the Securities Council so finds,

the Council shall direct the licensed stock exchange of which such stock broker or stock dealer was or is a member to take over all investor securities, investor designated bank accounts, and all records related to such investor property and related transactions and to arrange for one or more other [another] licensed stock brokers or licensed stock dealers, as the case may be, to take over as designated by the Exchange the outstanding contracts for security transactions of such stock broker or stock dealer and investor securities and moneys held by such stock broker together with all related records. Such receiving stock broker shall by this law be assigned all rights

and responsibilities to such investors and their property, for settling or closing out such open transactions, for completing transfers, delivering securities, paying out moneys, etc. as formerly were those of the holding stock broker or stock dealer to the extent delivered to it plus assistance provided by the Compensation Fund. If a stock broker or stock dealer resists such take over by the Exchange, the licensed stock exchange shall apply for enforcement by a Magistrate and with the approval of the Securities Council such Magistrate shall so order and enforce.

Banks holding customer designated accounts and companies for transfer purposes shall accept instructions of the Exchange and its designated member agents in respect to such customer property.

Any Liquidator in Bankruptcy in control of any such stock broker or stock dealer shall on order of the Securities Council deliver property identified as customer property and related records to the directed Exchange for such processing, distribution and possible Compensation Fund assistance.

PAct 38 - (1) There shall be established a fund called the Compensation Fund, for the purpose of granting compensation to any investor who suffers pecuniary loss, including loss of securities, resulting from the failure of a licensed stock broker or licensed stock dealer to meet his contractual obligations.

(2) The Compensation Fund shall consist of such sums of moneys as may be voted by Parliament for the purpose of the Fund.

The Securities Council shall seek to build the Compensation Fund to a minimum size of Rs 10 million, and shall periodically review and change such minimum size objective reflecting change in size of the securities industry, its regulation and operating practices which would tend to increase or decrease risk to the Compensation Fund. Any assignments of government taxes or assessments of stock brokers and dealers

shall be suspended when the Fund exceeds the then determined minimum size, but the Fund shall continue to accumulate investment earnings.

In the event that at any time the Compensation Fund shall be insufficient to provide the minimum assistance to investors provided in Section 39(2) of this Act, then the Securities Council is hereby authorized to draw for the Compensation Fund from the Treasury of the Republic or the Central Bank such funds as may be necessary to meet such minimum statutory commitment.

(3) Moneys belonging to the Compensation Fund may be invested by the Council in such manner as may be determined by the Council.

PAct 39- (1) The Minister shall appoint from among the members of the Council, three members who shall comprise the Compensation Committee (hereinafter referred to as the "Committee") of the Council.

(2) The Committee appointed under subsection (1) shall be responsible for assessing and awarding compensation in respect of any application made under Section 40 or any other pecuniary loss to any other investor which is established to the satisfaction of the Committee from the records of the licensed stock broker or licensed stock dealer, and the decision of such committee on any such assessment or award shall [for all purposes] be final and conclusive for the purpose of this Act.

The Committee may also authorize expenditures from the fund for releasing customer securities which may be held as collateral by any lender, for purchasing securities to restore customer securities found missing, for the work involved in completing transactions, transfers and deliveries for and to investors from a defaulting stock broker or dealer, and for any legal and accounting expenses related thereto. The Compensation Fund by this law shall have a claim against the defaulting broker or dealer for any such expenses paid with the same priority as the cost and expense of administration of the bankruptcy.

(3) In instances in which a defaulting broker is holding customer securities as collateral for a margin loan, and has rehypothecated such customer securities with a bank or other lender, such bank or other lender shall be stayed by this law from liquidating such securities against indebtedness until released to do so in whole or in part by the Committee. Values of such securities (valued at the date that take over of customer property is ordered under Section 23 of this act), shall be released from such rehypothecation upon part payment of indebtedness to the lender pro rata to such part payment to total indebtedness at the seizure date. Upon approved liquidation of any such security, the lender shall release as directed by the designated exchange the excess of proceeds of sale or securities not sold.

PAct 40- (1) Any investor who has suffered pecuniary loss due to the failure of a licensed stock broker or a licensed stock dealer to meet his contractual obligations towards such investor may, within three months of the date on which he suffered such pecuniary loss, make an application to the Committee in the prescribed form claiming compensation from the Compensation Fund.

(2) The Committee may from time to time, require an applicant to produce any document or other evidence in support of his claim for compensation. Where the applicant fails to comply with such request, the Committee may disallow his claim.

(3) If at any time the Committee considers it necessary to do so, it may hold an inquiry into the claim of the applicant and shall by notice in writing, inform the applicant to be present on such date, and at such time and place as may be specified in the notice. Where the applicant fails to appear for such inquiry on the date set out in the notice, the Committee may disallow his claim.

PAct 41- (1) 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.

(2) Where the Committee allows any claim it shall make an assessment of the amount of compensation payable and shall make an award in relation thereto. Notice of such award shall be given in writing to the applicant. The Compensation Fund shall by this law succeed to and be subrogated to the claims of any investors against the defaulting stock broker or stock dealer to the extent of its assistance to such investor. Any investor not fully restored to the value of his property at take over date by distribution and Compensation Fund assistance shall preserve a claim in bankruptcy for the amount found valid by the Committee but not restored and such sum shall be recognized by the bankruptcy liquidator and Magistrate.

(3) The Council shall make rules relating to Sections 23, 38, 39, 40 AND 41 of this Act (as amended) for (a) the protection of investors and safeguarding and distribution of property of investors, (b) the minimum size objective of the fund, (c) the method and amount of assessment of licensed stock brokers and licensed stock dealers to supplement the fund, (c) the assessment of compensation payable and the assessment of compensation by the Committee under subsection (2) shall be in accordance with such rules.

Proposed Securities Council Rules

PSC Rule 28 - Administration of the Compensation Fund

(a) The Securities Council may direct an Exchange to take over the customer property held by a licensed stock broker or licensed stock dealer and related records or receive such from a Liquidator in bankruptcy if it finds that such entity (i) is insolvent or is unable to meet its obligations as they mature, (ii) is the subject of a proceeding in any court in which a receiver, trustee, or liquidator for such entity is proposed or appointed, (iii) is not in compliance with the rules of the Securities Council or any stock exchange of which such entity is a member pertaining to financial responsibility or custody of customer property, (iv) is unable to make such computation as may be

necessary to establish compliance with such financial responsibility or customer property custody rules.

(b) Promptly after the Security Council orders delivery of the customer property of a licensed stock broker to another entity, the Compensation Fund Committee shall (1) mail to each person indicated on the records of such broker as a customer with an open account notice of the other entity to which that customer's account has been assigned for completion of contracts and (2) mail to other customers which appear to have had an open account during the prior 12 months, and publish for general circulation instructions for making a claim of recovery of any property held by such broker and fixing a time limit for submission of such claims.

(c) "Pecuniary loss due to the failure of a licensed stock broker or licensed stock dealer to meet his contractual obligation" toward an investor shall be recognized by the Committee only in the case of such broker or dealer being in liquidation and unable to deliver to investors securities and/or cash held in respect of such investor's security transactions, and not to any investor lending, depositing or otherwise making available funds or securities (whether subordinated or not) as capital or otherwise to facilitate the operation of the broker or dealer business. No claim shall be satisfied while subject to dispute pending resolution by arbitration or litigation. Loss due to change in market value of securities either before or after the Securities Council orders delivery of customer property of a defaulter to another entity shall not be recognized by the Committee which for all purposes shall recognize security value as being the market value at the date of any such order to deliver.

(d) The customer property taken over from a defaulting broker shall be distributed as follows: i) any security in a customer's name or in transfer clearly identifiable as belonging to a particular customer and fully paid (or after payment of any indebtedness by such customer), shall be delivered to such customer.

A security shall be clearly identifiable as belonging to a particular customer if it can be determined from the related documentation and records of the member that it is either: (a) registered in the name of a customer and not sold with or without signatures for transfer, (b) registered in the name of another but sold with signatures for transfer and awaiting processing for transfer, or (c) in an owner's name returned from transfer, or returned from transfer in an erroneous name and subject to correction.

Any shortage of securities determined as due to customers shall be valued at market on the take over date. Such value of missing securities shall be added to the customer claims for money accepted by the Committee as valid. The moneys in bank accounts identified as customer funds or otherwise identifiable as customer funds shall be distributed pro-rata to customers with such claims for money or missing securities.

(e) The minimum priority assistance (subject to Fund resources) to be provided to each customer by the Compensation Fund is that amount by which returns as provided in the prior paragraph are less than a total of up to Rs 30,000 of such customer property recognized by the Committee as valid claims of such customer at the seizure date.

The Committee may at its sole discretion provide more than this priority assistance consistently to all customers of a defaulting broker giving consideration to the size and rate of income of and history of expenditures from the Compensation Fund.

Any claims for securities approved by the Committee for assistance to investors shall be returned in such securities unless the Committee determines that such securities are not obtainable at a reasonable market price, in which case any money compensation shall be determined at the best obtainable market value at the seizure date.

(d) The Compensation Committee shall disallow any claim for assistance from an investor who is a Director Principal Officer,

controlling person or more than 5% owner of a defaulting broker or other person found a cause of the default, or members of the immediate families of such person. Further no distribution of securities or pro-rata share of customer monies shall be made to such persons without formal proof of claim accepted by the liquidator in bankruptcy, if any, or otherwise by the Fund Committee.

(g) Licensed stock brokers with claims otherwise unsatisfied by security deposits or clearing funds of an Exchange or its affiliates, may claim assistance of the Fund on showing that such debts were incurred directly in respect to transactions for their own identified customers. Otherwise licensed stock brokers and licensed stock dealers owed securities or cash in their capacity as such by a defaulter shall be ineligible for assistance from the Fund.

(h) A customer who holds accounts in separate capacities shall be deemed to be a different customer in each capacity. More than one account for the same beneficial interest shall be combined.

(i) If an Exchange reports to the Securities Council that a member is experiencing financial or operating difficulty and such member undertakes to liquidate or reduce its business either pursuant to the direction of the Exchange or voluntarily, the Exchange may render such assistance or oversight of such member as it considers appropriate to protect the interests of customers of such member. The assistance or oversight by the Exchange shall not be deemed the assumption or adoption by the Exchange of any obligation or liability to customers, other creditors, shareholders or partners of the member, and shall not prevent or act as a bar to any action of the Securities Council or Compensation Fund.

(j) Upon a future finding by the Securities Council that licensed stock brokers and licensed stock dealers generally are reasonably profitable, each such entity shall assist in establishing or restoring the Compensation Fund to such optimal size as has been determined by the Securities Council by paying such sums as may be

assessed by the Securities Council not to exceed 0.5% of their gross income from the securities business.

Any assessments by the Securities Council of licensed securities brokers and licensed securities dealers shall be paid by such brokers and dealers at the close of each calendar quarter to the licensed securities exchange of which they are a member and such exchange shall review such payments for consistency with its records of turnover and related commission income of the member and remit the total monies paid to the Fund promptly.

(k) The Securities Council shall prepare an annual report to the Minister and the public disclosing the Compensation Fund's financial statements as most recently audited by the Auditor General, updated by footnotes, with an educational level explanation of the purposes and functions of the fund, its principal practices and policies for customer assistance, comparative financial highlights for the past five years, and summaries of assistance given during that period to customers of defaulted firms.

Proposed Colombo Securities Exchange Rules

PCSE Art 18 (i) - Every member shall furnish security of the nature hereinafter specified for the payment of any monies which may at any time in the opinion of the Committee be or become due by such member to [the Exchange or] any other member of members of the Exchange for the completion of Exchange contracts [or client or clients of such member] and the decision of the Committee whether an arbitration under Article 59 or otherwise and the decision of the Committee that any monies are due or payable by such member either in Law or in accordance with the customs and usage of and amongst Brokers to the Exchange or any other member or members shall be final and conclusive as between such member and his surety and the sureties on the one hand and the Exchange and such other member or members on the other hand.

Any remainder of such security deposited by a registered securities broker not used for completion of Exchange contracts, by reason of such broker being restricted from executing transactions except as broker for customers, is defined as customer identified property available to decrease any deficiency in customer securities or moneys found upon take over by the Exchange of customer property and records held by a defaulting broker upon order of the Securities Council pursuant to Securities Council Act Section 23 as amended in 1990.

PCSE Art 22 (ii) - [A member who fails to meet his obligations to other members or who is unable to fulfill his engagements to members or his clients may be declared by the Committee (whose decision shall be final and conclusive) to be a defaulter and upon such declaration being made such member shall cease to be a member of the Exchange and notice of such cessation shall be published in such one or more of the local newspapers as the Committee shall determine. A member declared a defaulter shall not be readmitted or admitted to membership save after the Committee shall have been satisfied that the member so declared a defaulter has paid and discharged in full his obligations and engagements to other members and to his clients.]

Whenever a member fails to perform its contracts, becomes insolvent, or is in such financial or operating difficulty that it cannot be permitted to continue to do business as a member with safety to investors, creditors, other members and the Exchange, such member shall promptly give written notice to the Exchange. Upon such notice, or upon an Exchange or Securities Council finding that such condition exists, the Exchange shall summarily suspend such member with notice to the Exchange and the public. The Exchange shall also take any feasible step to place the customer property and records held by the suspended member under independent control; either by contract between the Exchange and the expelled member, by action of any Securities Council Act or Securities Council rule so providing or by reference to a competent Magistrate on

behalf of one or more creditors for consideration of bankruptcy.

PCSE Art 22A - Whenever the Exchange is directed by the Securities Council to take over, or receive, customer property and related records of a member pursuant to an order, or when a defaulting member voluntarily gives up to the Exchange possession and control of customer property and related records held, any other member assigned by the Exchange all or certain of such customer accounts shall receive such property and records, complete open transactions and transfers in progress and deliver such property to customers to the extent received or restored by assistance from the Compensation Fund of the Securities Council. Members so assigned shall perform such functions without charge as a contribution to the Compensation Fund.

PCSE Art 22B - Whenever a member fails to perform its contracts, becomes insolvent, or is in such financial or operational condition that it cannot continue to do business as a member with safety to investors, creditors, other members and the exchange, such member shall promptly give notice to the Exchange, or if the Exchange or the Securities Council without such notice so finds, the member shall promptly give up possession and control to the Exchange or such agents and other members as the Exchange may designate of all customer securities and moneys held in its possession and control together with all related records and rights.

PCSE Code 11- Add to Rule 11 (Separate Bank Accounts) the following:

(c) Such customer bank accounts shall be subject to written contracts with the holding bank(s) providing that the moneys and values are held by the bank for the exclusive use of customers of the depositing entity and shall at no time be used directly or indirectly as security for a loan to the depositing entity by the bank and shall be subject to no right, charge, security interest, lien, or claim of any kind in favor of the bank or any person claiming through the bank.

PCSE Code 12 (Auditors reports):

(b)(4) whether he found in effect for all customer bank accounts required under Rule 11 written contracts as required by paragraph (c) of such rule.

P Appendix A1 - Claim Form

**Securities Council of Sri Lanka
(a government agency)
2nd Floor, Mackinnons Building
York Street, Colombo 2**

Inasmuch as _____ has defaulted on certain commitments to customers and other registered stock brokers and has been suspended by the Colombo Securities Exchange, the Securities Council has acted for the protection of investors by instructing the Colombo Securities Exchange to take over all of the customer securities, monies and related records of the defaulting firm, and reassign such customer accounts to other members of the Exchange for completion of processing and delivery of property to customers.

Your account has been assigned for resolution to the member firm of _____ (name of firm, address, and name of person to contact with telephone number). If you are the owner of securities or money held for you by the defaulting broker, you may claim their return by filling out the information on the attached claim form and delivering it by _____ (date) to the processing firm at the address in the prior sentence.

The processing firm will review the accuracy of your claim from related documentation you attach and the records of the defaulting firm.

P Appendix A2 - Customer Claim Form

Customer Name _____

Address _____

Telephone _____

Then, to the extent that the securities you claim have been taken over from the defaulting firm, transfer to your name will be completed, if needed, and the securities delivered to you.

If any of your securities are not found in property taken over, your claim for these securities will be valued at the date the Securities Council ordered take over. Such value will be added to any claim you may have for money. Simultaneously, the Exchange will be valuing any customer securities found at the firm not identified as belonging to a particular customer and adding these values to the money value taken over from bank accounts identified as customer funds. Each customer will be entitled to receive a share of these general customer values pro rata to his otherwise unsatisfied claim.

Any customer with total values at the defaulting firm of Rs30,000 or less who through the above procedures has not received his full approved claim will be restored the missing amount from the Securities Council Compensation Fund, providing that sufficient funds are available in the Fund. Any customer with values above Rs 30,000 will be promptly restored up to that amount if not otherwise received - but must await a later decision of the Committee for the Compensation Fund on restoration of any further missing amount.

Initiation of distribution to you of your property depends on your completing and submitting the attached claim form promptly. No claim will be accepted after _____ (date).

Sincerely yours,

Lohendra Namasivayam, J.P.
Director General

1. _____ (Name of defaulting firm) (the broker) was on _____ (take-over date) and still is indebted to the undersigned for the cash balance and securities listed below:

(A) Cash credit balance of _____ Rs _____

(B) Securities of the quantity and description below:

| <u>Date of Purchase or Delivery Date</u> | <u>Name of Security</u> | <u>(Number of Shares, Face Amount of Bonds)</u> | |
|--|-------------------------|---|-------------------------|
| | | <u>Broker owes me</u> | <u>I owe Broker</u> |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |

Attach additional sheet if necessary.

Please list below and attach copies of supporting documents such as contract notes, cancelled checks, receipts, account statements, or other proof of cash or securities claimed.

2. The undersigned owes the broker Rs _____ in respect to margined securities or securities purchased but not yet paid included in the above list. A check paying this indebtedness is attached or instructions are attached to deliver collateral for this indebtedness to a substitute financial lender against payment of this indebtedness.

3. The undersigned submits copies of the following related documents. Also following or attached is an explanation of any difference between the position claimed above and the attached documents.

4. Please answer the following questions.

Yes No

a. Has there been any change in your account since _____ (take over date)?

b. Are you or were you a director, officer, partner, shareholder, lender to or capital contributor of the broker?

c. Are you or were you a person who, directly or indirectly, exercised or had the power to exercise a controlling influence over the management or policies of the broker?

d. Are you related to, or do you have any business venture with any of the persons specified in (b) or (c) above, or any employee or other person associated in any way with the broker?

e. Is this claim filed by or on behalf of a broker or dealer or a bank?

f. Have you ever given any discretionary authority to any person to execute securities transactions with or through the broker on your behalf? If so, give name, address and telephone number.

g. Please enter the full name, address and telephone number of anyone assisting you in the preparation of this claim form.

THE FOREGOING CLAIM IS TRUE AND ACCURATE. I UNDERSTAND THAT IT IS A VIOLATION OF LAW TO FILE A FRAUDULENT CLAIM AND THAT CONVICTION CAN RESULT IN FINE OR IMPRISONMENT.

Date: _____

Signature

Date: _____

Signature

(If ownership of account is shared, all must sign above. Give each owner's name, address, and telephone number and extent of ownership on a signed separate sheet. If other than a personal account such as corporate, trustee, custodian, etc. also state your capacity and authority. If you have more than one account, file a claim form for each)

Please send your claim by CERTIFIED MAIL - RETURN RECEIPT REQUESTED or deliver in person to the Colombo Securities Exchange Member assigned to your account: (Give Name of Member, address, telephone and person to contact at assigned member)

The DEADLINE for the filing of claims is _____. No claim will be satisfied unless actually received by the assigned Member before the close of business on that date.

Chapter Nine - Discipline

901. DISCIPLINARY BASES & PENALTIES

Act 30(3) - Penalty, Unlicensed Operation - Any body corporate or an individual who contravenes the provisions of subsection (1) or (2) [of Section 30 on unlicensed use of name or doing business as a stock exchange, stock broker or stock dealer], shall be guilty of an offence under this Act and shall on conviction be liable to a fine not exceeding one million rupees.

Act 26. - Penalty, False Information - A person who, in connection with an application or appeal made under this Act, willfully makes a false or misleading statement or willfully omits or fails to report any matter or thing without which the application is misleading in a material respect, shall be guilty of an offence under this Act, and shall be liable on conviction to a fine not exceeding one million rupees.

Act 51. - Penalties, General - (1) Any person who-

(a) contravenes any provision of this Act or any requirement imposed under the provisions of this Act or of any regulation made thereunder;

(b) furnishes for the purposes of this Act any information which is or any return the contents of which is, to his knowledge untrue or incorrect; or

(c) willfully obstructs any member of the Council or an officer or servant of the Council in the performance of his duties under the provisions of this Act,

shall be guilty of an offence under this Act.

(2) Any person who is found guilty of an offence under this Act for which no penalty

is expressly provided for under this Act, shall be liable on conviction after summary trial by a Magistrate, to a sentence of imprisonment of either description for a period not exceeding five years or to a fine not exceeding ten million rupees or to both such imprisonment and fine.

CSE Article 22 - Penalty, Default - (i) If any member fails or neglects to pay his or their subscriptions or any monies due from him or them to the Exchange within one month from the time that same shall become due, it shall be lawful for the Secretary to advise members by circular of the names of such defaulters and if after the expiration of seven (7) days from the date of such circular such subscription or such monies shall not be paid, it shall be lawful for the Committee to direct that his or their names be struck off the list of members and he or they shall thereupon cease to be members of the Exchange.

(ii) A member who fails to meet his obligations to other members or who is unable to fulfill his engagements to members or to his clients may be declared by the Committee (whose decision shall be final and conclusive) to be a defaulter and upon such declaration being made such member shall cease to be a member of the Exchange and notice of such cessation shall be published in such one or more of the local newspapers as the Committee shall determine. A member declared a defaulter shall not be re-admitted or admitted to membership save after Committee shall have been satisfied that the member so declared a defaulter has paid and discharged in full his obligations and engagements to other members and to his clients.

CSE Article 23. - Expulsion Causes - The Committee shall have the power to

expel any member whenever it shall be proved to their satisfaction :

(1) That any member has willfully deviated from or evaded, or attempted to evade the scale of charges for brokerage or any other charges that may be decided upon as standard by the members of the Exchange for the time being in force, or

(2) That any member has willfully transacted business in shares with any person who has been expelled from the Exchange except for the purpose of carrying out any contract entered into prior to such expulsion, or

(3) That any member has entered into a joint account with any person who is not a member of the Exchange except in the case of sales of property, or by special sanction of the Committee, or

(4) That any member has been elected under any willful misrepresentation or by the suppression of any material information as to his character and antecedents by himself or his proposer or seconder, or

(5) That any member has violated the Articles of the Exchange, or

(6) That any member shall have acted in any capacity other than that of a Broker in the course of his dealings as a Broker,

(7) That the conduct of any member is injurious to the character and interests of the Exchange, or

(8) That any member has shielded or assisted or omitted to report, or dealt with any member whom he has known that have acted contrary to the Articles of Exchange or the scale of charges for brokerage. It shall be lawful for the Committee after due inquiry to expel any such member from the Exchange, provided always that such member shall have had at least seven (7) clear days notice of the meeting of the Committee at which the question of his expulsion is to be determined and shall have been afforded an opportunity of explaining his conduct.

CSE Article 24. - Expulsion, Resignation Alternative - Notwithstanding anything contained in the last preceding Article, the Committee may in any of the cases therein mentioned, instead of exercising the powers of expulsion aforesaid call upon the offending member by written notice to resign, and if within seven days from the date of such notice, such member shall not resign, they may then proceed to expel him subject to the provisions in the last preceding Article.

CSE Trading Rule 10.4 - Penalty, Late Delivery of Documents - Documents delivered to the Clearing House later than the settlement date shall be subject to a fine of 0.5% of the Market Value of the documents per day. The date of delivery of documents and the due date of payment shall not be considered when computing the fine.

P802. Disciplinary Bases & Penalties - If a Member, employee, registered representative, or approved person is adjudged guilty by a Hearing Panel in a proceeding pursuant to this rule of any of the following offenses, the Hearing Panel may impose on such party expulsion; suspension; limitation as to activities, functions and operations; fine; censure; suspension or bar from being associated with any Member; or any other fitting sanction, any of which may be remitted or reduced by the Panel on such terms and conditions as it deems fair and equitable. Offenses are:

- a) violating any provision of a governmental securities law or regulation, any agreement with the Exchange, or any rule of the Exchange,
- b) making a material misstatement to the Exchange,
- c) fraud or fraudulent acts,
- d) conduct or proceeding inconsistent with just and equitable principles of trade,
- e) acts detrimental to the interest and welfare of the Exchange,
- f) making or transmitting a fictitious bid, offer, or transaction or giving an order for the purchase or sale of securities the execution of which would involve no change of ownership (a wash sale) or executing or transmitting any such order with knowledge of its character,

- g) making any purchases or sales or offers of purchases or sale of securities for the purpose of upsetting the equilibrium of the market or bringing about a condition in which prices do not fairly reflect market values or assisting in making such transactions with knowledge of such purpose, or being with such knowledge a party to or assisting in carrying out any plan or scheme for the making of such transactions.
- h) having made a misstatement or omission of fact on an application for membership or approval, or on any financial statement, report or other submission filed with the Exchange, or
- i) refusing or failing to comply with a request of the Exchange to submit books and records subject to access or control or to furnish information to or to appear and testify before the Exchange.

An employee of a Member is liable to discipline and penalties for any act or omission of such Member as for his own personal act or omission.

P801, Access Prohibition - Except as hereafter provided, the Exchange shall not prohibit or limit any qualified person from access to services offered by the Exchange or any Member without prior written notification with specific grounds and 15 days opportunity to be heard thereupon.

Summary discipline - The Exchange may summarily suspend a Member who is in such financial or operational difficulty that the Exchange determines that the Member cannot be permitted to continue to do business as a Member with safety to investors, creditors, other Members, or the Exchange.

The Exchange may summarily limit or prohibit any person from access to services offered by the Exchange or any Member if the Exchange determines that such person does not meet the qualification requirements or other prerequisites for such access and that such person cannot be permitted to continue to have such access with safety to investors, creditors, Members, or the Exchange. Any person subject to such summary action shall be notified in writing of specific grounds for such action and promptly afforded an opportunity to be heard upon those grounds.

Whenever a Member fails to perform its contracts, becomes insolvent, or is in such financial or operating difficulty that it cannot be permitted to continue to do business as a Member with safety to investors, creditors, other Members and the Exchange, such Member shall promptly give written notice to the Exchange.

A party who does not pay any fine within 45 days after payable may after written notice be summarily suspended from association in any capacity with a Member.

902. DISCIPLINARY PROCESS

Act 21 - License Cancellation - (1)
The Council shall cancel or suspend the license granted to a stock broker or a stock dealer, where the Council is satisfied that-

- (a) the stock broker or stock dealer has acted in breach of any provisions of this Act, or any rules or regulations made under this Act; or
- (b) the stock broker or stock dealer has ceased to be of good financial standing; or
- (c) the stock broker or stock dealer has since the grant of the license been disqualified for the grant of such license; or
- (d) the stock broker or stock dealer is guilty of malpractice or irregularity in the management of his affairs.

(2) Before the cancellation of a license granted to a stock broker or a stock dealer in terms of the preceding subsection such stock broker or stock dealer, as the case may be, shall be given an opportunity to show cause as to why such license should not be canceled.

(3) Where the license granted to a stock broker or stock dealer is canceled, it shall be the duty of such stock broker or stock dealer to forthwith surrender his licence to the Council.

Act 46. - Complaints Committee - (1)
The Council may establish a Committee consisting of three members of the Council

to head and determine complaints of shareholders of any public company listed in a licensed stock exchange, relating to the professional conduct or activities of such stock exchange, any licensed stock broker, or stock dealer of such exchange.

(2) The Committee may, on receipt of any written complaint made by any shareholder, examine the documents and other evidence produced, if any, in support of such complaint, and determine whether such licensed stock exchange or any licensed stock broker or stock dealer of such stock exchange has violated any provisions of this Act or any rule or regulation made under this Act. No such determination shall be made without affording such licensed stock exchange, licensed stock dealer, or stock broker, an opportunity of being heard.

(3) Where the Committee determines, that a licensed stock exchange or any licensed stock broker or stock dealer of such exchange has violated any provisions of this Act or any rule or regulation made under this Act, the Committee shall recommend to the Council the nature of action to be taken against such licensed stock exchange, or any licensed stock exchange, or any licensed stock broker or stock dealer, as the case may be.

(4) The council shall upon receiving such recommendations made the Committee under subsection (3), take such action as it may deem expedient, in accordance with the provisions of this Act.

SC Rules 90 13. - Council Direction of Exchange Discipline - Upon receipt of a report of the result of an inquiry into a complaint by the shareholders of any public company listed in a stock exchange, or by persons who have contracted to buy or sell shares, relating to the professional conduct or activities of a stockbroker or stock dealer who is a member of such stock exchange, under section 46 of the Act, the Council after consultation with the stock exchange, may direct the Governing Body of the stock exchange to take such disciplinary action against the offending member. Such disciplinary action shall include a fine not exceeding, expulsion, suspension, for a

period not exceeding, in accordance with the rules or bye-laws of the stock exchange concerned. The Governing Body shall give effect to the directions of the Council in this behalf, and shall not in any manner vary, revoke or modify the action taken in pursuance of such direction without the prior approval of the Council. The Council may, however, either on its own motion or on the representations of the members concerned, modify or withdraw its directions to the Governing Body. In the alternative, the Council may take direct, appropriate disciplinary action against such offending stockbroker or stock dealer, under the provisions of the Act.

CSE Article 52 - Disciplinary Procedure - 1. These bye-laws shall be called "the disciplinary bye-laws of the Exchange", No 1 of 1987.

2. Whenever the Committee receives information, allegations or complaints which disclose that any member of the Exchange may have committed any of the acts set out in Article 23 of the Articles of Association, it shall be lawful for the Committee to refer such information, allegations or complaints or any issues arising therefrom for investigation and report by an independent person (hereinafter called the "Inquirer") who is not a member of the Exchange. Once appointed, the Inquirer may not be removed except by 2/3 majority of the shareholders of the Company for proved misbehavior or physical or mental incapacity.

3. The Inquirer shall investigate and report his findings to the Committee.

4. The Inquirer shall: -

(a) notify the member concerned of the information, allegations or complaints or issues which are the subject matter of the investigations:

(b) Such member shall thereafter be called upon to furnish an explanation, if any, in reply to such information, allegations, complaints or issues within 10 days of the receipt of a notice to do so. Such explanation should not merely plead 'not guilty' to the allegations or complaints or

merely deny the truth thereof but must set out in detail (with documentary evidence if any) the facts and data relied on by such member as justifying and/or mitigating and/or disproving such allegations an/or complaints.

(c) The Inquirer shall on the receipt of such explanation conduct an inquiry, where, all the evidence available against the member shall be presented. The member concerned will be entitled to test such evidence by cross-examination.

(d) In the event of no explanation being afforded by such member within the period of 10 days or within such extended period as the inquirer may grant, all available evidence against such member shall be recorded and a finding shall be made on the basis of such evidence;

(e) At the conclusion of the Inquiry, the Inquirer shall consider the evidence and documents and arguments presented for and against the member concerned and shall make a finding in respect of each information, allegation complaint or issue referred to him. The investigation notes and such findings and report shall be addressed to the Committee of the Exchange and delivered to the Chairman of the Committee:

(5) In the event of the Inquirer making a finding which discloses that a member has committed any of the acts referred to in Article 23 of the Articles of Association and where such report discloses that such violations have been proved by evidence the Committee shall consider the expulsion of the member concerned at a special meeting of the Committee convened only for that purpose.

(6) The member concerned should be given at least 7 clear days' notice of the meeting of the Committee at which the question of the expulsion is to be determined.

(7) The member concerned should be furnished with a copy of the findings and report of the Inquirer at least 7 clear days before the meeting of the Committee at

which the question of the expulsion is to be determined.

(8) At the special meeting of the Committee the report of the Inquirer to gather with the notes of evidence and documentary evidence and arguments placed before him shall be tabled. The member shall thereafter be entitled to be heard in respect of the report and in respect of explaining his conduct. After the member has been afforded such opportunity the Committee shall, in his absence, determine whether such member shall be expelled from the Exchange or not.

(9) The Committee in the event of its deciding to expel the member concerned shall notify such member in writing of its decision and such notice shall be signed by the Chairman of the Committee.

(10) The Committee in the event of its deciding to expel the member concerned shall notify such member in writing of its decision and such notice shall be signed by the Chairman of the Committee.

(11) (a) A member whose conduct is being investigated under these rules is entitled to appear in person or through an authorized representative before the inquirer and before the committee.

Such authorized representative must be either a Director of the member (if such member is a corporate body) or a senior Executive employed on a monthly salary by such member. The name of such representative with a letter from him consenting to appear should be forwarded to the inquirer and Committee at least 6 days before the first date of inquiry, and least 3 days before the special meeting of the Committee.

(b) The exchange may be represented likewise before the Inquirer by the Manager of the Exchange or by any Employee of the Exchange authorized in writing by the Manager. The Exchange shall not be entitled to be represented or heard at the special meeting of the Committee held to consider the expulsion of such member.

12. Neither the Exchange nor the member whose conduct is being investigated will be entitled to be represented by an Attorney-at-law, either before the Inquirer or the Committee.

13. The Committee may at the meeting which is convened to determine the question of the expulsion of such member exercise its powers under Articles 24 and 25 of the Articles of Association.

14. The Inquirer shall have full power to regulate proceedings before himself, including the power to summon witnesses, and maintain decorum.

15. The Inquirer's fees, if any, shall be paid by the Exchange after the conclusion of the Inquiry but prior to the communication of findings and report to the Chairman of the Committee of the Exchange.]

P803. Disciplinary Hearings - Disciplinary consideration shall be by a Hearing Panel composed of a chairman appointed by the Board who is a disinterested director or employee of the Exchange or other qualified person and two disinterested peers of the defendant from a panel appointed by the Board and selected by the Chairman subject to two challenges by each party. The decision of a Hearing Panel by majority shall be final and conclusive unless appealed to the Board by either party.

The Chairman shall resolve any procedural or evidentiary matters without appeal, but shall not authorize the discovery or inspection of internal Exchange documents prepared in connection with the proceeding.

The specific charges against a respondent shall be served in a written Charge Memorandum signed by an authorized employee or other inquirer authorized by the Executive Committee of the Exchange, with service deemed effective upon personal delivery or by leaving at or mailing to the respondent's last business or residence address as reflected on Exchange records.

A written, signed Answer to the Charge shall be filed within 25 days of service or such

longer period as approved by the Chairman, and shall indicate specifically which assertions of fact and charges in the Charge Memorandum are denied and which are admitted, with any specific facts in contradiction and any affirmative defenses. Any assertions of fact not specifically denied may be deemed admitted and failure to file an Answer may be deemed an admission of facts asserted in the Charge.

The Panel Chairman shall determine the specific facts put into issue and with respect to those facts only, the Exchange and the respondent may produce witnesses and any other evidence and may examine and cross examine any witnesses so produced. Any failure by a respondent to Answer as required above shall limit consideration of any witnesses or other evidence to determination of the penalty to be imposed. A respondent who fails to file an Answer but appears at the Hearing shall not be permitted to produce witnesses, evidence or testimony, but the Hearing Panel may determine that the respondent had adequate reason to excuse his failure to file and adjourn the Hearing and direct the respondent to file a proper Answer.

After hearing witnesses and considering evidence, the panel shall consider whether the respondent is guilty of the Charges, and if so fix and impose the penalty or penalties, with written notice to the respondent and the Exchange. The determination and penalty shall become final and conclusive 20 days after notice thereof has been served unless a request to the Executive Committee for review has been filed in which case any penalty shall be stayed pending review.

P805, Stipulation and Consent - in lieu in part of the above procedures, a Hearing Panel may make a determination and impose penalties on the basis of a written Stipulation and Consent entered into between the respondent and an authorized employee or inquirer of the Exchange. Such document shall contain a stipulation with respect to the facts, or on the basis for findings of fact by the Hearing Panel; a consent to findings of fact by the Hearing Panel, including a finding that a specific offense has been committed; and a consent to the imposition of a specific penalty. The Panel may fix and impose the penalty agreed

to or any penalty which is less severe or may remand for further proceedings.

P806, Counsel - Respondents have the right to be represented by counsel in any hearing, review or investigation by the Exchange.

P807 - Suspended or terminated parties - A suspended party may be proceeded against for any offense other than that for which suspended.

If prior to termination or within one year of termination of any person associated with a Member, such person is served written notice that the Exchange is making inquiry into a matter occurring prior to that termination, the Exchange thereafter may require such party to comply with requests, appear, testify, submit books and records, attend hearings, etc. and such party shall be subject to charges, determinations and penalties in every respect in the same manner and to the same extent as if such person had remained associated with a Member. A party who refuses to comply may be barred from association with a Member permanently, or for such period of time as may be determined, of until such time as such party has complied and the Exchange has completed its investigation and any resulting Hearing is completed, and any penalties imposed carried out.

903. DISCIPLINARY APPEALS

Act 22. (1) - Appeal - Any person aggrieved by a decision of the Council -

(a) refusing to grant a license under section 19; or

(b) canceling or suspending a license under section 21, may appeal to the Secretary to the Ministry of the Minister against such refusal, cancellation or suspension as the case may be, within three months from the date on which the decision was communicated to such person.

(2) The Secretary to the Ministry of the Minister may require the Council to show cause for its decision to his satisfaction.

(3) An applicant who is aggrieved by the decision of the Secretary to the Ministry of the Minister may appeal against such decision to the Court of Appeal, within fourteen days from the date on which the decision was communicated to the applicant.

Until rules are made under Article 136 of the Constitution pertaining to appeals under this section, the rules made under that Article pertaining to application by way of revision to the Court of Appeal shall apply to every appeal made under sub section (3) of this section.

(5) The court of Appeal may, on an appeal made to it under this section confirm, revise, modify or set aside the decision of the Secretary to the Ministry of the Minister, and may make an order as the interest of justice may require.

CSE Article 26. - Member Appeal - The Committee may in all cases of expulsion reconsider their own determination upon being requested so to do in writing by four-fifths (4/5ths) of the members of the Committee within six (6) months after date of such expulsion.

P804, Disciplinary Appeals - The staff or Inquirer of the Exchange which brought the Charges, the respondent, or any member of the Executive Committee of the Exchange may require a review by the Executive Committee by filing a written request stating the basis and reasons therefor within 20 days of the notice of determination. All concerned parties shall be notified of such review request. Any reviews by the Executive Committee shall be based on oral argument and written briefs and shall be limited to consideration of the record before the Hearing Panel. The Executive Committee by majority vote may sustain, modify or reverse any determination of the Hearing Panel and increase, decrease or eliminate any penalty, or impose any penalty permitted by these rules as it deems appropriate.

If either party on review shows to the satisfaction of the Executive Committee that additional evidence is material and there was reasonable ground for failure to produce it before the Hearing Panel, the Executive

Committee may remand the matter to the Hearing Panel for further proceedings.

CSE Article 26A. - CSE Disciplinary Decisions Final - The decisions of the Committee taken under or in pursuance of Articles 23,24,25, or 26 shall be final and conclusive and shall be binding upon the member in respect of whom such decisions are taken and such decisions shall not be called in question in any Court or Tribunal.

904. INFORMATION REQUIRED

Act 45. - Information Required - (1) For the purpose of enabling the Council to exercise, perform and discharge any of its powers, functions and duties under section 13 of this Act, the Council may by notice in writing require any person to furnish to the Council or to the person authorized, within such period as shall be specified in the notice, all such returns or information as shall be specified in such notice.

(2) It shall be the duty of any person who is required to furnish any return or information by a notice under subsection (1) to comply with such requirement within the time specified in such notice, except where such person is precluded from making such return or divulging such information under the provisions of any law.

(3) The Council or any member thereof, or any officer or servant of the Council, shall not disclose to any person or use any returns or information acquired under subsection (1), except when required to do so by a court of law or for the purposes of achieving, the objects of the Council.

SC Guideline 9. - Council Access to Trading Floor - Any member of the Council, the Director General or its authorized representative shall be granted access to the Trading Floor of such stock exchange by the Floor Manager, or in his absence any other officer of the stock exchange, who is at that time in charge of the Trading Floor, for the appropriate

exercise of the duties and functions of the Act.

CSE 1 OF 1988 - Information Required - 1. This bye-law may be cited as the Investigations bye-law No. 1 of 1988.

2. The Committee of the Colombo Securities Exchange (Gte) Ltd (hereinafter called the "Exchange") may ex-mero-motu or on the order or request of the Securities Council by a notice in writing require any member of the Exchange to furnish the Committee with such returns and information within such time as may be specified in such notice and it shall be the duty of such member to comply with the requirements of such notice within the time specified.

3. Where a notice is served on a member as set out in Section 2 of this bye-law and such member fails to comply with the notice or in the opinion of the Committee of the Exchange has failed to adequately comply with the notice or having complied with the notice the Committee of the Exchange deems it necessary in their absolute discretion to verify the accuracy of the return or information furnished, the Committee of the Exchange may by a notice in writing, (with a copy to the said member) authorize an officer/employee of the Exchange or some independent person to proceed to the office or place or places of business of such member on such day and at such times as may be specified in the said notice and there to inspect, examine, and copy, verify any books or documents necessary for the purpose of eliciting the required information or return or verifying the information or return furnished as the case may be and it shall be the duty of such member to comply with such notice and permit and afford all conveniences, opportunities and access to such officer, employee or person to so enter the said office and place or places of business and to so inspect, examine, copy and verify such books and documents.

4. All returns and information furnished or elicited under Section 2 or 3 of this bye-law shall be treated by the Committee of the Exchange, the members of the Committee,

the officers and employees of the Exchange or any person authorized under Section 3 as confidential and in secret unless the Committee of the Exchange decides to make such return or information public in the interest of fair trading practices or in the interest of the share market or other interest of the public.

Provided however that nothing in this section shall prevent the Committee of the Exchange or any officer or employee of the Exchange from transmitting any return or information obtained under Section 2 or 3 of this bye-law to the Securities Council, or to a Court of Law (if summoned to do so by such court.)

5. Any member failing to comply or failing to comply adequately with a notice under section 2 of this bye-law or any member failing to give access and give all necessary conveniences and opportunities to the officer authorized under section 3 of this bye-law shall be deemed to be guilty of gross misconduct and shall be liable to be dismissed from membership by the Committee of the Exchange acting in terms of the Articles of the Exchange.

Provided further that the provisions of the Disciplinary Bye-law No. 1 of 1987 shall have no application whatever to proceeding taken against such member under this section.

CSE 1 of 1988 - Information Required Addition of 1/12/90 - (a) To require Members and any employee/agent concerned to attend a meeting at any time and to give such information that as may be in their possession relating to any matter under investigation.

(b) To require any member and any employee/agent concerned to furnish any particulars required and to produce for its inspection any/all books, letters, telegrams, notes or copies thereof and any documents in its possession relating thereto and it shall without delay, produce them for inspection accordingly.

(c) To investigate the accounts of any member and employee/agent concerned

whenever in its opinion such action is pertinent to an investigation.

(d) The Committee shall have the authority to delegate all or any of the power vested in it under this bye-law to an Inquirer/Arbitrator and Arbitration panel or the Manager/Officer of the Exchange as the case may be and those delegated with said authority shall report the result of such investigation/arbitration to the Committee.

P801B - Information Required - Any suspended, limited, or prohibited person shall on request submit such books and records as to which it has access and furnish information or appear or testify or cause any employee to appear and testify before the Exchange. Any such person may be disciplined pursuant to rule for any offense committed before or after suspension, limitation or prohibition in all respects as if not so impaired. A Member suspended shall be deprived during the term of suspension of all rights and privileges of membership. Any suspension of an employee or registered representative shall create a vacancy in any office or position held by such person. Any such person may be relieved from suspension, limit or prohibition by the Board.

904. DISCIPLINE PUBLICATION

CSE Article 25. - Publication of Discipline - It shall be lawful for the Committee to publish in the local newspapers the name of any member expelled from the Exchange and also to announce the same in any other way they may think fit. No action or other proceeding shall under any circumstances be maintained by the company referred to in such notification against anyone publishing or circulating the same, and this Article shall operate as leave from any such company to the Committee or Secretary or anyone acting under the orders of the Committee, to publish and circulate such notification.

P808, Disciplinary Announcements - Expulsions, suspensions, and major fines shall be announced to the public.

Chapter Ten - Arbitration

Comment - Arbitration is based on the assumption that the laws of the country permit enforcement of arbitration judgements by governmental courts and that appeals to courts are possible only for unlawful conduct of the arbitration. It is also assumed that Members will provide in their written account agreements with customers for arbitration of disputes with customers.

1001. ARBITRATED CONTROVERSIES

CSE Memorandum (7) - Arbitration Optional - To act if so desired as arbitrator in the settlement of all disputes and differences between brokers or between brokers and their clients, arising in the course of their business.

P901, Arbitrated Controversies- Any controversy arising out of the securities business of a Member or its dissolution shall be arbitrated pursuant to these rules which is

- a) between parties who are Members, their employees, registered representatives or approved persons, or
- b) between such persons and any non-member at the instance of the non-member party or as provided by any duly executed and enforceable written agreement.

1002. ARBITRATION AGREEMENT

P903, Arbitration Agreement - Pursuant to these rules, the decision of an Exchange Arbitration shall be binding and final upon any Member, employee, registered representative, attorney or approved person thereof. Any non-member party shall have agreed in writing that the arbitration shall be binding and final either in a separate document or in any existing duly executed and enforceable agreement.

A copy of the Uniform Submission Agreement used in the U.S. can be supplied for adaptation to the law of Sri Lanka.

1003. ARBITRATION PROCESS

CSE Article 59 - Arbitration Committee - There shall be an Arbitration Committee to which shall be referred all doubts and disputes arising between the members of the Exchange or between the members of the Exchange and non-members in the course of business and the Arbitration Committee shall review and consider all relevant details before arriving at a decision with regard to such doubt or dispute and such decision shall be final and binding on the parties concerned.

P902, Arbitrators - The Executive Committee shall appoint two standing panels, one consisting of representative executives, employees, registered representatives, attorneys and approved persons of Members or retired such persons, the other consisting of non-members knowledgeable in securities matters. The Executive Committee shall also appoint an Exchange employee or other person as Arbitration Director to perform the ministerial duties of arbitration.

For each controversy or related group of controversies, the arbitration director shall select seven disinterested persons as potential arbitrators from the appropriate panel(s) and submit their names and backgrounds to the arbitrating parties. Each arbitrating party may request that not more than two of the potential arbitrators be removed from such list. From the remaining list, the arbitration director shall appoint in the case of arbitrations involving non-members, two persons from the non-member panel and one from the membership community panel, and in the case of controversy within the member community, three persons from the member panel. Other persons from the remaining list may be substitute arbitrators in case of death or incapacity of an arbitrator. The arbitration director shall designate one arbitrator as chairman.

P904, Arbitration Proceedings -
Appropriate sections of the *Uniform U.S. Securities Arbitration Procedures* can be supplied for adaptation to the law of Sri Lanka.

CSE Trading Rule 5.4 - Arbitration, Floor Disputes - Representatives of Member Firms operating on the floor shall not enter into any arguments with each other and any matter in dispute shall be brought to the notice of the Trading Floor Manager. If however, a representative feels that the ruling given by the Trading Floor Manager is unfair he is at liberty to bring this to the notice of the Manager of the Exchange who will, arrive at a decision which shall be regarded as final and binding.

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| ACT | Securities Council Act, No. 36 of 1987 |
| CSE 1 88 | Investigations Bye-law No 1 of 1988 |
| CSE 1 88 | Information Required Addition of January 12, 1990 |
| CSE 1/90 | CSE Letter to SC of January 15, 1990, not included |
| CSE Art | Articles of Association, Colombo Stock Exchange |
| CSE Art 52 | Disciplinary Bye-law No 1 of 1987 |
| CSE Code | Colombo Stock Exchange Rules of Business Conduct |
| CSE Cond Sale | Colombo Stock Exchange Conditions of Sale |
| CSE Mem | Memorandum of Association, Colombo Stock Exchange |
| CSE Rule | Colombo Stock Exchange Rules |
| CSE TrRul | Colombo Stock Exchange Trading Rule |
| CSE TrRul 4/90 | Addition Approved April 4, 1990 |
| P | Proposed Rule by American Consultant |
| SC Agt Gdl | Securities Council Agent Guidelines |
| SC Delist Q | Securities Council Delisting Questionnaire |
| SC Gdl | Securities Council Guidelines |
| SC Gdl 4/90 | Securities Council Letter of April 20, 1990 |
| SC Rul 90 | Securities Council Rules of 1990 (Replace 1989) |
| SC Rul 90 | Licensing Requirements from Gazette of May 29, 1990 |
| SC Rule 5/90 | Securities Council Rule of May 18, 1990 |
| SC Rule 9/90 | Securities Council Rule of September 4, 1990 |

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| ACT | Securities Council Act, No. 36 of 1987 |
| CSE 1 88 | Investigations Bye-law No 1 of 1988 |
| CSE 1 88 | Information Required Addition of January 12, 1990 |
| CSE 1/90 | CSE Letter to SC of January 15, 1990, not included |
| CSE Art | Articles of Association, Colombo Stock Exchange |
| CSE Art 52 | Disciplinary Bye-law No 1 of 1987 |
| CSE Code | Colombo Stock Exchange Rules of Business Conduct |
| CSE Cond Sale | Colombo Stock Exchange Conditions of Sale |
| CSE Mem | Memorandum of Association, Colombo Stock Exchange |
| CSE Rule | Colombo Stock Exchange Rules |
| CSE TrRul | Colombo Stock Exchange Trading Rule |
| CSE TrRul 4/90 | Addition Approved April 4, 1990 |
| P | Proposed Rule by American Consultant |
| SC Agt Gdl | Securities Council Agent Guidelines |
| SC Delist Q | Securities Council Delisting Questionnaire |
| SC Gdl | Securities Council Guidelines |
| SC Gdl 4/90 | Securities Council Letter of April 20, 1990 |
| SC Rul 90 | Securities Council Rules of 1990 (Replace 1989) |
| SC Rul 90 | Licensing Requirements from Gazette of May 29, 1990 |
| SC Rule 5/90 | Securities Council Rule of May 18, 1990 |
| SC Rule 9/90 | Securities Council Rule of September 4, 1990 |

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