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**USAID CAPITAL MARKETS
DEVELOPMENT PROJECT**

**SURVEY OF ISSUERS ATTITUDES
TO GOING PUBLIC**

JANUARY 1992

 **ERNST & YOUNG**
Chartered Accountants

WRHF/DdeZ

7th January 1992

Mr. Brad Warner
Chief of Party
Capital Markets Development Project
C/o. The Securities Council
Mackinnon's Building
Colombo

Dear Sir

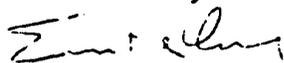
SURVEY OF ISSUERS ATTITUDES TO GOING PUBLIC

As requested by you, we have now completed the above assignment and have pleasure in enclosing our report in this connection. The report contains views expressed by Senior Officials of the Private Sector Companies and accordingly, the report is expected to be kept private and confidential.

The involvement of Ernst & Young Colombo Office in the preparation of the report is limited to the conducting of the survey and the presentation of findings only. The views expressed in this report do not in any way represent the views of Ernst & Young, and accordingly, no responsibility is assumed.

We trust that the above information is adequate for your purposes. If however you require any further information or clarification in this connection please do not hesitate to contact us.

Yours faithfully



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**USAID CAPITAL MARKETS DEVELOPMENT PROJECT
SURVEY OF ISSUERS ATTITUDES TO GOING PUBLIC**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL

- 1.0 EXECUTIVE SUMMARY
- 2.0 INTRODUCTION
- 3.0 BACKGROUND
- 4.0 WHY SHOULD A COMPANY BECOME LISTED
- 5.0 POLICIES OF THE SECURITIES EXCHANGE COMMISSION (SEC)
- 6.0 REGULATIONS OF THE COLOMBO STOCK EXCHANGE (CSE)
- 7.0 DISCREPANCIES BETWEEN THE REGULATIONS
OF THE COMPANIES ACT AND THOSE OF THE SEC AND CSE
- 8.0 FISCAL POLICIES
- 9.0 COST OF GOING PUBLIC
- 10.0 PRIVATE TRANSFER OF SHARES
- 11.0 INCREASED RISKS
- 12.0 CONCLUSION

ANNEXURE

SAMPLE COPY OF THE QUESTIONNAIRE SENT OUT TO THE COMPANIES

1.0 EXECUTIVE SUMMARY

Ernst & Young Colombo was requested by the Chief of Party, Capital Markets Development Project to carryout a Survey of Issuers Attitude to Going Public. For the purpose of the survey Ernst & Young in consultation with the Chief of Party developed a questionnaire which was sent to 40 selected companies. The Chief Executives of 37 companies were interviewed and the summary results of the survey are given below. The summaries are in relation to each question posed.

Question No. 1 -

WHY SHOULD A COMPANY BECOME LISTED?

There was general agreement among the persons interviewed that

- In order to support growth, additional equity financing is a requisite
- Shareholders of Companies need liquidity for their holdings
- Access to capital : Listed Companies should be able to raise debt or equity financing on better terms than unlisted Companies.

In respect of an acceptable price to issue equity ,a combination of the net asset value and the earnings basis was recommended. It was also felt that a discount of about 20% on the valuation should be made so that the investor has an immediate gain. The price/earnings ratio (P/E Method) too was considered an acceptable method of pricing the public offer. The tender method too was recommended as it would ensure that the company maximises the cash inflow from the issue of shares.

Question No. 2 -

POLICIES OF THE SECURITIES EXCHANGE COMMISSION

The results of the survey indicated that there was a lack of knowledge of the rules of the SEC amongst most persons interviewed. The general impression was that the policies of the SEC did not provide adequate safeguards to minority shareholders and prevention of insider dealing . Further, it was felt that the SEC should be more flexible in its regulatory procedures.

Question No. 3 -

REGULATIONS OF THE COLOMBO SECURITIES EXCHANGE

Here too, there was an indication that the Issuers lacked knowledge on the Regulations of the Colombo Securities Exchange (CSE). As in the case of the SEC, it was felt that the CSE lacked rules for the protection of minority shareholders and prevention of insider dealings.

Question No. 4 -

DISCREPANCIES BETWEEN THE REQUIREMENTS OF THE COMPANIES ACT NO. 17 OF 1982 AND THE CSE & SEC REGULATIONS

Only two discrepancies were noted. One was that the rules of the CSE and SEC require that the accounts should be filed within 6 months of year end and that the Companies Act require it to be filed within 9 months of the year end. The delivery of a Share Certificate should be within 14 market days on receipt of a valid transfer, while the Companies Act require it to be within 2 months of lodging a valid transfer. All the persons interviewed were of the opinion that the Companies Act should be amended to fall in line with the rules of the CSE & SEC. This question was very poorly answered with only 6 Officials responding.

Question No. 5 -

FISCAL INCENTIVES

It was genuinely felt that there was no incentive to incorporate at present. The recommendation was that the rate of taxation should gradually reduce from the sole trader situation to the public company situation so that there would be an incentive to incorporate.

The 10% tax differential, exemption of wealth tax on quoted company shares, no withholding tax on dividends, no stamp duty, were considered definite fiscal incentives. In respect of the exemption of CGT for shares held over one year, it was felt that this although being an incentive would be very difficult to monitor.

Dividend payments by listed companies to be deductible from the issuing companies taxable income, permitting listed companies to report on a consolidated return basis so that losses in one subsidiary can be utilised against taxable income in another, at the parent company level and permitting loss carry forward to survive an acquisition by a listed company were recommended as definite fiscal incentives.

Question No. 6 -

COST OF GOING PUBLIC

In general terms around 50% of the persons interviewed were of the opinion that the cost of going public was high and around 20% were of the opinion that the cost would vary with the issue and could be controlled. With the recent issues, it was observed that the number of Shareholders increased substantially and accordingly the share ledger maintenance costs, cost of printing and distribution of Annual Reports and the cost of Annual General Meetings have increased substantially.

The general view was that there should be a secondary market for smaller issues without the stringent controls that are prevalent in the present market. This would enable the smaller and new companies to raise capital from the public.

Question No. 7 -

PRIVATE TRANSFER OF SHARES

Around 75% of the persons interviewed were of the opinion that private transfer of shares should be allowed. A few issuers were of the opinion that though private transfers should be allowed, it should be adequately disclosed to the SEC. Around 25% of the persons interviewed were of the opinion that private transfers should not be allowed.

It was felt that in the case of inter group restructuring the SEC should allow the private transfer of shares. In the case of a transfer of a control position, it was felt that it would be done via the trading floor after a majority of the Shareholders have approved the transfer.

In the case of a private individual wishing to transfer his shares to another private individual, without the use of a Broker , it was felt that this should be allowed provided it is notified subsequently to the CSE.

Question No. 8 -

INCREASED RISKS OF TAKE-OVERS, UNDUE PUBLICITY AND OTHER FACTORS

The answers to this question resulted in the identification of the need for a City Code on Take-overs and Mergers. In respect of undue publicity, it was felt that the Employee Protection Acts are a serious problem as on publication of the company results, the employees could demand higher compensation and bonuses. Management not fulfilling these needs could face strikes and disruption of work.

The above comments in no way represent the views of Ernst & Young. The involvement of the Ernst & Young Colombo Office in the preparation of this Report is limited to the conducting of the survey and presentation of findings only. Accordingly, no responsibility is assumed for the statements contained in this Report.

2.0 INTRODUCTION

Ernst & Young, Colombo was requested by the Chief of Party, Capital Markets Development Project to carry out a survey of issuers attitudes to going public. In this connection Ernst & Young in consultation with the Chief of Party developed a questionnaire which was sent to 40 selected companies. The Chief Executives of 37 companies were interviewed and the results of the survey are given in the later sections of this report.

This report contains views and expressions of various parties which have been reproduced in certain instances without verification. Further to ensure a meaningful survey we have assured the officials interviewed that their names will not be disclosed and the names of companies surveyed will be kept strictly confidential. Wherever it was felt that a recommendation would be reasonable, we have shown it in bold text, as a possible recommendation. Any such recommendation is possible of implementation only after careful study and these should not be considered final.

Ernst & Young will in no way be responsible for any of the views stated in this report. No part of this report shall be made available to the public or any other ~~party without the prior consent of the Chief of Party Capital Markets Development Project and Ernst & Young, Colombo.~~

3.0 BACKGROUND

For the purpose of the survey 40 companies were selected. Twenty companies were selected from the Listed Company Category to cover the following:

| | |
|----|--|
| 1. | Large Diversified Groups |
| 2. | Single Large Public Quoted Companies |
| 3. | Small Companies |
| 4. | Joint Venture Companies |
| 5. | Subsidiaries of Multi-national Companies |
| 6. | Peopleised Companies. |

In addition to the above, twenty companies were selected from the unlisted category to cover the following;

| | |
|----|---|
| 1. | Large Diversified Groups |
| 2. | Large Private/Public Unlisted Companies |
| 3. | Small Companies |
| 4. | Branches/Subsidiaries of Multi-national Companies |
| 5. | G.C.E.C Companies |

A standard pre-printed questionnaire was prepared in consultation with the Chief of Party Capital Markets Development Project. A sample questionnaire is given in Annex I to this report. The questionnaire was sent to the respective Chief Executive Officers in mid September 1991 and interviews commenced in the 3rd week of September 1991. The Partners of Ernst & Young were responsible for conducting these interviews.

The survey was primarily directed to ascertain whether there are any impediments for a company to become listed and identify the possible methods of removing such impediments. In addition to the above, possible incentives to encourage companies to become listed were also identified. The following table depicts the number of companies seeking quotations for the period 1985 to 1991. The figures indicate a very low growth rate.

| YEAR | NUMBER OF COMPANIES LISTED |
|------|----------------------------|
| 1985 | 2 |
| 1986 | 6 |
| 1987 | 4 |
| 1988 | 8 |
| 1989 | 2 |
| 1990 | 1 |
| 1991 | 4 |

The following sections of the report detail the specific questions posed to the persons interviewed and their respective responses. Where different views were expressed, we have reproduced the comments on each issue in order to highlight these views.

4.0 WHY SHOULD A COMPANY BECOME LISTED

- | |
|---|
| <p>- IN ORDER TO SUPPORT GROWTH ADDITIONAL EQUITY FINANCING IS A REQUIREMENT.</p> |
| <p>- SHAREHOLDERS OF COMPANIES NEED LIQUIDITY FOR THEIR HOLDINGS.</p> |
| <p>- ACCESS TO CAPITAL: LISTED COMPANIES SHOULD BE ABLE TO RAISE DEBT OR EQUITY FINANCING ON BETTER TERMS THAN UNLISTED COMPANIES</p> |

The above questions were posed to the persons interviewed with a view to obtaining their comments in order to find out whether these factors contributed towards a company going public. Almost all of the persons interviewed were of the opinion that the the three factors listed are definite incentives to go public.

A few exceptions were

- One person commented that although shareholders need liquidity for their holdings in Sri Lanka, this is not necessarily true as the Share Market is not liquid in that sense as compared to other markets. Furthermore, shareholders do not like to lose control as management control could be lost and thereby the liquidity need is usually traded off against the attendant disadvantage of loss of effective management control.
- It was disclosed that in most instances banks are interested in the viability of the project rather than whether the company was listed or not. In the case of Blue Chip Public Quoted Companies he observed that they would definitely obtain capital on better terms than unlisted companies. In the case of other companies it was observed that the project, network of the company and a number of other factors would be taken into

account when considering the granting of a loan by a Financial Institution. Another factor that was brought to our attention was that not a single bank document refers to whether a company is quoted or not. Possibly a well run private unlisted company may be able to obtain debt/equity financing on better terms than a poorly managed listed company.

- Another comment was that although a listed company could find it easier to obtain loans, it was doubtful whether they could obtain finance on better terms. This was considered to be a more case by case decision based on the project. For example, loans related to development lending would carry concessionary rates of interest based on the nature of the project rather than on the fact that the borrower company is listed or not.

WHAT WOULD YOU CONSIDER AN ACCEPTABLE PRICE TO ISSUE EQUITY

This question brought about a varied range of answers. Around 10% of the persons interviewed were unable to comment, while the others recommended the net asset value, projected future earnings and the price earnings ratio as a basis for valuation of the shares for the purpose of determining the offer price.

Where the persons were of the opinion that the net asset value and the projected earnings basis would be used almost 90% agreed that the issue price should be based on the combination of the two methods. It was felt that a discount of around 20% should be incorporated in the valuation so that the investor would have an immediate gain of 20% on quotation of the company shares. The price earnings ratio too was considered an acceptable method. However in this case too a lower P/E ratio should be used to reflect the above situation.

Two people interviewed were of the opinion that in order to maximise the possible revenue that would be generated it would be advisable to sell the shares on tender. The tender price would be the price at which the issue is fully subscribed. This method was thought to be the best reflection of the market forces.

5.0 POLICIES OF THE SECURITIES EXCHANGE COMMISSION (SEC)

The following comments were made in relation to the policies of the SEC by different persons. In general there appeared to be a lack of knowledge on the policies of the SEC.

- It was felt that in the case of a majority of public quoted companies the dividend policy did not reflect the position that the current shareholders would be fairly treated. It was felt that in most cases the directors followed a policy of high retention that would benefit future shareholders only. This is particularly relevant in the case of companies which do not capitalise reserves and declare a dividend based on a low share capital. For example, a company with a share capital of Rs. 1 million and reserves of Rs. 9 million would declare a dividend of 25% which reflects an effective dividend of 2.5% on capital employed. This practice would not benefit the current minority shareholders.

Further comments were made specifically in relation to instances where the dividend policy of the company was kept low so that it depressed the share prices and the majority were able to obtain a substantial share of the company at a very low price.

As regard to the above, it was strongly felt that the SEC did not have adequate safeguards to protect the minority shareholders.

- "Approval procedures appear to be the optimum necessary to ensure acceptable quality entrants. Adequacy has to be reviewed constantly."
- "While there is understanding and willingness to adjust at the top, officials down the line cling to the rules despite acceptable evidence that the non-conformity was unavoidable."
- "Non-compliance is not an issue."

- "Reporting procedures should be simple and minimal."
- "Of recent times, SEC is trying to focus attention on the seriousness of insider dealing. The importance of controlling insider dealing has been identified and as the propaganda continues with related controls and publicity, the use of advantageous situations to some should be arrested."
- "Not much safeguard for minority shareholders at present except for the company law provision."
- "Policies of the SEC are generally considered adequate and do not act as a constraint on companies obtaining a listing. However, more flexibility is required in order to improve the liquidity of the market."
- "Protection of minority interests is considered inadequate as is the control of insider dealings."
- "Regulatory measures are also not consistently applied. Eg. a leading broking firm has pending court cases with several documented instances of irregularities; but this firm continues to operate, whilst another broking firm has been suspended on an unsubstantiated allegation of insider trading."
- "The checks and balances set up by the S.E.C are relevant and adequate and should not act as a constraint for any well managed company that contemplates being listed."
- "Insider dealing is inherent to the transactions of Stock Exchanges all over the world. However, major instances of Insider Dealing are generally few and far between. In Sri Lanka, particularly where the mercantile world is relatively small, the incidence of Insider Dealing is much less likely than, for instance, in Stock Exchanges such as New York or Tokyo. This is because of the closely knit society in Sri Lanka and any significant movement is unlikely to pass unnoticed."

- "Approval procedures appear to be adequate. However, the SEC tends to be inflexible, and legality of non compliance penalties is questionable as the relevant legislation has not been fully approved by Parliament. Reporting Procedures appear to be adequate. Inadequate control of Insider Dealing. No particular mention about protection to minority shareholder."
- "More stringent Insider Dealing Laws are needed. The brokers are the most guilty in this case and the SEC should monitor their activities more closely."
- "Inflexible attitude adopted towards the question of Employee Share Option Plans (ESOPs) where the SEC disallowed employees preferential terms. The establishing of ESOPs is an essential ingredient towards the development of capital markets."
- "No guidelines to delist a company. Some companies applied for delisting when the tax differential was withdrawn from non broadbased companies."
- "Policies of the SEC are a definite constraint due to the SEC not having a specific guideline. As a result they would turn down plans."
- "It is very important that the SEC should have a set of rules and regulations. A series of frauds could ruin the market. With time, these rules could be relaxed where necessary."
- "The SEC regulates for the exception. For example, brokers cannot deal in listed companies to which they have a relationship, ie. group companies. Detection of fraud is not possible as the brokers could use other broking firms to deal and thus make the tracing of a transaction difficult".

- "The SEC over-reacts to publicity. The Carsons Marketing Limited (CML) issue disclosed that shares would be issued at Rs.10/- to the Directors, Employees and their Nominees. A series of complaints, made the SEC to conduct a number of investigations." In this case, the person interviewed was of the opinion that prior to the issue, the directors had the right to issue the shares to whoever they wanted, provided proper disclosure was made in the prospectus.
- "It was felt that the SEC was tilting to the views of the lay public without being rational towards the companies. This could lead to companies becoming disillusioned about going public."

6.0 REGULATIONS OF THE COLOMBO SECURITIES EXCHANGE (CSE)

The following comments reflect the views of the persons interviewed on the regulations of the Colombo Securities Exchange. Most persons were not conversant with the rules of the CSE and thus were not able to comment.

- "The recent increase of minimum percentage of capital to 50% and 30% for issues below (a) Rs.10 million and (b) Rs.10 million to Rs. 25 million respectively, is excessive, especially in the light of foreign investment and significant local promotional participation."
- "Approval Procedures are adequate and flexible."
- "Disclosure requirements are minimal and necessary for proper control."
- "Reporting procedures - Simple and easy to adhere. Conflict of interest disclosure could be expanded for more details."
- "Control of Insider Dealing is still in the publicity stage and will act as a boost than a constraint towards seeking equity capital."
- "Minority Shareholder Protection - No specific action yet."
- "Accounting - Independent Auditor's opinion based on audit is necessary."
- "Some regulations of the CSE are archaic, although in general the criteria for listing purposes are adequate. The minimum public holding is adequate in view of the fact that under existing legislation, control of 75% of equity is required for effective management control. Legislation may need to be reviewed to enable effective management control with a smaller equity base. This will also encourage divestment of existing holdings."

- "Effective control of insider dealings is lacking largely because many of the brokers on the CSE are offshoots of the more heavily traded listed companies on the CSE. The composition of the CSE does not make for protection of minority shareholders, control of insider dealing and manipulation of share prices. In our opinion appointment of share dealers will help to some extent to rectify this and appointment of independents to the stock exchange will help further."
- "In the case of our company the issued capital is in excess Rs.25 million. Only 25% of the issued capital would have to be in the hands of the public in order to obtain a listing on the stock exchange. Since 75% of the issued capital would still be available to other shareholders, this regulation should not be a constraint to our company seeking equity capital from the public."
- "Approval procedures, though voluminous, are generally handled by the stock broking firm through whom the application for listing has to be submitted to the Exchange. However, although the company seeking listing will be relieved of the cumbersome work related to obtaining approval, this whole exercise could be a very costly."
- "Since an active market is a fairly recent phenomenon in Sri Lanka, it is difficult to comment on the adequacy of the CSE regulations. This is best judged as time goes by and practical situations prove whether such regulations are adequate or not."

- "Whilst appreciating the fact that regulations are designed to safeguard the interests of the parties concerned and moreover, the interest of the party most likely to be exploited if such regulations were not in existence, a certain amount of flexibility in the following areas would be desirable."

1. Minimum % of capital to be in the hands of the public (criteria for listing) to be a uniform percentage of 25% irrespective of the rupee value of the issued capital (presently, the stipulated % could be as high as 40%).
2. Transfer of shares (of a listed company) between two private individuals (not companies) should be a permissible option within certain limits, without the use of a broker and/or the permission of the Securities and Exchange Commission (ie:- if the transfer involves only a negligible percentage of the shares of a company and such transfer does not affect the interest of the other shareholders and both parties agree to a private transfer it should be exempt from the usual procedures).
3. Disclosure requirements in respect of intended acquisitions/disposals, especially where prior publicity could have a detrimental impact on the outcome.

- "Penalties for non compliance are to be expected to ensure that listed companies maintain certain standards and also in ensuring that shareholders interests are safeguarded. However, such penalties should not deter high profile companies which maintain a high degree of efficiency in their operations."

- "Disclosure requirements are very voluminous and would result in a substantial consumption of time and money."

- "Reporting procedures are more detailed and stringent than those stipulated by the Companies Act but are nevertheless necessary to keep investors informed about the company in which they have staked their funds."

- "Although the Securities Council Act stipulates that trading in listed securities by insiders is prohibited, recent publications in the press indicate that the Colombo Stock Exchange itself is aware of the CSE regulations in this regard."
- "Although all regulations of the CSE are designed to safeguard the interest of shareholders in general, the regulation which in particular seems to safeguard the minority shareholder is the stipulation that all shares of listed companies have to be sold on the trading floor of the Exchange, and in certain exceptional circumstances, should have the prior approval of the SEC."
- "Apart from this, the recent move by the CSE to protect the minority shareholders of Ceylon Match Co. Ltd. following a takeover was a success, thereby indicating that there is effective protection of minority shareholders."
- "However, it also indicates that inspite of rules and regulations, creeping takeovers could still take place without the prior knowledge of the authorities."
- "The company I work for is already a public quoted company. However, I am of the opinion that the regulations of the CSE too are not adequately publicised. Since our company is public quoted, we have been provided with a set of regulations but I am unaware as to how the general public could obtain a copy of same."
- "In my opinion, a minimum of 40% of the capital should be in the hands of the public. A quantity less than this amount would have the following disadvantages."
 - a) The major shareholders would have "absolute" control over the activities and the minority shareholders would find it difficult to obtain even the statutory protection available to them (10% etc.).

- b. Usually the major shareholders do not indulge in trading their shares. The quantity of shares available in the stock market would be limited. This could give rise to artificially high prices. A larger quantity offered to the public would activate the secondary market transactions in that company.
- "I have not had any experience in the Approval Procedures, hence unable to comment on its Adequacy and Flexibility."
 - "While there are various rules and regulations, action against non-compliance seems rather limited. This may be due to the fact that the public are still ignorant since the CSE is still in its infancy stage. I feel that it is important that from the beginning a company should be made well aware of the regulations and the necessity for compliance. CSE has done little in educating the listed companies as to its requirements."
 - "Insider dealings makes the investing public loose faith in the system. All it allows is to enrich a few individuals at the expense of the investing public. As such, control of insider dealings is absolutely essential. However, the market in Sri Lanka, still being in an infancy stage, the number of people involved in share dealings is minimal. We find that the same individual being a director of a broking firm, director of an investment company dealing in shares; a director of some of the listed companies. This obviously gives rise to a conflict of interest and possibly allows the individual to take undue advantage of the knowledge he gains by being a director of one company. However, drastic regulations prohibiting an individual from serving on the Board of Directors of conflicting institutions at this stage, I feel would be too premature. As mentioned earlier, we still have a very limited number of people capable of serving in those capacities."

- "A very clear publicised definition of insider dealings should be made. For e.g. the Directors/Managers of listed companies should be advised as to when they could buy/sell shares in their company. They could be made to inform the CSE of their decision to buy/sell and the reason why they are doing so which at the discretion of the CSE could even be made as an announcement to the investing public. The directors of broking companies should be advised clearly on how they could transact in shares. At the moment there seems to be a fair amount of uncertainty in this area.'
- "While minority shareholders should be afforded adequate protection, they should not be allowed to make themselves a nuisance. It may be an idea to consider the appointment of a director to represent the minority shareholders, as has been done in some companies, through whom the minority shareholders could voice their opinion."
- "Auditors should be made to express an opinion as to the fairness of the financial statements in conformity with generally accepted international accounting principles."
- "The accounts should also be extended to give greater details of the directors interests in contracts, where possible stating the monetary value."

- "The general impression is that the CSE and Companies Act do not have adequate safeguards to ensure proper financial reporting. The present Companies Act does make it mandatory for the company to adopt the Accounting Standards recommended by the Institute of Chartered Accountants of Sri Lanka. The Auditors opinion as per the Companies Act No. 17 of 1982 requires that the report specifically mention whether the financial statements are prepared on generally acceptable accounting principles applied on a basis consistent with that of the previous year. There is presently inadequate follow-up on developments in the International Accounting Scene and thus results in the latest developments not being applied in Sri Lanka. **By requiring the companies to follow the Sri Lanka Accounting Standards by legislation, through an amendment to the Companies Act, the reporting standards are expected to improve.**

- It was felt that the Companies Act and the rules of the CSE did not make it mandatory for the Audit report to confirm that the financial statements were prepared based on Sri Lanka Accounting Standards. One Company official recommended an amendment to schedule 5 of the Companies Act to make it mandatory for the financial statements to be prepared in accordance with Sri Lanka Accounting Standards. Further, it was felt that the Institute of Chartered Accountants of Sri Lanka should constantly monitor developments in the international scene and develop standards on a timely basis to ensure timely financial reporting.

7.0 DISCREPANCIES BETWEEN THE REQUIREMENTS OF THE COMPANIES ACT NO 17 OF 1982 AND THE CSE & SEC

Discrepancies between the regulations of the companies Act No.17 of 1982 and the CSE and the SEC.

o Highlights

| Discrepancies | Companies Act Requirement | SEC CSE Requirement | Recommendation |
|----------------------------------|---|--|--|
| 1. Filing of Accounts | Within 9 months of year end | within 6 months of year end | Amend Companies Act to fall in line with SEC & CSE rules |
| 2. Delivery of Share Certificate | Within 2 months of lodging a valid transfer | Within 14 market days of receipt of a valid transfer | Amend Companies Act to fall in line with SEC & CSE rules |

- o A general observation was that there was inadequate knowledge of the SEC, CSE & Companies Act requirements among the persons interviewed.

Of the Senior officials of the companies interviewed, only 6 responded to this question. A common comment on the above was that the Companies Act No. 17 of 1982 required that the company should submit financial statements within 9 months of year end. The rules of the Colombo Securities Exchange is that listed companies should submit the financial statements within 6 months of year end. All 6 officials were of the opinion that the CSE rule of 6 months to submit the financial statements was adequate and according recommended that the Companies Act should be amended to fall in line with the rules of the CSE.

One company commented that the CSE and SEC required that the new share certificate in favour of the buyer should be posted not less later than Fourteen market days from the date of receipt of a valid transfer. Section 80 of the Companies Act No. 17 of 1982 required that the share certificate in favour of the buyer should be delivered within two months from the date on which a transfer of any shares, debentures or debentures stock is lodged with the company.

Overall the response to this question was rather poor and indicated the lack of knowledge of the rules of the SEC, CSE and the Companies Act No. 17 of 1982.

8.0 FISCAL INCENTIVES

8.1 Incentives to go Public

The evolution of a Public Listed company could be traditionally depicted in the following chart.



The present tax rates are as follows;

- | | | |
|---|-------------------------------|----------|
| - | Individual | 40% |
| - | Partnership | as above |
| - | Private Company | 50% |
| - | Public Listed Limited Company | 40% |

The present tax structure does not provide an incentive to incorporate as the personal tax rates are higher than the private company tax rates. In the event the owners decide to incorporate to obtain benefits of limited liability they would attempt to minimise the taxation liability by drawing salaries, bonuses etc., above the line in order to pay the minimum dividend. Such a practice is not possible with Public Limited Liability Companies which are listed due to the disclosure requirements and the protection of minority shareholders. Therefore the present structure could be viewed as a barrier to going public.

The Taxation Commission recommendation that the maximum tax rate of 35% is an important consideration. A senior official who was interviewed was of the opinion that the maximum tax rate of 35% should apply to individuals. A reduced tax rate of 32.5% should apply to Limited Liability Companies which are not listed and a further reduction in the rate should be made to listed companies. The rate recommended for listed companies was 30%. It was recommended that the gradual reduction in the tax rate would be an incentive not only for the Sole Trader to incorporate but also for the private companies to obtain a listing.

| | Sole Trader | Private Company | Limited Liability Company |
|-----------------|--------------------|------------------------|----------------------------------|
| Tax Rate | 35% | 32.5% | 30% |

8.2 The 10% Tax Differential

The 10% tax differential was considered to be an incentive to go public in the minds of almost all persons interviewed. However, in two instances it was noted that the persons interviewed were of the opinion that the above incentive was somewhat misused and thus created a situation where a minimum public issue was made for the purpose of obtaining this benefit. This problem was overcome by the Inland Revenue Amendment Act which requires that for a company to qualify for the 40% tax rate, certain conditions should be met.

Based on the above we understand that only about 50 of the total 177 companies listed would qualify for the 40% tax rate. There were mixed feelings about this new legislation. A strong view was that this is justified in terms of capital markets development in the sense that a broadbased public company is more acceptable.

1. Large Companies with Divisions being spun off as Public Listed Companies

A different view was expressed in the case of large groups where divisions are spun off as separate companies and subsequently listed. The view expressed was that in the case of such companies where the holding company enjoys a rate of 40% due to it being a broadbased limited company and its subsidiary becomes a non broadbased company due to the substantial holding by the group, the division loses the tax advantage on incorporation of a division as a subsidiary company. In this case too a conflicting view was expressed that the subsidiary too should be broadbased in terms of capital market development.

2. Associate Joint Venture Companies

A problem was noted in the case of Joint Venture Companies where a main company is an Associate Company of two other companies. This situation too causes problems in determining the taxable status of the company. For example, if A Limited holds 40% and B Limited holds 35% in company X and the balance shares are distributed widely among shareholders exceeding 200 in number the 10% tax differential benefit would not be available to this company. Therefore the persons interviewed were of the opinion that some sort of provision is needed for the benefit of the joint venture companies where no single individual or his nominees holds less than 51% of the issued share capital of the company.



8.3 Wealth Tax - Withholding Tax

- **Fiscal Incentive was considered adequate**

The exemption of wealth tax on quoted company shares was considered to be a definite incentive. However, it was noted that this was more as an equitable need as the prices of the shares were artificially high and did not reflect the true value.

As an incentive to incorporate it was recommended that the unquoted shares should be partly exempt from wealth tax which would encourage the individual businessman to incorporate. The exemption of dividends from withholding tax too was considered a definite incentive to incorporate. However, it was doubtful as an incentive to go public. This was due to the fact that in the case of the 20% deduction from the dividend it would be available for deduction from the final tax payable by the individual. However, the non deduction of the 20% withholding tax would only benefit the small shareholder who does not pay taxes. He would obtain his dividend gross and would not have the tedious task of obtaining tax refunds from the Inland Revenue in the case of withholding tax deducted at source. This incentive would be however beneficial in terms of capital market development where the small non tax paying investor would obtain his dividend gross.

- **Capital gains tax of 20% to be exempted if the holder has the shares for over 1 year**

The above rule of holding the share for one year was considered meaningless. It was recommended that the sale of quoted company shares should be exempt from tax even if it did not qualify for the 1 year holding period.

meaningless as it is impossible to keep track by Inland Revenue Authorities. Further in terms of Capital Markets Development this could be considered as impediment due to the fact that in the case of new issues most people who pay taxes may opt to hold the shares for over one year expecting capital growth. This would restrict the volume of trading.

8.4 Dividend payments by listed companies to be deductible from the taxable income of the issuing company

This is a situation where a company might be tempted to declare a high dividend rate to minimise the taxation liability. This could result in cash flow problems. The actual position of a company in this instance is analysed below.

| | NO INCENTIVE | INCENTIVE |
|-------------------|--------------|-----------|
| Profit before tax | 100,000 | 100,000 |
| Dividend | 100,000 | 50,000 |
| Taxable Income | Nil | 50,000 |
| Profit Retained | Nil | Nil |

Tax Revenue to the Government would be:

| | | |
|---------------------|---------------|---------------|
| From the Company | Nil | 40,000 |
| From the Individual | 40,000 | 20,000 |
| T O T A L | 40,000 | 60,000 |

The above recommendation was well accepted by most persons interviewed. However concern was expressed on the position of the company in the event cash flows were adverse.

8.5 Permit listed companies to report taxes on a consolidated return so that losses of one subsidiary can be utilised against taxable income of another at the parent company level.

The above situation is common overseas where if a group meets certain criteria, the loss of one subsidiary could be utilised against the taxable income of another. The group relief provisions were applicable if the holding company holds 75% or more of

- a. the ordinary share capital,
- b. the distributable income rights and
- c. the rights to the net assets where the company is to be wound up.

In Sri Lanka the tax planning is carried out in a manner that profitable subsidiaries are charged management fees based on the overall taxable position of all companies within the group. It could be further noted that in most instances there is cross charging of expenses. As a result, the respective financial statements of the group companies would not reflect a true position except on a consolidated basis. In effect the above practice is an indirect tax avoidance plan which is similar to the set off of losses of one subsidiary against the taxable income of another at the parent company level.

It was noted by most persons interviewed that the permitting of reporting of consolidated returns so that the losses in one subsidiary can be utilised against the taxable income of another appears to be an incentive to seek a listing, if this is permitted in the case of "listed" parent companies. It is further justified on the basis that:

- I. There would be minimum cross charges such as management fees, expenses, etc. and each subsidiary would reflect the true financial results.
- II. Most subsidiaries evolved from being departments/divisions of the holding company and were spun off as subsidiaries for administrative and other conveniences. In the event the companies were not incorporated but continued as divisions/departments of the holding company, the benefit of the set off of the losses would be possible.

Other incentives were identified in terms of

- reduced customs duties and excise duties for quoted public companies,
- Improved Infrastructure to enable public quoted companies to move into the outstations and
- Possible extended tax holidays for quoted GCEC Companies.

In relation to the above in general around 50% agreed that the cost was high and around 20% were of the opinion that the cost could vary with the issue and could be controlled. We reproduce below some relevant comments from our survey.

- "Cost of going public is not fixed. It depends on issue size/value, standing/image of the company, the extent of advertising (advertising is costly and there are companies who have restricted to the legal minimum yet oversubscribed within the minimum a short period), issue costs which has both its variable and fixed elements. The high and low definition depends on the company characteristic and issue size than a fixed quantum of expenditure. A certain amount of actual expenditure is within the issuing company's control."
- "From the foregoing, the minimum issue of Rs.5,000,000 is adequate to support the issue expenses, if budgeted properly."
- "20% for minimum public issue of shares is considered reasonable."
- "Our market is too small for segmentation into small and big issues. Ledger maintenance: having gone public our duty. However should have a Central Electronic share ledger maintenance system under the Aegis of CSE for all its members to draw on its services. There should also be a recommended share ledger maintenance fee for the registrars and secretaries to charge from clients which would help us to compare and argue on a reasonable rate."
- "Annual report : Basic minimum requirements published in a simple manner is generally within a profitable company's reach. Companies with high performance would naturally like to bring out glamorous reports in keeping with their company profile."
- "Like annual reports, cost of annual general meeting too vary from company to company depending on their outlook."

- "Equity financing is the highest cost capital mainly because of the taxation system. If tax concessions are made in respect of dividends, equity financing would cease to have the highest cost of capital."
- "The cost of going public at the moment seems unrealistically high. In some issues, the cost has amounted to around 10% or even more. The advertising cost especially in the leading newspapers and TV in Sri Lanka are unrealistically high."
- "Brokerage should be on a tiered basis with 3% being acceptable for smaller issues and 1/2% for larger issues which would enable the brokers to obtain a satisfactory return in rupee terms."
- "I feel that initially 40% should be offered to the public and later on even consider increasing it to 60%. 40% suggested for the present is due to lack of availability of professional management and as such, the owners would have to be involved in the operations to safeguard their interest. However, as professional management develops, ownership could be divorced from management and the percentage increased to 60% or even higher."
- "It would be a very good idea to have a market for smaller issues which can be tried out on a trial basis with less stringent regulations and lower costs."
- "With the possibility of computerising the Share Ledger, its maintenance has been made easier. From most companies I do not consider the Share Ledger Maintenance to be a major cost."

- "Cost of printing and despatching annual reports to shareholders has been increasing steadily over the last few years, with some of the newer companies having over 10,000 shareholders. The cost might even become a major item in its Profit and Loss Account. As such, the company should be given the option of sending a summary of the accounts along with the Notice of Meeting to the shareholders or the following options could be considered."

- a. Shareholders if they are interested could request for an annual report .
- b. To send the summarised version to shareholders holding less than a defined minimum quantity of shares, say 500 and send detailed accounts to the larger shareholders.
- c. The smaller shareholders could be given the option of purchasing at a nominal price a copy of the annual report, if they so desire.

In all instances, the public including the shareholders should have access to the annual reports at different places, say Stock Exchange, Company's Registered Office, Brokers Offices etc.

"Meetings may not be a problem for smaller companies or larger companies where attendance is minimal. One wonders with 20-30 thousand shareholders in the new companies how they are going to hold their annual general meeting which due to various reasons may have a large attendance. Other than the cost impact, the practicality of organising and conducting such meetings has to be considered."

- A smaller percentage of a growth company or a larger percentage of a static one will be relevant only in a liquid and free market situation which does not prevail in Sri Lanka. In Sri Lanka share prices are dominated by various factors, the main one being demand exceeding supply and pushing up particularly the price of so called blue chips in the market.

- "The cost of going public is high, particularly if the issue is relatively small. Brokerage could be levied on a sliding scale with the rate being negotiated for large transactions."
- "There should be second board for smaller companies. The present system of allocating 100 shares per applicant if an issue is over subscribed also imposes a substantial additional burden on the Company in providing annual reports etc. The attempt to broadbase the market in this manner could be counter-productive as control would still be effectively held (and in practice this is the case) by one or a few major shareholder/s and such diffusion of ownership makes this even easier."
- "A need for an Unlisted Securities Market (USM) where smaller issues would be marketed at a lower cost. For example, a company which does not have a proper trade record could enter the Unlisted Securities Market (USM) and have its shares traded. It was considered an important element in terms of Capital Markets Development as the successful Companies that would enter the Unlisted Securities Market would enter the stock market at a subsequent time."
- "The minimum subscription of 100 shares on many public issues is too low and leads to problems. Possible increase to 500 shares."

The general attitude was that the minimum subscription for 100 shares was too low. The 100 share limit was applicable even in the 1970's when the amounts raised was not substantial as compared to current times. The rupee has depreciated substantially and having a minimum subscription of 100 shares in respect of shares with a par value of Rs. 10/-, would mean that when the issue is for a high value, if a decision is taken to allot shares to applications covering the minimum subscription, the number of applications would be substantial. There would be problems on administering the issue as well as subsequent burdens on the company in conducting Annual General meetings, maintaining share ledgers, etc. The following table depicts the number of applications for a number of recent share issues in 1991.

24

| Share Issue | Minimum Subscription | Par Value Per Share | No. of Application |
|----------------------|----------------------------|---------------------|--------------------|
| Ceylon Oxygen Ltd | Rs.1500/- (Rs5 Premium) | Rs. 10/- | 17,000 |
| Pugoda Textile Mills | Rs.1000/- | Rs. 10/- | 29,000 |
| D.F.C.C. | Rs.5000/- | Rs.1000/- | 41,000 |

The above table clearly indicates the fact that even with the increase in the minimum subscription from Rs. 1,000/- in the case of Pugoda Textile Mills Limited to Rs. 5,000/-, in the case of the Development Finance Corporation of Ceylon, the number of applications did not decrease. In fact the number of applications increased substantially in this case.

The CSE could increase the minimum subscription to say 500 shares. This would bring about the following efficiencies.

- i. Lower cost in terms of issue of shares.
- ii. A lower administration burden on the company in terms of holding Annual General Meetings, Share Ledger maintenance costs, cost of annual reports, etc.
- iii. Reduced burdens of possible multiple applications by unscrupulous individuals.

Another issue that surfaced was that in certain instances brokers show little interest in disposing of small lots. This problem could also be overcome by increasing the minimum subscription to say 500 shares.

However in terms of capital market development it was felt that it would be appropriate to retain the minimum subscription at 100 shares for a period of around 5 years to encourage the small time investor. When the market develops, the minimum subscription could be raised to the 500 share level.

10.0 PRIVATE TRANSFER OF SHARES

9.1 Should it be allowed or not

Around 75% of the persons interviewed were of the opinion that private transfers should be allowed. A few issuers were of the opinion that though private transfers should be allowed it should be adequately disclosed to the SEC.

An argument put forward was that most outstation investors would have to spend a substantial sum to come to Colombo, obtain the services of a broker and sell his shares. This is an impediment towards the development of a Capital Market and accordingly, one possible recommendation was that private transfers could take place but the transacted price should be communicated to the CSE. The other option was to recommend that banks participate in the process and as such the outstation branches of banks could be used. Already there are some brokers who are affiliated to banks and the wide branch network could be used for the purpose of transacting in shares. This is a very important consideration in relation to the minority views expressed that the private transfer of shares should not be allowed as detailed below.

Around 25% of the persons interviewed were of the opinion that private transfers of shares should not be allowed. They were of the view that in a developing capital market it is essential that there are safeguards to ensure that there is no in manipulation, and accordingly, it was felt that private transfers should not be allowed. If the banks get involved, the problems encountered could be reduced to a great extent.

10.2 Intergroup Restructuring

It was observed that in almost all cases it was agreed that in the case of intergroup restructuring the SEC should allow private transfer of shares. However, it was felt that there was a need to have full disclosure of the transaction to the Colombo Securities Exchange and the Securities and Exchange Commission.

10.3 If a Private Individual wishes to transfer his share to another private individual without the use of a broker, should this be allowed?

Strong views were expressed on this matter that this is the only instance in a free market economy where it is mandatory to go through a broker which was thought to be very unfair. If the seller himself finds the buyer it was considered totally inappropriate for a broker to charge a commission for "doing nothing".

10.4 Transfer of a control position

Transfer of a control position was reviewed in two aspects. The first was that the control position should be transferred via the trading floor in order to enable all interested parties to bid and should be disclosed to the SEC. The other aspect was that the transfer should be approved only after all or a majority of voting shareholders have approved the transfer of control and have been given the opportunity to sell the holdings at a price agreed by the transferor, provided it is a fair market price.

- Takeovers
- Undue Publicity
- Other factors

A wide variety of answers were received in respect of this question. For the purpose of a meaningful discussion we reproduce the relevant comments.

Takeovers

- "Takeovers are part and parcel of a market place and probably not necessarily unhealthy."
- "The risk is not only for listed companies. Only proper management can safeguard this."
- "Need for a City code on takeovers and mergers. It is understood that the SEC is currently working on this."
- "Takeovers may improve badly managed companies."
- "Risk of foreign companies taking over local companies with the proposed removal of the 40% limit on foreign holdings."
- "Takeovers should be transparent to give a better deal to small investors."
- "The risk of takeovers could be minimised and even eliminated by ensuring a correct valuation of assets. In most instances takeovers are engineered to make a "windfall". If assets are correctly valued this cannot be achieved."
- "Takeovers could be considered the main problem of listing, especially if the company management does not hold a controlling interest."

- "The proposed City code on Takeover and Mergers should not over regulate. The market is showing growth and as such if we commence over regulating it will be a disincentive to a company going public."
- "Risk of takeovers would keep everybody on their toes. This is a good thing in a developing market."
- "Many people fear takeovers. There may be genuine reasons."
- "When there is a ready market for the shares of a company it is natural that such companies are vulnerable to takeovers especially where none of the shareholders has a clear controlling interest."
- "The increase in creeping takeovers which have been effected through the market in recent years clearly indicates such vulnerability."

Undue Publicity

The following comments are reproduced to indicate the opinions of the issuers in respect of the topic of undue publicity.

- "The disclosure requirements of the CSE though designed to safeguard the interest of shareholders could itself be detrimental to the company as well as its shareholders where undue publicity (mandatory) is given regarding intended acquisitions or disposals by the company, there-by resulting in an unfavourable outcome to the company."
- "Only companies who have something to hide undue publicity. Quality listed companies need not fear the glare of the public eye."
- "With the publicity in the country revolving around the media controlled by various factors, undue publicity could be given due to personal reasons rather than Market needs. Until we develop professionalism in journalism, it is unlikely that we would be able to overcome this drawback."

- "It may enable to people to "let off steam". This means that the Directors would be on their toes and as such they cannot act to the detriment of the company."
- "Employee Protection Acts are a main problem in relation to undue publicity. For example, on publication of results the employees could demand higher compensation/benefits. Strikes are uncommon in unquoted companies. To avoid the disruption of work it would be necessary to repeal the Employee Protection Acts in the future."

Other Factors

- "Although the Central Bank had regulatory powers to oversee the functioning of Finance Companies, such powers were not effectively exercised thereby resulting in several unsuspecting depositors becoming victims when some Finance Companies crashed a few years ago."
- "It is therefore hoped that the S.E.C., which is a similar regulatory body, will play an active and effective role so that investors in securities will not meet with a similar fate."
- "Foreign exchange relaxations are necessary in order to limit link with other such exchanges and thereby increase the marketability of shares internationally."
- "Promote the issue of non voting shares."
- "The promotion of unit trusts is a must in the current context."

12.0 CONCLUSION

We trust that the information contained in the preceding sections of this report is adequate for the purpose of identifying the issuers attitude to go public.

We wish to place on record our appreciation of the co-operation and assistance provided to us by all parties concerned in the preparation and submission of this report.



ANNEXURE

1

USAID CAPITAL MARKET DEVELOPMENT PROJECT

SURVEY OF ISSUERS ATTITUDES TO GOING PUBLIC

QUESTIONNAIRE

ERNST & YOUNG

SEPTEMBER 1991

1. WHY SHOULD A COMPANY BECOME LISTED?

PLEASE COMMENT SPECIFICALLY ON THE FOLLOWING:-

- IN ORDER TO SUPPORT GROWTH ADDITIONAL EQUITY FINANCING IS A REQUIREMENT
- SHAREOWNERS OF COMPANIES NEED LIQUIDITY FOR THEIR HOLDINGS
- ACCESS TO CAPITAL: LISTED COMPANIES SHOULD BE ABLE TO RAISE DEBT OR EQUITY FINANCING ON BETTER TERMS THAN UNLISTED COMPANIES
- WHAT WOULD YOU CONSIDER AN ACCEPTABLE PRICE TO ISSUE EQUITY?

2. POLICIES OF SEC

ARE THE POLICIES OF THE SEC A CONSTRAINT TOWARDS YOUR COMPANY SEEKING EQUITY CAPITAL FROM THE PUBLIC? IF SO WHY?

PLEASE COMMENT SPECIFICALLY ON THE FOLLOWING:-

- APPROVAL PROCEDURES
- ADEQUACY
- FLEXIBILITY
- NON-COMPLIANCE
- REPORTING PROCEDURES
- CONTROL OF INSIDER DEALING
- PROTECTION TO MINORITY SHAREHOLDERS

3. REGULATIONS OF THE COLOMBO STOCK EXCHANGE

ARE THE REGULATIONS OF THE CSE A CONSTRAINT TOWARDS YOUR COMPANY SEEKING EQUITY CAPITAL FROM THE PUBLIC? IF SO WHY?

PLEASE COMMENT SPECIFICALLY ON THE FOLLOWING:-

- CRITERIA FOR LISTING - MINIMUM PERCENTAGE OF CAPITAL IN THE HANDS OF THE PUBLIC
- APPROVAL PROCEDURES
- ADEQUACY
- FLEXIBILITY
- NON-COMPLIANCES
- DISCLOSURE REQUIREMENTS
- REPORTING PROCEDURES
- CONTROL OF INSIDER DEALINGS
- PROTECTION TO MINORITY SHAREHOLDERS
- ACCOUNTING - REQUIREMENT FOR INDEPENDENT AUDITORS TO AUDIT BUT NOT EXPRESS AN OPINION AS TO THE FAIRNESS OF THE FINANCIAL STATEMENTS IN CONFORMITY WITH GENERALLY ACCEPTED INTERNATIONAL ACCOUNTING PRINCIPLES.

4. DISCREPANCIES BETWEEN THE REGULATIONS OF THE COMPANIES ACT AND THOSE OF SEC AND CSE (The later being more stringent)

- ANY OBSERVED DISCREPANCIES

5. FISCAL POL:

IN YOUR OPINION ARE THE FISCAL INCENTIVES ADEQUATE TO PROMPT A COMPANY TO SEEK A LISTING?

- 10% TAX DIFFERENTIAL FOR BROAD BASED LISTED COMPANIES
- EXEMPTION OF WEALTH TAX ON QUOTED COMPANY SHARES
- NO WITHHOLDING TAX ON DIVIDENDS
- NO STAMP DUTY
- NO CAPITAL GAINS TAX ON SHARES HELD MORE THAN ONE YEAR. A FLAT 20% CAPITAL GAINS TAX ON SHARES HELD LESS THAN ONE YEAR

ARE THERE OTHER INCENTIVES WHICH YOU WOULD FIND MORE APPEALING? FOR EXAMPLE:

- DIVIDEND PAYMENTS BY LISTED COMPANIES TO BE DEDUCTIBLE FROM THE ISSUING COMPANIES TAXABLE INCOME.
- PERMIT LISTED COMPANIES TO REPORT ON A CONSOLIDATED RETURN BASIS SO THAT LOSSES IN ONE SUBSIDIARY CAN BE UTILISED AGAINST TAXABLE INCOME IN ANOTHER, AT THE PARENT COMPANY LEVEL.
- PERMIT LOSS CARRYFORWARD TO SURVIVE AN ACQUISITION BY A LISTED COMPANY.

51

ii. ARE THERE ANY OTHER FISCAL INCENTIVES THAT MAY BE INTRODUCED TO MAKE IT MORE ADVANTAGEOUS FOR A COMPANY TO OBTAIN A LISTING?

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iii. IN YOUR OPINION ARE THERE OTHER FACTORS THAT MAY BE COUPLED WITH FISCAL INCENTIVES TO ENCOURAGE COMPANIES TO OBTAIN A LISTING?

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- 21

6. COST OF GOING PUBLIC

EQUITY FINANCING IS THE HIGHEST COST CAPITAL - YET IT IS A NECESSITY FOR GROWTH. IN YOUR OPINION, IS IT BETTER TO HAVE A SMALLER PERCENTAGE OF A GROWING COMPANY OR A LARGE PERCENTAGE OF A STATIC ONE?

PLEASE COMMENT ON THE SPECIFIC ISSUANCE RELATED QUESTIONS BELOW:-

- IS IT TOO HIGH?
- ADVERTISING COSTS
- ISSUE COSTS
- BROKERAGE
- MINIMUM ISSUE RS..... IS IT ADEQUATE TO COVER THE COST?
- IS THE RESTRICTION OF THE 25% RULE FOR THE MINIMUM PUBLIC ISSUE OF SHARES REASONABLE?
- SHOULD THERE BE ANOTHER MARKET FOR SMALLER ISSUES?
- SHARE LEDGER MAINTENANCE COST
- ANNUAL REPORTS
- COST OF ANNUAL GENERAL MEETINGS

7. PRIVATE TRANSFER OF SHARES

PLEASE COMMENT ON THE FOLLOWING:-

- SHOULD IT BE ALLOWED OR NOT?
- WHAT ABOUT INTER-GROUP RESTRUCTURING?
- IF A PRIVATE INDIVIDUAL WISHES TO TRANSFER HIS SHARE TO ANOTHER PRIVATE INDIVIDUAL WITHOUT THE USE OF A BROKER - SHOULD THIS BE ALLOWED?
- TRANSFER OF A CONTROL POSITION?
- OTHER ASPECTS

8. INCREASED RISK OF

- TAKEOVERS
- UNDUE PUBLICITY
- OTHER FACTORS

PLEASE GIVE YOUR COMMENTS IN RELATION TO THE ABOVE.

15'