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By Hand

Ref: SEC/LEG/14/12/41

23rd December 2014

To: The Colombo Stock Exchange

<u>Directive issued under Section 13 (c) and 13 (q) of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)</u>

The Securities and Exchange Commission of Sri Lanka (SEC) having regard to the negative impact that could be caused due to an undervalued or overvalued offer price at an IPO, decided to mandate disclosures in respect of the basis of an offer price at an initial public offer (IPO) of shares.

The said decision was made by the Commission at its 350th meeting held on 19th December 2014.

The Colombo Stock Exchange is therefore directed to mandate the following disclosures to be made in respect of the basis for offer price in the prospectus of companies seeking a listing of shares post IPO.

- To obtain a competent independent valuation on a voluntary basis for determining the IPO Price/Price Bands justifying the IPO Price/Price Bands, and to disclose a summary of the valuation report in the Prospectus, with the following information;
 - Qualifications and relevant experience of the Independent Valuer or, if the report is made by a Firm, the qualifications and relevant experience of the individuals responsible for preparing the report; and
 - b. A Declaration by the Independent Valuer stating that;
 - The Valuer is neither a Related Party as defined in Sri Lanka Accounting Standards nor has significant interest in or financial connection with the listing applicant and/or the group;
 - ii. the Valuer is a member of good standing in a professional association relevant to the valuation assignment undertaken and has the necessary skills and resources available at his disposal to arrive at a competent independent opinion in determining the IPO Price/Price Band; and
 - iii. the Valuer has made all the inquiries that he believes are desirable and appropriate in order to arrive at a competent independent opinion.

OR

2. If the Entity decides not to follow the procedure laid out in (1) above, mandate the entity to publish the Research Report prepared by the Investment Bank/IPO Manager for justifying the 'IPO price'

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Continuation Sheet

together with the Prospectus. The said Report shall contain a section that covers the basis and methodologies used to determine the Offer Price/Price Band for the IPO. The Entity should host the said Report on the CSE Website, as well as on the Entity's own Website for a period of two (02) months commencing from the date of granting in principle approval for listing by the Colombo Stock Exchange (CSE).

AND

3. To mandate entities to disclose in the Prospectus the basis of the IPO Price/Price Bands as given in **Schedule I** annexed hereto.

For the avoidance of doubt, (3) above is mandatory whilst (1) and (2) are options for an entity to adopt.

Accordingly, the Colombo Stock Exchange is hereby directed to incorporate the aforesaid rules and the Schedule attached hereto into the Listing Rules of the CSE.

This Directive shall be effective from 01st January 2015.

Dhammika Perera

Deputy Director General / Officer-in-Charge

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Annexure: Schedule I

BASIS FOR OFFER PRICE

The Offer Price was/will be determined (in the case of Book Building Process) by the Entity in consultation with the (eg: Name of the Investment Bank/ Independent Valuer). The Net Asset Value per share of the Equity (NAV) is Rs. XXX and the Offer Price is XX times the NAV.

(In the case of price band, the lower end of the price band is XX times the NAV of the Entity and the higher end of the price band is XX times the NAV of the Entity.)

INVESTORS SHOULD READ THE FOLLOWING SUMMARY WITH THE RISK FACTORS INCLUDED ON PAGE NO. XXX AND THE DETAILS ABOUT THE ENTITY AND ITS FINANCIAL STATEMENTS INCLUDED IN THIS PROSPECTUS.

1. QUALITATIVE FACTORS

The qualitative factors that were considered by the Entity when arriving at the Offer Price/Price Band should be mentioned here, OR alternatively the Entity could provide the necessary cross references to the relevant sections in the Prospectus.

2. QUANTITATIVE FACTORS

2.1 Adjusted Earnings Per Share (EPS) & Average Return on Equity (ROE %)

For Main Board entities: at least for last three (03) years based on the Audited Financial

Statements and as per the latest interim financial statement (Not

Annualized):

For Dirisavi Board entities: at least for last one (01) year based on the Audited Financial Statements

and as per the latest interim financial statement (Not Annualized):

Year Ended	Basic EPS (Rs).	Diluted EPS (Rs).	ROE	P/E
March 31, 20X2				
March 31, 20x3				
March 31, 20X4				
Average EPS				
Three months ended June 30, 20X4 (Not Annualised)				

Note:

Earnings per share (Rs.) = Net profit as restated, attributable to equity shareholders

Weighted Average number of equity shares outstanding during

the year/period

Return on Equity (%) =	Net profit after tax, as restated	
	Net Assets as at the end of the year / period	

2.2 Price/Earnings Ratio (P/E) in relation to Offer Price of Rs. XXX

- a. Based on financial year ended March 31, 20XX (as applicable) Basic & Diluted EPS of Rs. XXX, the P/E Ratio is XXX
- b. Based on average EPS of Rs. XXX, the P/E Ratio is XXX
- c. Industry P/E XXX

Particulars	Name of the Peer Entity	P/E
Highest		
Lowest		
Industry Composite		

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Source:						

Sector Classification:

2.3 NAV

- (i) As per the latest audited financial statements (eg: as on March 31, 20X4 Rs. XXX)
- (ii) As per the latest interim financial statements (eg: as on June 30, 20X4 Rs. XXX)
- (iii) Post IPO: Rs. XXX (date)
- (iv) Offer Price: Rs. XXX

2.4 Comparison of Accounting Ratios

The comparable ratios of the entities which are to some extent similar in business, are given below (as per the latest audited financial statements):

Peer Entity	NAV (Rs.)	EPS (Rs.)	P/E	ROE %

Source:	

Sector Classification of peers:.....

Note: If the Entity is of the view that there are no comparable listed entities to compare with, that fact should be disclosed in this schedule together with the reasons for such unavailability.