Corporate Information

Commission Members as at 30th September 2003

Mr. Chrisantha Perera	Chairman
Mr. Charitha Ratwatte*	Secretary to the Treasury and Secretary, Ministry of Finance
Mr. S.B. Divaratne	Deputy Secretary to the Treasury
Mr. Mahinda Gammampila	Secretary, Ministry of Labour
Mr. Dinesh Ambani	Deputy Chairman, Metropolitan Group of Companies
Dr. A. Imthiaz Ismail	Vice President, Trans National Group of Companies
Ms. Anushya Coomaraswamy	Advisor-Revenue, Ministry of Finance
Mr. Palitha Silva Gunawardene*	Director General, Securities and Exchange Commission of Sri Lanka

Principal Officers

Mr. Manjula De Silva	Director General
Ms. Shamalie Gunawardana	Secretary to the Commission / Director - Legal
Mr. Chandu Epitawala	Director
Ms. Achini Senaratne	Director
Mr. Asela Disanayake	Director
Mr. Tilak S. Silva	Director

**Ex-officio member*

Commission as at 31st December 2002

Dr. P.B. Jayasundera**	Chairman
Mr. Charitha Ratwatte*	Secretary to the Treasury and Secretary, Ministry of Finance
Dr. D.C. Jayasuriya*	Director General, Securities and Exchange Commission of Sri Lanka
Mr. S.B. Divaratne	Deputy Secretary to the Treasury
Mr. Mahinda Gammampila	Secretary, Ministry of Labour
Mr. Dinesh Ambani	Deputy Chairman, Metropolitan Group of Companies

Principal Officers

Mr. Deepal Gunaratne	Director General
Ms. Shamalie Gunawardana	Secretary to the Commission / Director - Legal
Ms. Aneela de Soysa	Director
Mr. Chandu Epitawala	Director

**Ex-officio members*

** Dr. P.B. Jayasundera resigned from the post of Chairman with effect from 31st December 2002

Ms. Dayani de Silva, Commission Member resigned with effect from 15th July 2002.

Economic Perspective

The Public Enterprises Reform Commission (PERC) was set up under the Public Enterprises Reform Commission of Sri Lanka Act, No. 1 of 1996, to advise and assist the Government on reform of public enterprises and related matters.

PERC's Objectives

- Fostering and accelerating the economic development of the country.
- Improving the efficiency and competitiveness of the economy.
- Upgrading production and services and aiming for international markets on a competitive basis, by the acquisition of new technology and expertise.
- Developing and broad-basing the capital market and mobilising long-term private savings. Motivating the private sector.
- Augmenting the revenues of the Government, so as to enable it to better address the social agenda.

Overview of the Economy

In 2002, Sri Lankan economy regained the momentum it lost in 2001. The renewed commitment for a negotiated political settlement to end the northern conflict, cessation of hostilities, favorable weather conditions and the strong political commitment to accelerate economic reforms, helped restoring business confidence. The economy witnessed a 4 per cent growth in GDP – a turn around from a contraction of 1.4 per cent in 2001. The economic recovery was reflected in the service and agricultural activities. The service sector growth was visible in trade, ports, tourism, telecommunications and financial services whilst the growth in agriculture was visible mainly in paddy and tea.

The improved macro economic management was a salient feature in 2002. Public sector deficit was reduced from 10.8 per cent of GDP in 2001 to 8.9 per cent of GDP in 2002 due to restraints on public expenditure and improved performance of public enterprises. Improved fiscal performance and domestic market conditions were conducive to moderate inflation at 9.6 per cent as against 14.2 per cent in 2001 and to stabilize exchange rate movements.

With the presentation of the year 2002 Budget in March 2002, the Government spelt out a comprehensive reform package extending its coverage to areas such as labor markets, public enterprises, civil service, the tax system, administered prices, regulatory system and business deregulation. Announcement of Government's commitment to accelerate these reforms created a new sense of optimism in the economic front.

Privatization Programme in 2002

In the background of an improved business confidence, the privatization programme gathered momentum. The 2002 privatization programme was characterized with several landmark transactions consisting of the initiative to;
(a) divest Sri Lanka Insurance Corporation Ltd. (SLIC), Lanka Marine Services Ltd. (LMSL) (bunkering fuel business) and two large Government-owned sugar companies (Pelwatte and Sevanagala).
(b) form Pubic/Private Partnership Arrangements in Cluster Bus Companies.
(c) promote capital market and de-regulation through the public listing of Sri Lanka Telecom (SLT).
(d) enter into a Management Contract relating to National Lotteries Board.
(e) restructuring of Ceylon Petroleum Corporation (CPC).

The three large privatization transactions, namely Sevanagala Sugar Industries Ltd. (sugar manufacturing), Lanka Marine Services Ltd. (bunkering) and Sri Lanka Insurance Corporation Ltd. (life and general insurance) have raised Rs. 7.7 billion to the Government in addition to improving prospects for long term private sector investment in each of the enterprises. All these transactions have been full-scale privatizations attracting strategic investors to the vital sectors of the economy. The successful completion of these transactions by adhering with well accepted practices and a transparent process, enabled the Government to restore business confidence both internationally and locally. The conclusion of the IMF funded PRGF facility of US$ 567 million in April 2003, among other things was a recognition of the success of the Government's privatization program.

In addition to the three lead transactions, PERC also deepened the privatization program and increased private sector participation in the national economy by divesting the remaining shares of Pelwatte Sugar Industries Ltd. (PSIL), National Insurance Corporation Ltd. (NICL) and a few plantation companies for which the prices paid by investors were favorable. As a result of these transactions, economic sub-sectors such as sugar manufacturing, bunkering and insurance have become fully privately owned with the role of the Government being narrowed down to regulatory and facilitation responsibilities.

PERC also gave leadership to further broad-base the ownership of Sri Lanka Telecom (SLT) through an Initial Public Offering. This has increased market capitalization of the Colombo Stock Exchange (CSE) in addition to reducing the Government ownership in SLT. The Government also ended the monopoly rights given to SLT and further encouraged competition by issuing licenses to telephone operators to strengthen its competitive structure. Reflecting the benefits of such reforms, telecommunication rates have begun to come down. Through this largest IPO undertaken in Sri Lanka's capital market, Rs. 3 billion was raised for the Government during 2002.

PERC is also involved in the restructuring of the CPC and its core retail business, which was a state monopoly till end 2002. A new license to engage in refined petroleum products business was issued to Lanka IOC (LIOC) which is a fully owned subsidiary of Indian Oil Corporation (IOC) - one of the Fortune 500 Companies in the world, with a view to gradually liberalize the petroleum industry in Sri Lanka in order to ensure competition and added services to consumers. 100 service stations of CPC were alienated to LIOC through an interim agreement, as the initial step to enable LIOC's entry to the petroleum retail business and LIOC commenced commercial operations in early 2003.

Despite the unfavorable global economic environment, and at a time that investors in emerging markets are in a process of consolidation, the Government privatizations have attracted foreign investor interest in to many strategic areas. In addition to attracting IOC's presence in Sri Lanka, the privatization of SLIC has secured the strategic technical participation of ING Institutional and Government Advisory Services B.V. (Holland) in SLIC and foreign institutional investor participation by way of foreign equity contribution.

The formation of Public/Private Partnerships for Cluster Bus Companies, restructuring of National Lotteries Board (NLB) through a management arrangement and formation of separate corporate entities to enable the 1/3 equity divestiture of the Common User Facility and the formal divestiture of 100 service stations of the CPC to LIOC, spilt over to the year 2003 due to the complexities involved with these transactions.

Conclusion

Privatization programme in Sri Lanka has now reached a decisive stage having successfully transferred a large number of public enterprises in vital sectors including manufacturing, plantations and services, to the domain of private ownership. Opportunities are now available to focus on the remaining enterprises particularly in banking, power and energy, ports, airports, urban infrastructure and utility facilities, water supply and railways, for restructuring and reforms. Reforms in these sectors have become vital for several reasons. Economic efficiency and productivity of the rapidly growing private sector and the already privatized public sector now require internationally competitive services to sustain their competitive edge. Most of the remaining state enterprises which are vital to drive the Sri Lankan economy, require substantial investments to modernize their operations and be equipped with "state of the art" technology to deliver their services. The required investments in railways, electricity, petroleum, postal, water, port and airport cannot be raised entirely by the Government, given the large commitments that the Government has to make towards poverty reduction, rural development, education, health and environmental development etc. It is in this background that the privatization program has to be viewed and used as a vehicle of investment promotion. This process should involve attracting increased private sector participation in the ownership structure within a well functioning regulatory framework. It should also involve further deregulation of restrictions on private investments and freedom to conduct business. The public sector moving away from business operations and focusing on a regulatory and facilitating role is essential to make use of the full potential of a private sector led economic progress in the country.

Transactions Concluded/in Progress - 2002 (as at 31st December 2002)

Enterprise	Transaction	Status	Revenue (Rs Mn)
Talawakele Plantations Limited	Sale of 19% Government shares (listed company)	Concluded in February 2002	69
Malwatte Valley Plantations Limited	Sale of 19% Government shares (listed company)	Concluded in February 2002	42
Pelwatte Sugar Industries Limited	Sale of Government shareholding of 53.35% (listed company in the Colombo Stock Exchange)	Concluded in March 2002	299
Sevanagala Sugar Industries Limited	Sale of 90% shares and gift of 10% shares to employees	Concluded in June 2002	550
Lanka Marine Services Limited	Sale of 90% shares and gift of 10% shares to employees	Concluded in August 2002	1,200
National Insurance Corporation Limited	Sale of balance 39% Government shares	Concluded in August 2002	288
Sri Lanka Telecom Limited	Initial Public Offering of 12% shares in the Colombo Stock Exchange	Concluded in November 2002	3,249
Sri Lanka Insurance Corporation Ltd.	Divestiture of 90% shares and the balance 10 % to employees.	Concluded in April 2003	6,050
Ceylon Petroleum Corporation	• Leasing of Storage Tanks at Trincomalee to LIOC • Sale of 100 filling stations belonging to CPC to LIOC and divestiture of 1/3 equity in the Common User Facilities Company to LIOC	An Interim Agreement was signed.100 filling stations were handed over to LIOC through an Interim Agreement. Formation of the company is in progress to finalize the transaction. The formation of the Common User Facility company is also in progress.	US$ 2 Mn initial payment for 100 Filling Stations US$ 100,000/- Lease Rental per annum for Trincomalee Tank Farm
National Lotteries Board	Selection of a manager to manage the off-line operations of the NLB.	On going	
Bus Sector	Sale of 39% shares of Cluster Bus Companies, with management rights.	On going	
Hingurana Sugar Industries Limited	Lease of identified immovable properties and sale of movable assets.	On going	

Reports to Parliament

Submission of Reports to Parliament in terms of Section 19 of the Public Enterprises Reform Commission of Sri Lanka Act, No. 1 of 1996

Enterprise	Date of Submission
Prima Ceylon Limited	July 2003
National Insurance Corporation Limited (51% shares)	July 2003
Ambewela Livestock Co. Ltd	July 2003
Pattipola Livestock Co. Ltd	July 2003
Pelwatte Sugar Industries Limited	Being printed
Sevanagala Sugar Industries Ltd.	Being printed
Lanka Marine Services Ltd.	Being printed

Pelwatte Sugar Industries Limited (PSIL) – March 2002

Pelwatte Sugar Company Ltd. was incorporated in February 1981 under the Companies Act, No. 17 of 1982 as a private company. It was converted to a public limited liability company on 10th December 1982 and quoted in the Colombo Stock Exchange (CSE) in 1984 with the first public issue in March 1984. The company was re-named Pelwatte Sugar Industries Ltd. in 1990. The capacity of PSIL is around 60,000 MT of cane sugar per year.

The cost of production of PSIL is higher than the wholesale price of imported sugar, resulting in a real operational loss although the minimum "Agreed Sugar Price" ensured by the Government consequent to a contractual arrangement enabled the company to show a profit, at a cost to the Treasury. Local sugar companies, which are largely owned by the Government, have never been able to raise the required investment to upgrade the sugar plantation, increase the yield and produce sugar at internationally competitive prices.

High cost of production is largely attributable to high overheads, inefficient operations and low recovery rates of sugarcane harvested. If these companies are to become competitive, they need to infuse large amounts of money to upgrade their production process and introduce modern technology. Hence the Government decided to privatise all sugar companies.

The final bid closing date was scheduled for 18th February, 2002. However, considering requests made by interested parties, the bid closing date was extended to 13th March, 2002.

By the bids closing date of 13th March, 2002, one bid was received from Lanka Securities Ltd. on behalf of Master Divers (Pvt) Ltd. (MDL), at Rs. 8.25 per share which was in line with the trading price at the CSE. On 25th March, 2002 -36,260,800 shares of PSIL were sold through the CSE to MDL for Rs. 299,151,600.00 in line with the rules of the CSE. On 5th April, 2002, the net proceed of Rs. 295,710,840.99 was paid to the Treasury.

Sevanagala Sugar Industries Limited (SSIL) – June 2002

Sevanagala Sugar Industries Ltd (SSIL) was incorporated in 1991 under the Companies Act, No. 17 of 1982 as a fully Government owned company engaged in the manufacture of sugar and ethyl and methyl spirits. The company manages a nucleus estate of 266 hectares which is owned by the Mahaweli Authority and has an out-grower arrangement with approximately 3,600 farmers who cultivate sugar cane on approximately 3,843 hectares of land, for sale to SSIL.

Sugar production in Sri Lanka presently accounts for approximately 12% of the total sugar consumption compared to about 18% seen during the 1980's. The cyclical nature of the international sugar market and the high cost of production in Sri Lanka due to outdated machinery, inefficient financial management and overstaffing, has resulted in inadequate cash generation for expansion and modernization purposes.

SSIL was initially earmarked for privatisation in 1995 and there have been three unsuccessful attempts to secure an investor. The sale of 90% of SSIL was lastly advertised in the local newspapers in February 2002. Interested parties were required to collect a Request for Proposals document (RFP) from PERC or they could also download the RFP from the PERC website. In terms of the RFP, a Pre-Proposal Conference was held on 5th March, 2002 to provide an overview of the RFP and the connected draft contract document. PERC received four bids by the bid closing date of 27th March, 2002 from the following parties;

- Seasongrow Holdings Pvt. Ltd.
- Daya Apparel Exports Pvt. Ltd. and Xiangnan Luo
- Distilleries Company of Sri Lanka Ltd.
- Master Divers Pvt. Ltd.

A Technical Evaluation Committee (TEC) evaluated the bids received and noted that the highest bid was not in conformity with the RFP as the offer by the bidder was on a deferred payment basis over a period of two years and a bid bond was not submitted. Hence, the highest bid on an upfront payment basis, offered by Daya Apparel Export Pvt. Ltd. for the purchase of 90% shares of SSIL at Rs 550 million was recommended. This bid price was in excess of the business value provided by DFCC for this transaction.

Cabinet approval was granted on 6th June, 2002 for the divestiture of shares and the transaction was concluded on 20th June, 2002. The balance 10% of the shares will be gifted to eligible employees of SSIL in keeping with the Government policy on privatization.

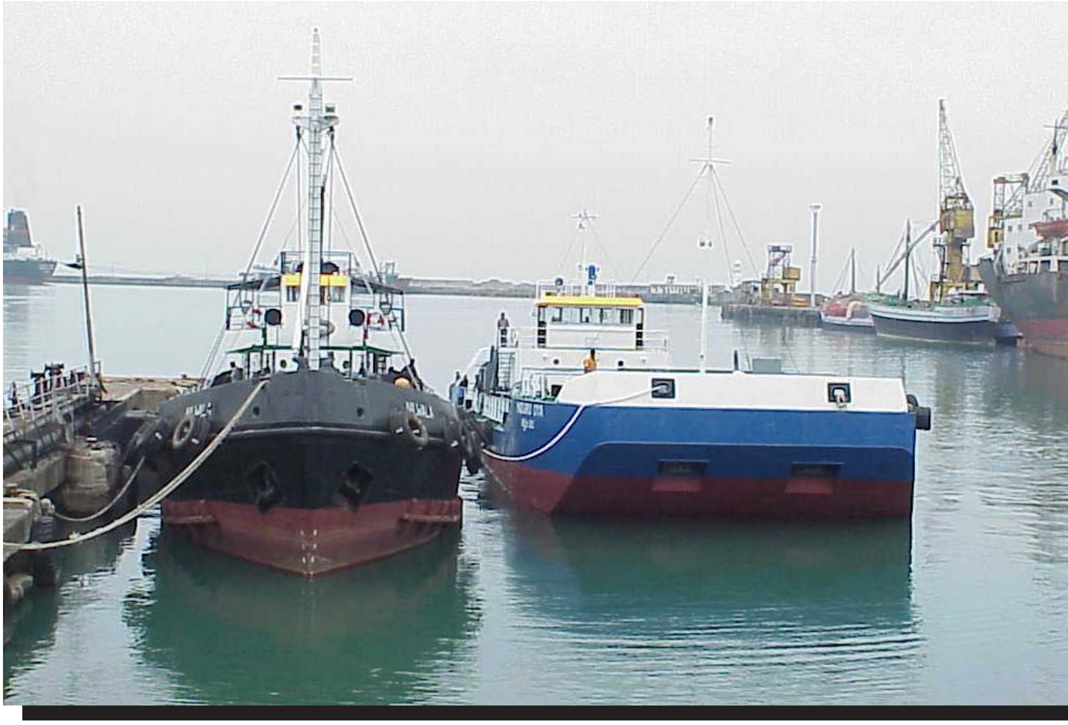
Lanka Marine Services (Pvt) Limited (LMSL) – August 2002

LMSL which was incorporated under the Companies Act, No. 17 of 1982 in March 1993, to take over the bunkering operations of Ceylon Petroleum Corporation (CPC) was a company fully owned by the CPC. LMSL provides bunkers and marine lubricants to ships calling in at the Port of Colombo and has a storage facility at Bloemendhal Road, Colombo 15, which has a total storage capacity of approximately 31,000 MT of which 29,000 MT is in useable status. The company has access to pipelines that carry fuel oil (IFO), gas oil (MGO) and marine diesel oil (MDO) from the Bloemendhal Terminal to the South Jetty and the Dolphin Pier in the Colombo Port.

Until recently, LMSL purchased all its fuel requirements from the CPC, which is a residual product of the refinery process. However, due to the increased demand for fuel oil from the new thermal power plants, CPC could no longer supply LMSL with its total fuel oil requirement. Therefore, LMSL was importing most of its requirement based on spot prices at a significantly higher price than that earlier supplied by the CPC.

The performance of LMSL in bunkering at the Colombo Port, was not encouraging, as the volumes of marine fuel sold had been decreasing due to the high prices that prevailed in Colombo as opposed to prices in the neighbouring ports. Given the cost structure of the bunkers supplied by LMSL, the company was losing its competitive edge. Even though the earnings of the company were attractive at the time of divestiture, they constituted monopoly profits since LMSL was the sole importer of bunker fuels and the sole provider of bunkers within the Colombo Port.

The sale of 90% shares of LMSL was carried out through a competitive bidding process. Advertisements calling for Expressions of Interest (EOIs) were placed in the local press between the 3rd and 15th February, 2002. Out of the seventeen EOIs received, thirteen parties were short-listed. By the final bids due date of 28th May, 2002 six parties namely, John Keells Holdings, Van Ommeran Tank Terminal/ Summit United Tank Terminal/ Lanka Transformers/ Fuji Power & Petroleum, Maritime Holdings/ Fal Oil Company, Master Divers/ Bakri International Energy Company and Pioneer Bunker Services, submitted bids.



The transaction was designed to be conducted on the trading floor of the CSE. Minimum floor price was fixed at Rs. 1,200 million. Only John Keells Holdings Limited submitted the bid bond on the closing date of 12th July, 2002. Hence, John Keells Holdings Ltd. was selected as the successful bidder for the transaction.

Cabinet approval was obtained on 14th August, 2002 to divest 90% of shares of LMSL to John Keells Holdings Limited for Rs. 1.2 billion being the only bid and the divestiture was concluded on 20th August, 2002. The balance 10% shares were gifted to eligible employees of LMSL.

When restructuring LMSL, with a view to transform Colombo Port as an attractive destination for bunkering, certain infrastructure facilities such as the Dolphin Pier and the South Jetty in the Colombo Port used for the loading and unloading of marine fuel and the pipeline network previously utilised by LMSL, were retained with the Government as a Common User Facility to be made available on the payment of a fee to any party wishing to provide bunkering services at the Colombo Port.

Minority Stake (39 per cent) of National Insurance Corporation Ltd. (NICL)

51% of NICL was divested to Janashakthi Insurance Company Ltd. (JICL), being the successful bidder, at Rs. 450 million on 20th June, 2001 and 10% of shares were gifted to employees of NICL. In March 2002, advertisements were placed in the local press inviting EOIs for the sale of the remaining 39% of shares of NICL owned by the GOSL. Two EOIs were received by PERC by the closing date on 8th April, 2002, from JICL and National Savings Bank. Only JICL submitted a bid by the bids closing date of 20th May, 2002. Accordingly, in terms of the Cabinet approval to divest minority stake of already privatized enterprises, the remaining 39% of the shares of NICL was transferred to JICL for a price of Rs. 287.5 million on 29th August, 2002. As such, JICL acquired 90% of shares of NICL from the GOSL and almost all of the 10% of the Employee Shares consequent to the option given to employees to sell their shares to the investor.

Transactions in Progress during 2002 (position as at 31.12.2002)

Sri Lanka Insurance Corporation Ltd (SLIC)

Insurance Corporation of Sri Lanka (ICSL) was established under Insurance Corporation Act, No 2 of 1961. This Act and Finance Act No 11 of 1963 made that all life and general business will become the sole monopoly of the ICSL. In February 1993, ICSL was converted into limited liability company fully owned by GOSL under the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act, No 23 of 1987. The company undertakes both life and general insurance using agents, 14 regional offices and over 60 branches. In mid 2002, the company had around 3,000 employees.

In 2001, it was estimated that SLIC had around 42% of the market for general insurance and 34% of the market for life insurance. Although the company has a strong image especially in the field of life insurance, it has been losing its market share in recent years. Market share in general insurance declined from 53 per cent in 1997 to 42 per cent in 2002 while in life insurance the share declined from 39 per cent in 1997 to 32 per cent in 2002. In the year 2000, SLIC recorded a turnover of around Rs 6 bn with a profit after taxation of Rs 321 mn. Its net assets value was around Rs 1.8 bn.

It has been a long felt need that the company needed the management and technical skills to compete effectively in the market. The company also needed managerial expertise and upgrading of its technology to increase efficiency of its operations. In the background of the regulatory framework in place to protect policy holders and further develop the insurance industry, the private sector is better placed to address these needs efficiently and service the interest of policyholders. The restructuring of the ownership of SLIC is expected to generate substantial revenue to the Government and also increase the level of expertise and the competitiveness of the insurance industry by creating space for private sector acquisition of SLIC.

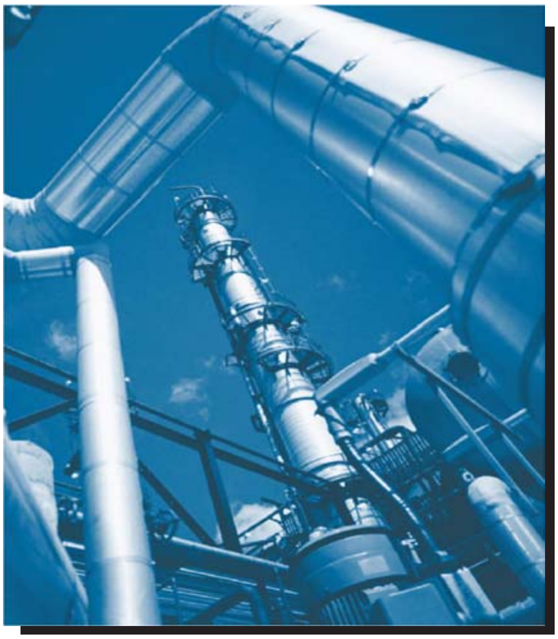
A Steering Committee was appointed to oversee and facilitate the divestiture process by bringing relevant stakeholders into the transaction process. Pricewaterhouse Coopers was selected as the Financial Advisors to the transaction, through a competitive bidding process. A Cabinet Appointed Tender Board (CATB) and a Technical Evaluation Committee (TEC) were used to ensure that the selection will be done in a transparent manner following proper procedures.

Beginning mid July 2002, advertisements were placed in international and local print media, inviting Expressions of Interest for the purchase of 90% of shares of SLIC. Seventeen parties expressed interest as of the closing date. The parties who expressed interest were given the Information Memorandum containing details of SLIC and they were invited to submit Preliminary Technical Proposals, indicating their interest in purchasing shares of SLIC. Six parties submitted Preliminary Technical Proposals. On the basis of the information submitted, the following 5 parties were short-listed and given detail information of SLIC through access to a data room and investor meetings.

- Commercial Bank and DFCC
- Distilleries Company of Sri Lanka Ltd,
  Aitken Spence & Co. Ltd,
  Aitken Spence Insurance Ltd,
  CT Smithbrokers (Pvt) Ltd and
  Asia Box Consultancy (Pte) Ltd
- Eagle Insurance Co Ltd
- Asia Capital Ltd and
  Asian Alliance Insurance Co Ltd
- Janshakthi Insurance Company Ltd and
  National Insurance Corporation Ltd

The closing date for the submission of final proposals was 21st January, 2003.

Restructuring of Ceylon Petroleum Corporation and Petroleum Sector Reforms



Ceylon Petroleum Corporation (CPC) was established under Act, No. 28 of 1961 with exclusive powers to carry out functions to import, store, distribute, supply, explore and engage in any other related activity concerning petroleum products. CPC was also empowered to regulate all activities concerning exploration, importation, storage, supply and distribution of petroleum products.

The initial restructuring of petroleum business in Sri Lanka commenced in early 1990s. In terms of this strategy, several activities of petroleum business carried out by the CPC were unbundled and formed into separate subsidiary companies of the CPC. These subsidiary companies namely; Lanka Lubricants Limited which was engaged in importation, blending and distribution of lubricants, Colombo Gas Company Limited which was engaged in the importation and distribution of liquid petroleum gas and Lanka Marine Services Limited which was engaged in bunkering, have been successfully privatized and related trade and industrial activities have been liberalized. Consequent to this move, several reputed names in the petroleum sector entered the petroleum market undertaking long-term investments in storage, marketing and distribution.

The remaining business of CPC continued to operate under the CPC enjoying exclusive rights ensured through the Petroleum Corporation Act. These businesses included importation of crude oil to be refined at the CPC refinery, importation of refined petroleum products and distribution of petroleum products through approximately 1,000 filling stations situated island wide, either owned by the CPC or its dealers. The commercial operations of CPC was adversely affected by administrative pricing mechanism, overstaffing and lack of corporate approach to business operations. Consequently, CPC operations often resulted in large losses and became a burden to the National Budget. In the year 2002, the Government decided to restructure the CPC and liberalize the importation, storage, sale and distribution of refined petroleum products in Sri Lanka.

Consequent to a Memorandum of Understanding singed in June 2002 between CPC and Indian Oil Company (IOC), being one of the 'Fortune 500' companies, which is fully owned by the Government of India, the strategic participation of IOC in the petroleum sector in Sri Lanka, was recognized. With this move, the operations which were till then exclusively carried out by the CPC are to be restructured and the market for refined petroleum products is to be divided among three players for a limited period. The third player to be identified through a competitive bidding process.

In this background, the CPC restructuring was conceptualized and the basic structure was determined by PERC by mid 2002. The major components are as follows;

- 100 Identified Filling Stations, to be divested to LIOC and a further appropriate number to a third party to be selected.
- Common User Facility to be formed as a separate corporate entity and jointly owned in equal shares by the CPC, LIOC and a third player to be selected.
- Aviation Fuel Business to be spun off as a separate entity and to be divested upon the identification of a suitable investor.
- Remaining facilities and assets of the CPC to be corporatized and operate as a Government owned enterprise.
- Pricing mechanism to be governed by market fundamentals subject to regulatory requirements.

In relation to the divestiture of 100 filling stations owned by the CPC to LIOC, an Interim Agreement was signed in December 2002 between the GOSL, CPC and LIOC pending the finalization of ownership transfer of filling stations. After the execution of the agreement, 100 filling stations were handed over to LIOC for upgrading and business operations pending the sale. It is proposed to incorporate a company under the Conversion of Government Owned

Business Undertakings or Public Corporations in the Public Companies Act, No. 23 of 1987 in which the 100 filling stations are to be vested and for LIOC to purchase 100% shares of such company which will be owned by the Secretary to the Treasury and thereby become owners of the 100 filling stations.

A separate company will also be formed under the said Conversion Act in which the Common User Facilities such as terminals, storage facilities, pipelines etc. of the CPC will be vested. A pre-condition to the sale of 100 filling stations to LIOC is that they are required to purchase one third of equity of this Common User Facility Company.

In order to ensure a three player market for a limited period of time, a third player to operate along with LIOC and CPC is to be identified after following a competitive bidding process to whom it is proposed to divest a further 100 filling stations of the CPC with one third of equity of the Common User Facility.

CPC is expected to become a limited liability company fully owned by the GOSL to operate the refinery and to own the remaining assets and facilities of the CPC and be involved in the supply and distribution of petroleum products in competition with the other two players in the petroleum market on a level playing field.

This structure aims at achieving several objectives. It ensures stability through a managed liberalization operating with a three-player market during an initial phase. It will also ensure rapid development of the petroleum sector, thus creating opportunities for employment generation as well as improvement of the overall quality of service provided to the consumer. It is also aimed at creating a competitive environment for development of the petroleum sector.

At present, Ceylon Petroleum Corporation Act, No. 28 of 1961 and Energy Supply (Temporary Provisions) Act, No.2 of 2002 set out the regulatory framework of the petroleum sector. The petroleum sector is expected to eventually operate under a regulatory framework envisaged through the Public Utilities Commission of Sri Lanka Act, No.35 of 2002 and the proposed Petroleum Sector Reforms Act.

PERC is also in the process of preparing an agreement to hand over the possession of the Trincomalee Tank Farm comprising 99 tanks to LIOC, pending the execution of a lease agreement.

Restructuring of the National Lotteries Board (NLB)

The NLB was set up under Finance Act, No. 11 of 1963 in order to expand the scope of the Lottery business as a source of income for Government development activities. Currently, Lotteries raise around Rs. 1 billion per annum as profits before tax. It was decided to restructure the NLB to enable the Government to get the maximum value out of Lotteries.

Cabinet approval was granted on 8th October, 2002 to appoint Ernst & Young as Financial Advisors to restructure the NLB. In terms of the structuring, a Management Agreement is to be entered into with a party to be selected through a bidding process using the facilities of the Colombo Stock Exchange to manage the off- line lotteries of the NLB. The successful party is required to pay a mandatory upfront fee to the Government and also to agree on an appropriate revenue sharing basis with the Government. The revenue sharing percentage is to be used as a tool to maximize the share of revenue to the Government, since the bidding is based on the percentage of revenue an investor is willing to offer to the Government. The investor offering the highest percentage will be the successful bidder, who will enter into the Management Agreement with the Government.

E&Y was appointed as the Financial Advisors to the transaction. As in the case of the other lead transactions, a Steering Committee and Cabinet Appointed Tender Board were set up to ensure procedural compliance and better co-ordination.

Advertisements calling for EOIs to management the off-line lotteries of the NLB were placed in local and international print media on 17th November, 2002. An RFP document along with an Information Memorandum was issued to interested parties commencing 27th November, 2002. In terms of the RFP, the investor is required to have directly or through a consortium member, previous experience in the lottery business. The investor is also required to introduce new technology in to the Lottery business. Provisions to protect the brand values, code of practice for advertising, marketing, customer relations and sales, security, development and implementation of systems reporting requirements, inspection and review procedures accounts, retailer management etc. are also part of the Management Agreement a draft of which was made available to prospective investors with the RFP. The proposal closing date was fixed for 5th of March, 2003.

Cluster Bus Companies

The operations of Ceylon Transport Board (CTB) which was created in 1958, were decentralized in 1978 through the creation of nine Regional Transport Boards, with Sri Lanka Transport Board (SLCTB) to function as the main body. Commencing 1990, 94 depots belonging to eight Regional Transport Boards were converted into limited liability companies (peoplized companies) under the Conversion Act, No. 23 of 1987. The Northern Region Transport Board remained under the SLCTB. In 1991, Government enacted National Transport Commission Act, No. 37 of 1991 setting up National Transport Commission (NTC) as the regulatory body. In 1996, through an amendment to the NTC Act, eleven bus companies (Cluster Bus Companies) were created by amalgamating ninety three peoplized bus companies, leaving out Wavuniya Peoplized Bus Company.

In 1979, Government liberalised the bus transportation by permitting private bus operations. The state-run bus services currently provide around 35 per cent of bus transport operations including uneconomical routes, priority trips, school trips etc., employ around 45,000 staff and have a fleet of around 9,000 buses. The Cluster Bus Companies are dependant on the Government for shortfall in recurrent expenditure whilst the Government also meet their capital expenditure.

In order to improve the bus transport services, the Government decided to enter into Public/ Private Partnership Arrangements for the Cluster Bus Companies. A Steering Committee representing relevant line Ministry and other officials was appointed to co-ordinate and execute the transaction with the assistance of PERC. Ernst & Young and KPMG Ford Rhodes and Thornton Company Ltd. were appointed as Financial Advisors in June 2002. Advertisements calling for EOIs were placed in the print media commencing 1st October, 2002 offering 39 per cent of equity of the Cluster Bus Companies out of the shares held by Secretary to the Treasury, together with management rights. An RFP document, inter alia containing the draft Shareholders' Agreement and the Management Agreement were distributed to 31 potential investors by the Financial Advisors and was also made available through the PERC website. The agreements had provisions for Golden Shareholder rights to the Secretary to the Treasury in relation to vital aspects of the Cluster Bus Companies including procurement procedures, a monitoring mechanism through the Bus Monitoring Unit to be set up, commitments to adhere with Panel Time Tables etc.

Summary of Transactions as at 30th June 2003

Sector	Company	Strategic Investor	Divestiture	Employees Shares	Financial Advisory Group	No of EOIs Received	No of REPs Issued	No of Bids	Investment	Gross Revenue (Rs. millions)									
										1994	1995	1996	1997	1998	1999	2000	2001	2002	June 2003
Plantations	Bogawantalawa Plantations Limited	Metropolitan Management Services Limited	51% (Direct sale to Managers)	10%	No	N/A	N/A	Refer Note (a)	To Purchase Rs. 135 mn worth of Debentures		102								
		N/A [1]	20% (IPO)**			N/A	N/A	N/A	No		40								
		N/A	19% (on CSE)			N/A	N/A	N/A	No				141						
	Kotagala Plantations Limited	George Steuerts Management Services Limited [2]	51% (Direct sale to Managers)	10%	No	N/A	N/A	Refer Note (a)	To Purchase Rs. 120 mn worth of Debentures		102								
		N/A	20% (IPO)**			N/A	N/A	N/A	No		40								
	Kegalle Plantations Limited	RPK Management Services Limited	51% (Direct sale to Managers)	10%	No	N/A	N/A	Refer Note (a)	To Purchase Rs. 50 mn worth of Debentures		102								
		N/A	20% (IPO)**			N/A	N/A	N/A	No		40								
		N/A	19% (on CSE)			N/A	N/A	N/A	No				118						
	Agalawatte Plantations Limited	Mackwoods Plantations Limited	51% (Direct sale to Managers)	10%	No	N/A	N/A	Refer Note (a)	To Purchase Rs. 50 mn worth of Debentures		102								
		N/A	20% (IPO)**			N/A	N/A	N/A	No		40								
		N/A	19% (on CSE)			N/A	N/A	N/A	No				133						
	Kelani Valley Plantations Limited	DPL Plantations Limited	51% (Direct sale to Managers)	10%	No	N/A	N/A	Refer Note (a)	To Purchase Rs. 140 mn worth of Debentures		102								
		N/A	20% (IPO)**			N/A	N/A	N/A	No			40							
		N/A	19% (on CSE)			N/A	N/A	N/A	No				123						
	Horana Plantations Limited	Ceyexxe Plantations Limited	51% (Direct sale to Managers)	10%	No	N/A	N/A	Refer Note (a)	To Purchase Rs. 50 mn worth of Debentures		15	87							
		N/A	20% (IPO)**			N/A	N/A	N/A	No			40							
		N/A	19% (on CSE)			N/A	N/A	N/A	No				120						
	Watawala Plantations Limited	Estate Management Services Limited	51% (Open Bidding on CSE)	10%	No	N/A	N/A	Refer Note (b)	To Purchase Rs. 110 mn worth of Debentures		11	295							
		N/A	20% (IPO)**			N/A	N/A	N/A	No					60					
		N/A	19% (on CSE)			N/A	N/A	N/A	No					232					
	Maskeliya Plantations Limited	RPK Management Services Limited	51% (Open Bidding on CSE)	10%	No	N/A	N/A	Refer Note (b)	To Purchase Rs. 150 mn worth of Debentures			219							
		N/A	20% (IPO)**			N/A	N/A	N/A	No					60					
		N/A	19% (on CSE)			N/A	N/A	N/A	No					171					

Summary of Transactions as at 30th June 2003 (Contd .)

Sector	Company	Strategic Investor	Divestiture	Employees Shares	Financial Advisory Group	No of EOIs Received	No of REPs Issued	No of Bids	Investment	Gross Revenue (Rs. millions) 1994	1995	1996	1997	1998	1999	2000	2001	2002	June 2003
	Madulsima Plantations Limited	Stassen Plantation Services Limited	51% (Open Bidding on CSE)	10%	No	N/A	N/A	Refer Note (b)	To Purchase Rs. 90 mn worth of Debentures			102							
		N/A	20% (IPO)**			N/A	N/A	N/A	No					60					
	Agrapatana Plantations Limited	Lankem Tea & Rubber Plantations Limited	51% (Open Bidding on CSE)	10%	No	N/A	N/A	Refer Note (b)	To Purchase Rs. 150 mn worth of Debentures			268							
	Hapugastenna Plantations Limited	Plantation Investment Management Company Limited [3]	51% (Open Bidding on CSE)	10%	No	N/A	N/A	Refer Note (b)	To Purchase Rs. 150 mn worth of Debentures			240							
		N/A	20% (IPO)**			N/A	N/A	N/A	No					40					
	Balangoda Plantations Limited	Distilleries Company Limited	51% (Open Bidding on CSE)	10%	No	N/A	N/A	Refer Note (b)	To Purchase Rs. 150 mn worth of Debentures			421							
		N/A	20% (IPO)**			N/A	N/A	N/A	No					80					
		N/A	19% (on CSE)			N/A	N/A	N/A	No					154					
	Uda Pussellawa Plantations Limited	Plantation Investment Management Company Limited [4]	51% (Open Bidding on CSE)	10%	No	N/A	N/A	Refer Note (b)	To Purchase Rs. 150 mn worth of Debentures			316							
		N/A	20% (IPO)**			N/A	N/A	N/A	No					19					
	Namunukula Plantations Limited	Keels Plantation Management Services (Pvt) Limited	51% (Competitive Bidding Process on CSE)	10%	No			4	To Purchase Rs. 150 mn worth of Debentures				408						
		N/A	20% (IPO)**												60				
	Maturata Plantations Limited	Employees Trust Fund [5]	51% (Competitive Bidding Process on CSE)	10%	No			3	To Purchase Rs. 150 mn worth of Debentures				467						
	Malwatte Valley Plantations Limited	Wayamba Plantations Limited	51% (Competitive Bidding Process on CSE)	10%	No	32	21	3	To Purchase Rs. 150 mn worth of Debentures				622						
		N/A	20% (IPO)**													40			
			19% (on CSE)															42	
	Kahawatte Plantations Limited	Forbes Plantations Limited	51% (Competitive Bidding Process on CSE)	10%	No			6	To Purchase Rs. 150 mn worth of Debentures				308						
		N/A	20% (IPO)**											40					
	Elpitiya Plantations Limited	Aitken Spence Plantation Management Services Limited	51% (Competitive Bidding Process on CSE)	10%	No			6	To Purchase Rs. 150 mn worth of Debentures				309						

Summary of Transactions as at 30th June 2003 (Contd .)

Sector	Company	Strategic Investor	Divestiture	Employees Shares	Financial Advisory Group	No of EOIs Received	No of REPs Issued	No of Bids	Investment	Gross Revenue (Rs. millions) 1994	1995	1996	1997	1998	1999	2000	2001	2002	June 2003
	Talawakelle Plantations Limited	Hayleys Plantation Management Services Limited	51% (to managing agents, through negotiations)	10%	No	N/A	N/A	Refer Note (c)	To Purchase Rs. 150 mn worth of Debentures				408						
		N/A	20% (IPO)**						No						40				
			19% (on CSE)						No									69	
	Pussellawa Plantations Limited	Free Lanka Plantations Company Limited	51% (to managing agents, through negotiations)	10%	No	N/A	N/A	Refer Note (c)	To Purchase Rs. 150 mn worth of Debentures				398						
Manufactu-ring	Statcon Rubber Company Limited	Colletes Limited	55% (on CSE)	10%	No	N/A	N/A	Refer Note (16)	No		18								
	Ceylon Steel Corporation Limited [6]	Korea Heavy Industries and Construction Company (Hanjung)	90% (on tender)	10% (yet to be given)	No	4		1	No			850							
	Lanka Salt Limited	Employees Trust Fund	90% (on tender)	10%	No	19	14	5	No				453						
	Puttalam Salt Limited	Pan Serendib Limited, People's Bank, Co-operative Rural Banks Union, Consumers Co-operative Societies Federation Limited and the Sri Lanka Institute Co-operative Management	90% (on tender)	10%	No	19	14	1	No				123						
	Lanka Ceremic Limited	N/A	17.33% (Sale of Minority Shares on CSE)	N/A	No	N/A	N/A	N/A	No				206						
	Mattegama Textile Mills Limited	Kabool Lanka Limited	100% (on tender)	No	No	No	3	1	US$ 12 mn to be invested within 4 years from the closing date				30						
	Lanka Loha Hardware Limited [7]	Ceylon Heavy Industries and Construction Company Limited	100% (on tender)	No	No	N/A	N/A	1	Rs. 730 mn to construct a new mill and US$ 2 mn for the development of the Company				0						
	Colombo Commercial Company (Engineers) Limited	Serendib Engineering and Agencies (Pvt) Limited	90% (on tender)	10%	No	No	21	3	42 mn					38					
	Ceylon Glass Company Limited	Gujarat Glass Company Limited [8]	7.87% (sale of minority shares on CSE)	N/A	N/A	N/A	N/A	N/A	No						45				
	Bogala Graphite Lanka Limited	Graphite Kropfmül AG	50.01% (on tender)	10% (Gifted in 1992)	No	3	N/A	1	No							154			
	Prima Ceylon Limited	Prima Limited (Singapore)	BOT to BOO [9]	N/A	No	N/A	N/A	N/A	To invest and develop infrastructure facilities								5,870		
	Pelawatte Sugar Industries Limited	Master Divers (Pvt) Limited	53.35% (on CSE)	No [14]	No	No	Only IM was issued [15]	1										299	

Summary of Transactions as at 30th June 2003 (Contd .)

Sector	Company	Strategic Investor	Divestiture	Employees Shares	Financial Advisory Group	No of EOIs Received	No of REPs Issued	No of Bids	Investment	Gross Revenue (Rs. millions) 1994	1995	1996	1997	1998	1999	2000	2001	2002	June 2003
	Sevanagala Sugar Industries Limited	Daya Apparel Export (Pvt) Limited	90% (on tender)	10% (yet to be given)	No	No EOI stage	17	4	No									550	
Trading	Orient Lanka Limited	Alpha Airports Group Plc	60% (on tender) 37% (Put Option)	3%	No	16	10	4	No			1,000		740					
	Lanka Hydraulic Limited	Lanka Hydraulic Institute Limited Share Trust	45% on negotiations [10]	N/A	N/A	N/A	N/A	N/A	No							1	1		
Petroleum	Colombo Gas Company Limited [11]	Shell Overseas Investments B.V.	51% (on tender)	10%	No	14	14	4	US$ 80-90mn (to construct a new LPG terminal at Muturajawella)		1,998								
	Lanka Lubricants Limited	N/A	39% sale of minority shares through initial public offering	10%	Merchant Bank of SL & BOC	N/A	N/A	N/A	No			547	150*			200			
	Lubricant Industry	Castrol Asia Pacific, Shell Trading Middle East, Indian Oil Corporation, Mobil Asia Pacific, Valvoline International and BP Middle East	Issue of six license to import and market finished lubricants	N/A	N/A	27	N/A	9	No						30				
	Lanka Marine Services	John Keels Holdings	90% (on tender)	10% (yet to be given)	No	17	13 (IM's)	5	No									1200	
	Ceylon Petroleum Corporation	Lanka IOC Pvt Ltd	Initial Payment for 100 filling stations [17]		Earnest & Young				-									194	
		Lanka IOC Pvt Ltd	Annual Lease Rental for Trincomalee Tank Farm [17]		Earnest & Young				-										9.70
Financial	Capital Development and Investment Company Limited	N/A	39.7% (on CSE)	1.10%	No	N/A	N/A	N/A	No		371								
	National Development Bank	N/A	Sale of convertible debentures through an international plaement and on CSE by conversion of bedentures into 18.33 m ordinary shares	916,666 shares purchased by the NDB to create ESOP for employees	Jardine Flemming, Lehman Bros. & Citi National	N/A	N/A	N/A	No				4700						
	National Insurance Corporation Limited	Janashakthi Insurance Company Limited	51% (on tender)	10%	Arthur Anderson	21	17 (IM's)	3	No								450		
			39% (on tender)		No	2	N/A	1										288	
	Sri Lanka Insurance Corporation Limited	Distilleries Consortium ****	90%	10% - to be gifted	PriceWater house Coopers	17	6	3											6,050

Summary of Transactions as at 30th June 2003 (Contd .)

Sector	Company	Strategic Investor	Divestiture	Employees Shares	Financial Advisory Group	No of EOIs Received	No of REPs Issued	No of Bids	Investment	Gross Revenue (Rs. millions)										
										1994	1995	1996	1997	1998	1999	2000	2001	2002	June 2003
Agriculture	Tea Small Holders Factories Limited	A Consortium comprising of John Keells Holdings Ltd, Central Finance Co. Ltd, & National Development Bank	51%	10%	No	N/A	N/A	1	No	76									
			39% (on CSE) - General Public (20%) and Tea Smallholders (19%)		M/s Waldock Mackenizie			N/A	No			65							
	Rajarata Agro Fertilizer Company Limiter	Anglo Fertiliser Limited	90% (on tender)	10%	No	No EOI Stage	Informa-tion Memoran-dum was issued	2	No			60							
	Hingurakgoda Seed Paddy Farm	CIC Fertilizer Limited	Sale of assets and lease of land	N/A	No	19	3	1	50 mn					4					
	Kantale Sugar Industries Limited ***	Agro Trading Lanka (Pvt) Limited	Lease of Part of the Land	N/A	No	N/A	N/A	N/A	No							4			
	Pelwehera Seed Paddy Farm	CIC Fertilizer Limited	Sale of assets and lease of land	No	No	7	4	2	25 mn							0.85			
	Pattipola Livestock Co. Ltd	Lanka Milk Foods Ltd	90% (on tender)	10% (yet to be given)	No	10	5	2	58 mn								42		
	Ambewela Livestock Co. Ltd	Lanka Milk Foods Ltd	90% (on tender)	10% (yet to be given)	No	10	5	1	70 mn								46		
Utility & Services	Sri Lanka Telecom Limited	Nippon Telegraph and Telephone Corporation [12]	35% (on tender)	3.50%	Duetche, Morgan, Grenfell Hong Kong Ltd. & DFCC	6 non binding bids	3 - IMS	2	No				13,380						
			12% (IPO) 216.6 Million shares @ Rs. 15/- Per Share		UBS Warburg and DFCC Bank													3,249	
	Air Lanka Limited [13]	Emirates	26% (1st Tranche-on tender)	9%	Chaseman-hatten Bank, People's Merchant Bank & Simat Hellisen & Eichner	7	5	3	6 New A330 Airbues					2,817					
			14% (2nd Tranche-on tender)														2,192		
Total										76	3,083	4,550	22,597*	4,515	175	400	8,601	5,891	6,060

Notes to Summary of Transactions :

[1] N/A- Not Applicable

[2] The 51% stake was subsequently sold to Lankem Tea & Rubber Plantations Limited.

[3] The 51% stake was subsequently sold to James Finlay Plantation Marketing Limited.

[4] The 51% stake was subsequently sold to James Finlay Plantation Marketing Limited.

[5] The 51% stake was subsequently sold to Free Lanka Plantation Management Services Limited.

[6] Subsequent to its privatisation, the company was renamed Ceylon Heavy Industries and Construction Company Limited.

[7] The investor assumed an equal level of debt to match the value of the assets.

[8] Acceptance of the mandatory offer made by Gujarat Glass Company as a result of its purchase of 46.06% of Ceylon Glass Company on the CSE on 6th August 1999.

[9] The leased lands to revert to GOSL in 55 years.

[10] Sale of 450,000 (being 90% of the total share capital of 500,000 owned by the GOSL) of the shares owned by the Government of Sri Lanka at a price of Rs 5/= per share to the Lanka Hydraulic Limited to the Lanka Hydraulic Institute Limited Share Trust for Rs 2,250,000/=.

[11] Subsequent to its privatisation, the company was renamed Shell Gas Lanka Limited.

[12] Following the restructuring of Nippon Telegraph and Telephone Corporation, these shares were transferred to NTT Communications in 1999.

[13] Subsequent to its privatisation, the company was renamed SriLankan Airlines Limited.

[14] Company is a listed company in the Colombo Stock Exchange. The Cabinet of Ministers granted approval to sell the government share holding of the said company. Hence the distribution of employee shares does not arise.

[15] IM - Information Memorandum (which provides company information and selection procedures)

[16] Proposals were invited from all registered stock brokers individully through CSE on all or nothing basis.Accordingly, six brokers responded.

a - The existing managing agents of all 10 RPC's, which registered a profit for the year ended 31st December 1994, were offered an option to purchase the 51% shares of the respective companies at a market clearence price.

b - The shares of respective companies were offered on the Colombo Stock Exchange on an 'All or Nothing' basis to the highest bidder on an "Offer for Sale" document which was made available to the public through the Colombo Stock Excahnge.

c - Negotiated with the Managing agents for a mutully agreed price and approval for the divestiture of 51%nof shares at Rs 40 and 39 per share.

* An amount of Rs.150 m received as the second instalment in respect of Lanka Lubricants Limited Has been subsequently included.

** Under the listing rules of the CSE, the 20% of each Co. were offered to the public through an "Offer for Sale" document.

*** Facilitated the excution of land lease for a project approved by BOI

**** Distilleries Company of Sri Lanka Ltd along with Aitken Spence & Co. Ltd, Aitken Spence Insurance Ltd and other foreign institutional investors together with Technical Partners, ING Institutional and Government Advisory Services B. V. (Holland) (Distilleries consortium)

****-a The investor is required to pay to the Government the increase in net working capital during the period 31st March 2002 to the date of sale, based on accounts prepared on the basis of IAS.

In the event the net working capital position decreases, the GOSL has to reimburse the difference to the investor.

[17] The dollar rate was calculated approximately 1US$= Rs.97.00 as at end December 2002

Balnce Sheet as at 31st December, 2002

	Note	Rs. Cts.	As at 31.12.01 Rs.
ASSETS			
Non - current assets			
Property, plant and equipment	02	**7,151,931.56**	14,666,197
		7,151,931.56	14,666,197
Current assets			
Inventories	03	**128,932.10**	94,165
Debtors and other receivables	04	**90,332.81**	1,586,416
Deposits receivable	05	**3,355,429.00**	3,395,429
Pre - payments	06	**5,984,129.50**	5,875,731
Cash and cash equivalent	07	**132,695,280.39**	3,498,307
		142,254,103.80	14,450,048
Total Assets		**149,406,035.36**	29,116,245
PERC FUND AND LIABILITIES			
PERC Fund	08	**15,103,760.26**	27,915,507
		15,103,760.26	27,915,507
Liabilities			
Current liabilities			
Creditors and payables	09	**1,656,481.73**	1,200,738
Deposit Payable	10	**132,645,793.37**	-
		134,302,275.10	1,200,738
PERC Fund & Liabilities		**149,406,035.36**	29,116,245

(Sgd)
Director General

(Sgd)
Accountant

7th March, 2003

Income Statment for the year ended 31st December, 2002

	Note	Rs. Cts.	Year 2001 Rs.
Income			
Contribution from the consolidated fund	**11**	76,600,000.00	**32,478,346**
Sundry income	**12**	436,843.82	**60,587**
		77,036,843.82	**32,538,933**
Expenses			
Managing of Human Resources	**13**	12,838,485.11	**12,627,758**
Establishment Expenses	**14**	23,491,450.28	**20,616,835**
Maintenance of Property, Plant & Equipment	**15**	242,788.09	**511,403**
Transportation Expenses	**16**	1,955,014.13	**1,742,918**
Professional Development	**17**	1,612,947.00	**466,708**
Expenses on Reform of Public Enterprises	**18**	41,746,730.32	**6,557,567**
Information	**19**	206,517.96	**228,968**
Financial charges	**20**	350,719.63	**5,017**
Depreciation		7,676,170.80	**8,573,382**
		90,120,823.32	**51,330,556**
Operating Surplus / (Deficit) for the year		**(13,083,979.50)**	**(18,791,623)**

Cash Flow for the year ended 31st December, 2002

	Rs. Cts.	Rs.	For 2001 Rs.
Cash flows from operating activities			
Operating Surplus/(Deficit) for the year	(13,083,979.50)		(18,791,623)
Adjustments for			
Depreciation	7,676,170.80		8,573,382
Operating profit/(loss) before working capital changes	(5,407,808.70)		(10,218,241)
(Increase)/Decrease Inventories	(34,767.10)		41,550
(Increase)/Decreas Debtors and other receivables	1,496,083.30		7,645,476
(Increase)/Decrease Deposits receivable	40,000.00		
(Increase)/Decrease Pre - payments	(108,398.54)		(737,434)
Increase/(Decrease) Creditors and payables	455,743.33		(5,515,359)
Increase/(Decrease) Deposit Payable	132,645,793.37		
	129,086,645.66		(8,784,008)
Add: Adjustment in respect of previous years	(227,766.89)		(531,018)
Net cash flow from operating activities		128,858,878.77	(9,315,026)
Cash flows from investing activities			
Additions to the property, plant & equipment	(161,905.00)		(121,654)
Net cash used in investing activities		(161,905.00)	(121,654)
Cash flows from financing activities			
Capitalisation of Treasury contribution	500,000.00		121,654
Net cash received in financing activities		500,000.00	121,654
		129,196,973.77	(9,315,026)
Cash and cash equivalents at 01.01.2002		3,498,306.62	12,813,333
Cash and cash equivalents at 31-12-2002 (Note 07)		**132,695,280.39**	**3,498,307**

01. Significant accounting policies.

1.1 General Policies.

1.1.1 Basis of preparation

The Balance Sheet, Income Statement, Cash Flow Statement and Policies and Notes to the accounts of "Public Enterprises Reform Commission" have been prepared in accordance with the generally accepted accounting principles and the Sri Lanka accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. The financial statements referred to are based on the historical cost convention and presented in Sri Lanka Rupees.

1.1.2 Comparative Information

The accounting policies have been consistently applied by the Public Enterprises Reform Commission and are consistent with those used in the previous year. Previous years figures and phrases have been rearranged wherever necessary to conform to the classification adopted in the current year.

1.1.3 Events occuring after the Balance Sheet date

All material post balance sheet events have been considered, disclosed and adjusted where applicable.

1.2 Valuation of assets

1.2.1 Inventories

Inventories are valued at cost.

1.2.2 Debtors and other receivables

Debtors are stated at the amount they are estimated to realise.

Other receivables are recognised at cost.

1.2.3 Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand and demand deposits in bank.

1.2.4 Property, plant and equipment

a) Cost and Valuation

The property, plant and equipment are recorded at cost less accumulated depreciation. The cost of property, plant and equipment if the cost of purchase or construction together with any expenses incurred in bringing the assets to its working condition for its intended use. Expenditure incurred for the purpose of acquiring, extending or improving assets of permanent nature by means of which to carry on activities of the Public Enterprises Reform Commission has been treated as Capital Expenditure.

b) Depreciation

The provision for depreciation is calculated by using straight lines basis on the cost of all property, plant and equipment and the year end balance in order to write-off such amounts over their estimated useful lives by equal annual installments as follows :-

Motor Vehicles	Over 4 years
Furniture	Over 4 years
Equipment	Over 5 years
Inventories	Over 1 years
Computers	Over 5 years
Partitions	Over 3 years
Other assets	Over 4 years

1.3 Liabilities

1.3.1 Creditors and other payables

Creditors and other payables are stated at their cost.

1.3.2 Accrued Expenses

All payments made from 1st January 2003 to 28th February 2003 in respect of year 2002 have been taken as accured expenses.

02 Property, Plant and Equipment

	COST	Additions	Total	Depreciation For the year	Accumulated Depreciation	W.D.V.	As at 31.12.01 W.D.V.
Motor Vehicles	9,093,169.00		9,093,169.00	2,273,292.25	6,819,876.75	2,273,292.25	**4,546,585**
Computers	12,047,407.26		12,047,407.26	2,088,637.49	9,119,905.33	2,927,501.93	**5,016,139**
Furniture	5,803,036.49		5,803,036.49	712,120.55	5,143,966.16	659,070.33	**1,371,191**
Equipment	4,686,824.25	101,800.00	4,788,624.25	547,397.05	3,936,075.25	852,549.00	**1,298,146**
Inventory Items	135,074.10	1,030.00	136,104.10	1,030.00	136,104.10	-	**-**
Partition, Fittings and Installation	13,714,332.98	57,800.00	13,772,132.98	1,981,960.96	13,733,599.64	38,533.34	**1,962,694**
Books	327,977.21	1,275.00	329,252.21	-	-	329,252.21	**327,977**
Other Assets	476,930.00		476,930.00	71,732.50	405,197.50	71,732.50	**143,465**
Rs.	46,284,751.29	161,905.00	46,446,656.29	7,676,170.80	39,294,724.73	7,151,931.56	**14,666,197**

		Rs. Cts.	As at 31.12.01 Rs.
03	**Inventories**		
	Consumable stock	128,932.10	**94,165**
		128,932.10	**94,165**
04	**Debtors and other receivables**		
	Debtors	38,728.01	**38,728**
	Staff loans	-	**1,314,025**
	Receivable - Telephone	21,604.80	**-**
	Other advances	30,000.00	**233,663**
		90,332.81	**1,586,416**
05	**Deposits receivable**		
	Overseas Realty Ltd. - 3 months rent - 11th floor	1,573,380.00	**1,573,380**
	Overseas Realty Ltd. - 3 months rent - 10th floor	1,652,049.00	**1,652,049**
	LDB Lintas - Sunday Times	-	**55,000**
	Telecom Ltd. - IDD deposits	75,000.00	**75,000**
	Associated News Papers Ltd. /Lintas	2,000.00	**2,000**
	Felix Pereira Ltd.	38,000.00	**38,000**
	Deposit Recoverable	15,000.00	
		3,355,429.00	**3,395,429**
06	**Pre - payments**		
	Associate News papers Ceylon Ltd.	-	**12,501**
	Wijaya News Papers Ltd.	-	**7,384**
	Insurance	14,759.50	**-**
	International Magazines	105,022.62	-
	Sumathi News Papers (Pvt.) Ltd.	-	**3,410**
	Upali News Papers Ltd.	-	**12,063**
	Maintenance of Computers/software	-	**13,716**
	Lanka Online - Web site	42,000.00	-
	Building Rent		
	10th Floor	315,517.38	
	11th Floor	5,506,830.00	**5,826,657**
		5,984,129.50	**5,875,731**
07	**Cash and cash equivalent**		
	Bank of Ceylon - A/C No. 0660-08-0000121-3	47,527.02	**1,996,347**
	Bank of Ceylon - A/C No. 0660-08-0000123-1	1,960.00	**1,960**
	Bank of Ceylon - A/C No. 0660-08-0000179-2	132,645,793.37	-
	Cash in transit	-	**1,500,000**
		132,695,280.39	**3,498,307**

				As at 31.12.01
			Rs. Cts.	Rs.
08	**PERC Fund**			
	Balance as at 01.01.2001		27,915,506.65	**45,755,105**
	Add:			
	Adjustments in respect of previous year		(227,766.89)	**830,370**
	Adjusted balance as at 01.01.2001.		27,687,739.76	**46,585,476**
	Add:			
	Capitalisations of Contributions			
	From the Treasury	500,000.00		**121,654**
			500,000.00	**46,707,130**
	Surplus / (Deficit) for the year		(13,083,979.50)	**(18,791,623)**
			15,103,760.26	**27,915,507**
09	**Creditors and payables**			
	Creditors			
	East - west information - retention		-	662,347
	Accrued Expenses			
	Fuel and Lubricant		-	23,635
	Vehicle Maintenance		8,774.17	-
	Telephone and internet		265,686.39	124,501
	Janitorial service		12,289.32	23,253
	Office welfare - Trans Asia Hotel		29,011.00	15,146
	Electricity and air - conditioning		99,625.13	62,484
	Peoples Merchant Bank - Valuation		180,000.00	-
	Office transport		41,095.72	20,575
	Audit , survey and technical reports		-	190,457
	Awareness programme		1,020,000.00	-
	Salaries		-	30,800
	EPF		-	4,200
	ETF		-	840
	Legal expenses		-	42,500
			1,656,481.73	**1,200,738**
10	**Deposit Payable**			
	Insurance Corporation Ltd		132,645,793.37	-
			132,645,793.37	-

		Rs. Cts.	As at 31.12.01 Rs.
11	**Contribution from the consolidated fund**		
	Total amount received during the year	77,100,000.00	**32,600,000**
	Less:		
	Capitalisation of purchases of capital items	500,000.00	**121,654**
	Amount charged to the Income Statement	**76,600,000.00**	**32,478,346**
12	**Sundry income**		
	Interest on loan	4,599.09	**57,445**
	Sundries - non refundable tender deposits	405,244.73	**3,142**
	Recovery of Car parking	27,000.00	-
		436,843.82	**60,587**
13	**Managing of Human Resources**		
	Salaries	9,295,579.04	**11,036,970**
	E.P.F. contributions	1,340,579.25	**1,322,097**
	E.T.F. contributions	267,779.85	**264,419**
	Compensatory Payment for Additional works	40,830.56	**4,271**
	Allowances	1,650,914.88	-
	Pension Contribution	40,701.53	-
	Incentive payments	202,100.00	-
		12,838,485.11	**12,627,758**
14	**EstablishmentExpenses**		
	Rent	17,017,006.38	**15,251,345**
	Telephone/internet	1,857,049.36	**1,555,669**
	Electricity & air-condition	1,040,913.83	**1,035,961**
	Printing stationery & consumables	1,770,062.08	**593,157**
	Postage/courier service	52,239.80	**62,154**
	Janitorial services	267,825.04	**280,548**
	Staff welfare	1,380,873.21	**1,522,861**
	Meeting & conference	73,915.01	**60,890**
	Miscellaneous establishment expenses	31,565.57	**254,251**
		23,491,450.28	**20,616,835**
15	**Maintenance of Property, Plant & Equipment**		
	Furniture	-	**30,194**
	Office Equipment	123,362.69	**149,244**
	Computer hardware and software	119,425.40	**215,646**
	Partitions, Fittings and Installations	-	**116,318**
		242,788.09	**511,403**
16	**Transportation Expenses**		
	Fuel and lubricants	463,763.49	**517,328**
	Repairs & maintenance	364,795.77	**221,314**
	Insurance and licence	218,333.44	**264,451**
	Travelling & office transport	514,625.67	**391,642**
	Car - parking and others	393,495.76	**348,183**
		1,955,014.13	**1,742,918**

		Rs. Cts.	As at 31.12.01 Rs.
17	**Professional Development**		
	Training - Local	26,100.00	**39,800**
	Foreign	1,586,847.00	**423,158**
	Membership fees to professional bodies	-	**3,750**
		1,612,947.00	**466,708**
18	**Expenses on Reform of Public Enterprises**		
	Consultancy Fees - Local	-	**521,637**
	Valuation	1,082,406.00	**-**
	Evaluation committees meetings & conference	9,000.00	**64,952**
	Audit, survey & technical reports	11,002,513.87	**3,634,807**
	Publicity and advertisement	1,063,404.45	**1,297,658**
	Study Tour and Training for Sector Development	14,295.00	**-**
	Awareness programme	27,957,711.00	**-**
	Legal Expenses - Attorney General Dept.	575,400.00	**913,500**
	Others	-	**125,014**
	Restructuring Expenses	42,000.00	-
		41,746,730.32	**6,557,567**
19	**Information**		
	News papers and Periodicals	206,517.96	**228,968**
		206,517.96	**228,968**
20	**Financial charges**		
	Bank charges	33,085.38	**5,017**
	Financial charges on lease rent	36,960.00	**-**
	Surcharges - ETF	280,674.25	
		350,719.63	**5,017**
21	**Adjustment in respect of previous year**		
	Receipts		
	Recovery of private telephone call charges	48,599.84	
	Over provided retention money East West Information	9,999.00	
		58,598.84	
	Payment		
	Accrued electricity & air condition	67,494.38	
	Accrued Telephone/Internet Bills	172,081.37	
	Payment of ETF	5,499.99	
	Payment of EPF	27,499.95	
	Unrecoverable Deposit - Lintas	13,790.00	
	Over provided Accrued Fuel	0.04	
		286,365.73	
	Net payments	**227,766.89**	

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE PUBLIC ENTERPRISES REFORM COMMISSION OF SRI LANKA FOR THE YEAR ENDED 31ST DECEMBER 2002 IN TERMS OF SECTION 14(2)(C) OF THE FINANCE ACT NO. 38 OF 1971

The audit of accounts of the Public Enterprise Reform Commission of Sri Lanka (PERC) for the year ended 31st December 2002 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No. 38 of 1971 and Section 8(2) of the Public Enterprise Reform Commission of Sri Lanka act No. 1 of 1996. My observations which I consider should be published with the annual report of the Commission in terms of Section 14(2)(C) of the Finance Act appear in this report.

1.2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide and audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in the financial statements and assessment of accounting principles and significant estimates and judgements made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Subsections (3) and (4) of Section 13 of the Finance Act No. 38 of 1971 gives discretionary powers to the Auditor General to determine the scope and extent of the audit.

2. Accounts

2.1 Audit Opinion

Except for the effects of the adjustments arising from the matters referred to in paragraph 2:3 of this report, I am of the opinion that the financial statements have been satisfactorily prepared to present fairly in all material respects, the financial position of the Commission as at 31st December 2002 and the result of its operations for the year then ended in accordance with Sri Lanka Accounting Standards other than the standards referred to in this report.

2.2 Financial Results

The operations of the Commission for the year under review had resulted in a deficit of Rs 13,083,980/-as compared with the corresponding deficit of Rs 18,791,623/- for the preceding year.

2.3 Comments on Accounts

2.3.1 Accounting Deficiencies

(a) Commission had paid sums of Rs. 6,406,480/-, Rs. 6,809,375/- and Rs. 8,212,339/- in the years of 2000, 2001 and 2002 respectively for the lease rent, electricity charges, air conditioning charges, car parking charges etc., for the 10th floor of West Tower Building of the World Trade Centre. It was observed that the Commission had not occupied the entire area of the 10th floor from the inception of the lease agreement and above expenses had been incurred without making use of the entire floor for the activities of the Commission. Although the Commission had taken action to recover such rent from November 2002, the amount paid on behalf of other parties which was to be recovered by the Commission had not been brought to account as receivable and total expenditure had been charged against the income of the Commission.

(b) According to the lease agreement entered into with a company for leasing of 2,950 h.a land of Kantale Sugar Factory, the cost of survey of that land to be shared equally between the Government and the Company. However, it was observed that the full cost of survey amounting to Rs 6,478,838/- had been paid by the Commission during the year and accounted as an expenditure instead of showing 50% of such cost as recoverable from the said party. No action had been taken to recover that cost from the Company.

2.3.2 Lack of Evidence for Audit

Rental paid amounting to Rs 17,017,006/- and transport charges amounting to Rs 454,614/- could not be satisfactorily vouched or accepted in audit in the absence of agreements, relevant registers etc.,

2.3.3 Non-compliance with Laws, Rules & Regulations and Management Decisions

(a) The provisions in the following Finance Act, Treasury Circulars and Public Administration Circulars had not been complied with.

(i) Finance Act No. 38 of 1971 – Sections 13(5)(d) and 14(1).

(ii) Public Administration Circular No.6/99 of 22nd February 1999.

(iii) Treasury Circular No. PF/PE/31 of 19th November 1999.

(iv) Public Enterprises Circular No. PED 04 of 1st January 2003.

(b) The provision had not been made for the payment of gratuity for the staff in accordance with Sri Lanka Accounting Standards No.16.

(c) Action had not been taken to revalue the assets which were fully depreciated and used for operational activities in accordance, with Sri Lanka Accounting Standards No. 18.

3. Financial and Operating Review

3.1 Financial Results

The operation of the Commission during the year under review had resulted in a deficit of Rs. 13,083,980/-, after taking into account the contribution from the Consolidated Fund amounting to Rs. 76,600,000/- as compared with the deficit of Rs. 18,791,623/- in the preceding year after taking into account the contribution from the Consolidated Fund amounting to Rs. 32,478,346/- for that year. The total expenses had been increased from Rs. 51.3 mn in year 2001 to Rs. 90.1 Mn in year 2002, due to expenses on awareness programme amounting to Rs. 27,957,711/- and on survey and technical reports amounting to Rs.13,789,019/-.

3.2 Performance

(a) According to the Budget for the year 2002, the PERC had anticipated a sum of Rs. 21,000.0 Mn as income from privatization during the year under review. However, according to the information made available to the audit, the actual income earned was only Rs. 5,691.0 Mn from the privatization of 7 public enterprises during the year as shown below.

Names of the State Owned Enterprise	Total Amount realized - Rs.	Dateof remittance to the Treasury - Rs.
1. Talawakele Plantations Ltd.	68,552,475	08/03/2003
2. Malwatta Valley Plantations Ltd.	41,413,181	08/03/2003
3. Palawatta Sugar Industries Ltd.	295,710,84	09/04/2002
4. Sevanagala Sugar Industries Ltd.	550,000,000	20/06/2002
5. Lanka Marine Services	1,199,362,500	Not available
6. National Insurance Corporation	287,500,000	Not available
7. Sri Lanka Telecom	3,248,748,000	31/12/2002
	5,691,286,997	

The actual amount realized works out to 27.1% of the budgeted amount.

Further, privatization process of Cluster Bus Companies and Sri Lanka Insurance Corporation had not been finalized as anticipated in the year 2002.

(b) Privatization Precess - National Insurance Corporation Ltd.,

The sale of 39% of the shares of the National Insurance Corporation Ltd, during the year 2002 had resulted in loss of Rs. 56.61 Mn to the Government due to not accepting the offer of Rs. 344.11 Mn made by a company and decided to call for expression of interest.

It was observed that the highest price of Rs. 250.0 Mn quoted in the expression of interest was by the same company.

In spite of the recommendation of the Technical Evaluation Committee to sell the shares not less than the price at which 51% of the shares were previously sold, 39% of the shares were sold, after negotiation for Rs. 287.5 Mn only to the same company which was Rs. 56.61 Mn less than the price quoted by them earlier.

3.3 Identified losses

A sum of Rs. 280,674/- had been paid as penalty to ETF due to delay in remittance of contribution of ETF for the years from 1996 to 1998.

4. System and Controls

Special attention is needed in respect of the following areas of control.

(i) Collection of rent
(ii) Internal Audit
(iii) Transportation - maintenance, hiring of vehicles.
(iv) Personal emoluments
(v) Petty Cash payments

(SGD)
S.C. Mayadunne
Auditor General

28th March, 2003

3rd June 2003

Your Ref: FB/A-2/4/2/2002

Mr. S.C. Mayadunne
Auditor General
Auditor General's Department
Independence Square
Colombo 07

Dear Sir

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE PUBLIC ENTERPRISES REFORM COMMISSION OF SRI LANKA FOR THE YEAR ENDED 31ST DECEMBER 2002 IN TERMS OF SECTION 14(2)(C) OF THE FINANCE ACT, NO. 38 OF 1971

Further to your letter dated 28th March 2003 in the above regard, the observations of PERC to the queries raised therein, are as follows;

2.3.1 Accounting Deficiencies

(a) Arrangements were made to house the Power Sector Reforms Project, Multi-Sector Regulator's office, Public Expenditure Management Project etc., which were important components of the reform process of the Government, in the 10th floor of the WTC in order to enable PERC to better co-ordinate such projects. Furthermore, Consultants who were hired for transactions carried out by PERC from time to time were also housed in the 10th floor. This was on the basis that expenditure in relation to rent, electricity, water etc., would be reimbursed to PERC by the respective tenants.

Subsequently, the Peace Secretariat and the Public Investment Programme Unit (PIP Unit) also occupied the 10th floor.

PERC requested all parties occupying the 10th floor, to reimburse expenses in relation of rent, electricity, water etc. The Peace Secretariat, the PIP Unit and Consultants have already paid PERC whilst PERC has got instructions from the Chairman of Energy Supply Committee (Secretary to the Treasury) for PERC to bear the expenses relating to the Power Sector Reforms Project.

The comment that it should have been brought as receivables, noted and will be complied with in future where appropriate.

(b) The agreement to lease in relation to Kantale Sugar has a provision that the survey cost of land would be shared equally by PERC and the investor. As such, PERC deployed a surveyor under supervision of the Survey General to carry out the survey. Upon the conclusion of the survey, when the investor was requested by PERC to bear 50% of the cost, the investor refused to pay on the basis that the obligations on the part of the Government has not been fulfilled. The Government could not conclude the transaction due to issues such as stray cattle and non-availability of water etc. Therefore, this sum is not recoverable.

2:3:2 Lack of Evidence for Audit

This is a standard audit query which comes every year.

The lease agreement with the WTC is available and the books maintained in relation to transport from Namdo are also properly maintained.

2:3:3 Non-compliance with Laws, Rules & Management Decisions

(a) (i) Finance Act, No. 38 of 1971

Section 13(5)(d)
There were no Internal Audit Reports, to be submitted to the Auditor General.

Section 14(1)
Annual Report for the year 2001 is being printed and for year 2002 – its being prepared. From 2003, it is planned to comply with the deadline dates.

(ii) Public Administration Circular No. 6/99 of 22nd February 1999 and

(iv) Public Enterprises Circular No. PED 04 of 1st January 2003

Driver's and Fuel Allowance are paid as per Commission decisions. Chairman is paid a salary as approved by the Hon. Minister and ratified by the Secretary to the Treasury.

(iii) Treasury Circular No. PF/PE/3 of 19th November 1999

An Audit and Management Committee is operative and the next meeting is scheduled for 30th May 2003 at 10.00 a.m.

(b) Provision has been made for the payment of gratuity from 2003 onwards.

(c) Action has been taken in this regard for the year 2003.

3. Financial and Operating Review

3.1 On the instructions of the Hon. Minister an Awareness Campaign was carried out at a cost of Rs. 27,957,711/- and it resulted in an increase of the contribution from the Consolidated Fund compared to the preceding year.
Expenses on Reform of Public Enterprises amounting to Rs. 13,789,019 (excluding the sum expended on the Awareness Campaign) is for all the transactions carried out by PERC in the year 2002 which is less than the budgeted amount of Rs. 17,900,000/-.

3.2 Performance

(a) Two major transactions, which were projected, to be completed during the year 2002 spilt over to year 2003. The Sri Lanka Insurance Corporation (SLIC) transaction was concluded in April 2003 generating Rs. 6.05 billion to the Government and the Bus transaction is still going on.

(b) Explanation given to the Superintendent of Audit dated 28th March 2003 is attached.

3.3 Identified Losses

PERC has complied with this statutory requirement.

4. Systems and Controls

We have not noticed any discrepancies.

Yours faithfully

(Sgd)
Chisantha Perera
Chairman

28th March 2003

T.H.P. Banduthilake
Superintendent of Audit
Govt. Audit Branch
General Treasury
Colombo 1.

Dear Sir,

PRIVATISATION PROCESS – NATIONAL INSURANCE CORPORATION LTD (NICL)

Reference your letter dated 25th February 2003. Our comments for your queries are as follows :

(1) The following 3 parties submitted offers for 51% shares of NICL:

1. Smart Development (Pvt) Ltd (SDL)
2. Janashakthi Insurance Company Ltd (JICL)
3. Southbridge Investments Group (South Asia) Ltd

The bid offered by Southbrige Investments Group (South Asia) Ltd was invalid as there was no bid bond as required.

SDL is a fully owned subsidiary of the Hatton National Bank Ltd (HNB). In terms of the Banking Act, Banks are required to get prior permission from the Monetary Authorities if they are to invest in an insurance company. As such, it was a regulatory requirement that this permission be obtained. Subsequent to making the bid for NICL through its fully owned subsidiary SDL, HNB applied to the Monetary Board and permission was granted on the basis that the investment be made directly by HNB and not through a subsidiary. Therefore, the bid submitted by SDL was not acceptable since clearance from the Monetary Authorities had not been given.

The bid submitted by JICL was the only responsive bid for the purchase of 51% share of NICL.

At the Cabinet meeting held on 3/5/2001 Cabinet approval was granted to divest 51% shares of NICL to JICL. There after Government of Sri Lanka (GOSL) held 39% of JICL, which was a minority stake. As per Cabinet Memorandum dated 23.5.1997 Cabinet approval was granted to authorize PERC to manage the share portfolio comprising of all minority stakes held by the GOSL in already privatized enterprises and divest if necessary in consultation with the Secretary to the Treasury. Letter dated March 2002 from Secretary to the Treasury giving approval to divest 39% of the shares of NICL and letter dated 29.08.2002 from Acting Secretary to the Treasury giving approval for the sale of 39% of the shares of NICL for JICL at a price of Rs. 287.5 million is attached as Annex 1 & Annex 2 for your information.

Payments made to Arthur Andersen	GBP 56,000/=
	(40% * GBP 140,000)

In terms of the contract with Arthur Andersen for assisting GOSL on the restructure of NICL, 40% of the Professional fees not exceeding GBP 140,000 is payable after the submission of draft Long Form Report.
Relevant documents are available with the transactions team for your perusal.

(2) The bid for 39% of the shares at a price of Rs. 344 million was unsolicited and could not be entertained without a due transparent process of public advertisement calling for bids. After the due process was followed consequent to approval by Secretary to the Treasury, JICL submitted a bid for Rs 250 million for 39% of the shares of NICL. As requested by PERC, JICL enhanced the bid for Rs. 287.5 mn.

(3) Agreed, The National Savings Bank has not given the reasons for withdrawal and it is not a requirement.

(4) The revised bid of Rs 287.5 million from JICL was accepted as

a) JICL was the only qualified bid

b) JICL refused to offer a higher amount at that stage.

(5) Denied

The reasons for not accepting the unsolicited bid was explained in (2) above. As always, PERC is committed to conduct a transparent process for privatization of state assets.

(6) The valuation was conducted by the Chief Valuer and queries on the methodology used by him may be referred to him.

Yours faithfully,

(Sgd)

Deepal Gunaratne

DIRECTOR GENERAL

PERC

The Public Enterprises Reform Commission of Sri Lanka (PERC) was established in 1996 under the Public Enterprises Reform Commission of Sri Lanka Act, No. 1 of 1996 to advise and assist the Government on reform of public enterprises and related matters.

PERC represents a Public – Private Partnership

Working towards the goal of a vibrant economy. Reforms have been introduced to attract investment and to improve efficiency and competitiveness through the acquisition of technology, expertise and increased private sector participation. Improved trade and investment will not only drive business development and job creation, but also benefit consumers through better living standards.

Vision

The overall vision is to foster a successful public-private partnership with strong links, in order to strengthen the national economy and thereby consolidate economic growth with stability.

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