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English Media Exposés

PAGE 10 — FINANCE — THE SUNDAY LEADER, MAY 25, 1997

In-depth analysis shows whopping loss to the state

Plantations pillaged

An investigative analysis of the plantation privatisation programme shows that the losses to the state could be as much as Rs. 2,500 million. Roaring repetitive rhetoric about rip-offs alone obligates and compels the government to take corrective action.

Bismarck reports

THE Sunday Leader has been focusing week after week on the privatisation of plantations and in-depth analysis makes it patently clear that though it was held out and the public were led to believe, that the controlling interests of 51% majority shareholdings in the profitable plantation companies were being disposed of, in 39.2% of these profitable plantation companies in the hands of the state, while the public were led to believe otherwise. By such strategic means, in these profitable plantation companies, 60.8% shareholdings, respectively, in Agalawatte, Horana and Kegalle, 69.4% share-holdings in Kotagala, 70.7% shareholdings in Bogawantalawa and 71.2% shareholdings in Kelani Valley had been disposed of for effective consideration of Rs. 121.6 m each in the cases of Agalawatte, Horana and and Kelani Valley Rs. 21.7 m, making a total of Rs. 130m, — would have further cushioned the total purchase consideration of Rs. 787.3 m paid by the management companies, to acquire controlling interests in these profitable plantation companies."

Section 2.25 of the respective offer sales side Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka) may collectively own only up to a maximum of 49% of the issued share capital of the company."

Foreign shareholdings

Accordingly, at the very time the controlling interests of majority shareholdings of these profitable plantation companies were so disposed of, with the fragmented sale of 20% minority shareholdings through the CSE, it had been very clearly and patently held out, that upto 49% of the shareholdings in these exclusive beneficial share purchase options well below the market prices realisable on open competitive bidding — had been effected on the basis of a ludicrously absurd price formula, at the lowest price proffered for the fragmented sale of 20% minority shareholdings of such companies in the CSE, whereas a controlling interests of a ma-

Balangoda were sold at Rs. not such total loss to the state national asset, ownership of

Ltd. realising a price of Rs. 1,057.5 m in February 1992, that too by a consortium led by Sri Lankan enterprise. Surely, in 1995, the market could have witnessed much higher values had the plantations company shares been properly promoted and marketed, as amply demonstrated in the case of Watawala, a loss making plantation company to have stated:

"The government should check erring regional plantation companies (RPC) by exercising the power vested in it by virtue of the golden share of each of these companies retained by it ... Privatisation is good. We support privatisation, but the objectives of privatisation are lost due to a few miscreants." some of the charges levelled being non payment of EPF dues, recruitment of expatriates on temporary resident permits, charging inflated management fees, reducing terests of majority shareholdings in the profitable plantation companies on their own ?

Or had such ludicrously absurd price formula together with the strategy of mandatorily convertible debentures, with permissibility for 49% non-resident/foreign shareholdings, been inspired or uphold transparency and public accountability. The government policy statement to parliament by President Chandrika Bandaranaike Kumaratunga on January 6, 1995, on the government economic policies, *inter alia*, stated:

"In the name of privatisation, the past regime had engaged in virtual daylight robbery of valuable national assets ... Many of these ventures were grossly undervalued by reducing their sale price by as much as 2/3rd or 3/4th of the ac-

PAGE 8 — THE SUNDAY LEADER, MAY 4, 1997

Blunder over plantations

by Bismarck

IN response to numerous requests from the reading public, *The Sunday Leader* this week turns the spotlight onto the privatisation of the plantations, that had been carried out hitherto by the Public Enterprises Reform Commission (PERC).

The plantation sector was the base of the national economy that was well developed and left behind by the British at the time the country got its independence in 1948. Ceylon tea enjoyed a prestigious demand in international markets and the country achieved the position as the leading tea exporter of the world. A mechanical engineering industry, manufacturing plantation machinery was well developed at that time, even exporting such machinery to many countries. The tea estates, together with the rubber and coconut estates, formed the plantation sector.

The plantation sector was then owned by a large cross section of public and private companies, with both foreign and local shareholdings, and by proprietorships. A considerable segment of the sector was then managed by agency houses, while a well Government Owned Business Undertakings into Public Companies Act no. 23 of 1987. Thereafter, in 1992 the management of these 22 plantation companies were given out by the government to the private sector, on the basis of profit sharing management contracts.

Between August and November 1995, PERC carried out the privatisation of six of these plantation companies, namely, Bogawantalawa Plantations Ltd, Kotagala Plantations Ltd, Agalawatte Plantations Ltd, Kegalle Plantations Ltd, Horana Plantations Ltd and Kelani Valley Plantations Ltd.

Under the terms of the management contracts that had been entered into, these six plantation companies were being managed by the following management companies:

Bogawantalawa — Metropolitan Management Services (Pvt) Ltd.

Kotagala — George Steuarts Management Services (Pvt) Ltd.

Agalawatte — Mackwoods Plantation (Pvt) Ltd.

Kegalle — RPK Management Services (Pvt) Ltd.

Horana — Ceyexxe Plantations Ltd.

Kelani Valley — DPL

Then members of PERC who carried out the privatisation of plantations — then chairman, Rajan Asirwatham (left), chairman, BOI, Thilan Wijesinghe (right) and present chairman Dr. P.B. Jayasundera (below). Innovators of the price formula to give plantation companies an exclusive option to buy the controlling interest of the share capital — can they explain why?

as set out in the respective offer sale documents:

Fixed price portion

1.9 One million six hundred thousand (1,600,000) shares will be made available at a fixed price of Rs. 10 per share.

1.10 If there is under-subscription in this category, the remaining shares will be made available for allotment to applicants in the tender portion. If there is under-subscription in both the fixed price and tender portions, the remaining shares will be

ready been made and dis-

naturally arises, by whom and why? If not, the simple question that comes into focus is, why was such controlling interest of 51% shareholding not offered to the public for open competitive bidding 'on an all or nothing basis' transparently through the CSE to determine the market price for such controlling interest of 51% shareholding; and the respective management companies, if at all, given the option of the first refusal, to purchase such controlling interest of 51% shareholding

tive plantation companies, granted to the management companies at such intriguing "market clearing price per share," as follows:

2.8 (The management company) has been given an option to purchase a block of 51% of the issued ordinary shares of the company — consisting of ten million two hundred thousand (10,200,000) shares — on an all or nothing basis at the "market clearing price per share" established on the basis of the initial offer for sale of 20% of the shares in the manner described in section 1 of this document. In order to exercise the option (the management company) must, prior to the expiration of seven days from the date of establishment of the "market clearing price per share," make a down payment of 10% of the sum of the full value of the shares to be purchased and the related debentures to be taken up. The remaining payment in full must be made within thirty days of the date of establishment of the "market clearing price per share." If (the management company) does not make either the down payment or the full payment within the stipulated deadlines its option to purchase (the management company) chooses to exercise its option to purchase the block of shares at this price. If it does not exercise the option and subsequently purchases the shares by submitting the highest bid in the "all or nothing basis" sale through the CSE the Rs. 5 million will be credited towards this purchase. If (the management company) does not purchase the block of shares by either mechanism the Rs. 5 million will be forfeited.

Actually sold 60%-72%

In addition to the exclusive option of purchasing such controlling interest of 51% shareholdings in the respective plantation companies, the management companies were also deviously given the exclusive opportunity of investing further monies, varying from Rs. 50 million to Rs. 140 million into the plantation companies to be converted into shareholdings, thereby effectively and actually giving such management companies, a much greater shareholding than the 51% held out to the public, going upto even as much as 71%. The given chart sets out the actual shareholding percentages that would be so acquired and the effective cost

All debentures which have not been exchanged for ordinary shares by the day prior to the fifth anniversary of their date of issue shall be mandatorily exchanged by the company for ordinary shares on the fifth anniversary date."

The monies advanced initially, treated as convertible debentures at 6% p.a., and thereafter being mandatorily converted into share capital, dilutes the 20% shareholdings that were being offered to the public to as much as 11.7%; and this naturally would have caused further depression to the public offer prices for such supposedly offered 20% shareholdings to determine the unique "market clearing price per share."

- Was it a case of letting the cat out of the bag when Dr. Romesh Dias Bandaranaike at the presentation of a plantation company to the Colombo stock brokers said at Trans Asia Hotel, that it was not in the interest of the underwriters and present management company to promote the plantation company as "they had an agreement between them to purchase the shares" as was reported in *The Sunday Leader* of January 14, 1996.

Wednesday 16th April, 1997 — THE ISLAND

Exchange chief gets cracking on controversial Kotagala deal

by Sumadhu Weerawarne

The Exchange Controller has called for explanations from the chairman of a state-owned bank, heads of several leading mercantile firms and a senior partner of a law firm among others concerning the alleged violation of Exchange Control Regulations in the controversial Kotagala Plantation deal in 1995. The plantation company was privatised under the supervision of the Public Enterprises and Reform Commission, while Rajan Asirwatham was its head.

Authoritative government sources said that all those party to the deal had been queried why they should not be penalised for the alleged violations. The deadlines set for the filing of explanations is Friday

George Steuarts however managed to circumvent the stipulation by selling the owning company of Kotagala Plantation George Steuarts Management Services itself to the foreign investors. The company was bought by a conglomerate of Malaysian investors namely Nathan Aiyadurai, Mary Ong and Rovenco Company Limited.

It was later discovered that the Malaysian investors had brought in money in excess of the stipulated amount to invest in the company without prior permission of the Exchange Controller in violation of existing Exchange Control laws. The investors alleged that they had acted on the instuctions of their bank the Merchant

was also asked by PERC to probe the Kotagala deals. Neither party acknowledged that they had been aware of the deal and in fact categorically said that they were not privy to the deal.

Lankem Ceylon went so far as to proclaim in a half page advertisement last year that the two directors had not acted in conflict of interest in the Kotagala Plantations deal. However, the annual report (1995-6) of The Colombo Fort Land and Building Company Limited the parent company of Lankem whose chairman is R. Senathirajah contradicted the proclamation. The accounts disclosed that the parent company had provided collateral to obtain a loan from the National Development

THE ISLAND — Saturday 3rd August, 1996

Legal action to be taken against wrongdoers

by Sumadhu Weerawarne

The Attorney General said Thursday that the controversial Kota-gala deal would not be rescinded in toto, but that action would be taken in respect of violations of any existing law.

AG Sarath N. Silva submitted a report to the Parliamentary Select Committee last week apprising it of the factors as regards the Kotagala deal and the action currently underway.

Mr. Silva refused to divulge the contents of the report. He said that as the legal advisor, to the Securities and Exchange Commission, the Department of Inland Revenue and the Exchange Control Department he would express his views on legal points brought to his notice when taking action against the various parties.

When asked whether fraud had been and that the relevant parties had made use of the low prices. He however, conceded that the regulations as regards the control of exchange had been violated.

"In any case, he said the matter should be taken up in court and the final ruling would be given by Court".

To trace the history of the controversy 51 per cent stake in the Kotagala Plantations Company was first offered to George Steuarts Management Services Private Limited, a subsidiary of George Steuarts Limited which was managing the estate. George Steuarts Management Services Private Limited took up the offer and bought 51 percent of the total shares of Kotagala Plantations.

most Rs. 100 million.

The George Steuarts Management Company was sold to a conglomeration of Malaysian investors namely Naganathan Aiyadurai, Mary Ong and Rovenco Company Limited.

In terms of regulations set out by the Government in relation to privatisation of estate management no foreign investor may hold more than 40 per cent of the shares in a plantation company.

George Steuarts Limited circumvented this requirement by selling 60 per cent of the shares of George Steuarts Management Services Private Limited which was the owning company of Kotagala Plantations.

PAGE 4 — THE SUNDAY LEADER, JUNE 1, 1997

Dirt crops up on plantations

THE Sunday Leader last week in the public interest, spotlighted enormous losses to the state that could be reckoned to have been incurred on the sale of the majority shareholdings in the six profitable plantation companies: Agalawatte, Horana, Kegalle, Kotagala, Bogawantalawa and Kelani Valley, under the privatisation programme carried out by the Public Enterprises Reform Commission (PERC).

The simulated computations by *The Sunday Leader*, based on the price earnings (PE) ratios of 8, 10 and 12 revealed that such losses to the state on the sale of the majority shareholdings in these six profitable plantation companies could be reckoned to amount to of Agalawatte and Kegalle, shares have traded at PE ratio levels between 8 and 10, Bogawantalawa has traded at a PE ratio level around 10, Kelani Valley has traded at PE ratio levels between 0 and 12; exceptionally, Hoana has even traded at PE raio levels well above 12. Significantly, the most profitable Kotagala shares have traded even though at Rs. 37.50 per share but at a PE ratio level well below 8, obviously due to the seveal controversies and uncertainties created thereby in relation to this company.

The given chart sets out comparatively, such share valuations simulated at the PE ratio levels of 8, 10 and 12 and the corre- total of the effective sales values actually realised on the sale of the majority shareholdings of these six profitable plantation companies, amounting in total to only Rs. 787.3 m. The reckoned loss levels being incredibly as much as three times the actual total sales values realised on these sales. In other words the sales values realised being 1/4th the reckoned valuations.

At that very time on December 8, 1995, 51% controlling interest of the majority shareholdings of a considered loss making plantation company, Watawala Plantations Ltd, realised Rs. 306 m upon being sold on the basis of open competitive bidding at the CSE.

write such public share issues, favour or advantage on himself provisions of that act, shall be

Leader of the opposition Ranil Wickremesinghe — reacting to moves for a special parliamentary select committee

Finance Minister Chandrika Kumaratunga — can she be held responsible for losses incurred?

himself formulated and introduced in October 1994, and cause the permanent bribery commission to speedily investigate the privatisation of the plantations, more particularly, the sale of the majority shareholdings of these six profitable plantation companies, that was so afforded to the respective management companies would approximately amount to: Agalawatte Rs. 19 m, Horana Rs. 21 m, Kegalle Rs. 24 m, Kotagala Rs. 58 m, Bogawantalawa Rs. 29 m and Kelani Valley Rs. 17 m. Would members of PERC, then Chairman PERC Rajan Asirwatham, Chairman/Director-General BOI Thilan Wijesinghe, Managing Director CTC Eagle Insurance Chandra Jayaratne, Institute of Policy Studies member Saman Kalegama, then Director General SEC Aritta Wikramanayake, Chairman PERC P.B Jayasundera, and then Treasury Secretary A.S. Jayawardena, and visiting consultant from London at PERC

Sunday June 9, 1996 | The Island

Wheeler dealing in Kotagala plantations

The State-owned Kotagala Plantations Company was put up for privatisation last December. George Steuarts Management Services, a subsidiary of George Steuarts Limited, as the company retained to manage the Kotagala estates at the time was offered a stake of 51 percent in the company.

George Steuarts Management Services Limited took up the offer and bought Kotagala Plantations.

Then almost overnight the George Steuart Management Company was sold to a consortium of Malaysian investors namely, N. Aiyadurai, Mary Ong and Rovenco Company Limited.

George Steuarts made a killing on this deal, making a profit of almost Rs. 100 million.

In terms of regulations set out by the Board of Investment foreign investors cannot own more than 40 percent of the shares in an estate company. However George Steuarts circumvented this rule by selling 60 per cent of the shares in the George Steuarts Management to the foreigners.

Chairman of the Chamber of Commerce and Managing Director of Lankem, Channa Goonesinghe created a major rumpus alleging that the transaction lacked transparency.

The Public Enterprises Reform Commission (PERC) initiated investigations following Channa Goonesinghe's strongly worded letter to the Plantations Minister.

While investigations were progressing, the Lankem E.B. Creasy combine purchased Kotagala Plantations.

The law firm Julius and Creasy was retained to conduct investigations. One of its senior partners is an alternate director of Lankem E.B. Creasy and following the exclusive exposure by the 'Island' PERC dismissed Julius and Creasy.

Mr. Chandra Jayaratne who is on the directorates of both Lankem and PERC too resigned in the face of embarrassment caused to PERC by the Kotagala controversy.

Director of the Plantations Managements Monitoring Unit Dr. Romesh Bandaranaike too resigned on December 23, reportedly over the Kotagala issue.

The handing over of the share-certificate in the initial deal to Madame Ong by Dr. Bandaranaike indicated that at least certain Ministerial Units were well aware of the deal from its inception.

The very company namely, Lankem whose Managing Director caused a stir and set the wheels of justice in motion, is the current owner of Kotagala Plantations.

Here, PERC Chairman Rajan Asirwatham counters the numerous allegations levelled against PERC in relation to the Kotagala deal, in an interview with Rohan Abeywardena.

Rajan Asirwatham

seek the opinion of counsel. We can't go direct to counsel. We had a panel and the first we picked on was Julius and Creasy. There was a meeting

"I have not participated in any transaction related to Kotagala or anything related to PERC," Mr. Jayaratne said. "I have made a declaration of interest to PERC and I have made a declaration of my interest to Lankem."

THE SUNDAY TIMES BUSINESS JUNE02, 1996

"The PERC has never sold a company for less than the valuation and it would not happen now," Mr. Asirwatham said.

THE SUNDAY LEADER DECEMBER 24, 1995

Plantation deal under fire

Public Enterprise Reforms Commission (PERC) chief and Bank of Ceylon (BoC) Chairman Rajan Asirwathan, calling it "immoral", said that the Government could do nothing about it as this was due to privatisation. Asked whether the state cannot take action against the company concerned, he replied that if action was to be taken, it would reflect very badly on our democracy.

PAGE FIVE

THE SUNDAY TIMES, SUNDAY, JUNE 16, 1996

INTERVIEW

Ong issue: 'a simple explanation had I been asked'

Dr. Romesh Dias Bandaranaike was the Director, Plantation Management Monitoring Division which carried out all of the work in the privatisation of Kotagala

A: I have no idea why my contract was not renewed. There was no discussion about the Kotagala PL share sale at that

Romesh hits out

might be found fault with, so Mr. Gunaratne I'll give it to you and you give it to her".

In any event, I am certain

In other words, it is quite all right for foreigners to use nominees to effectively control 100% of every company to be

Does he mean that in the privatisation of the remaining 14 RPCs it is acceptable to PERC if foreigners gain 100% control

The Island Thursday 6th June, 1996 Controversial Kotagala Plantations privatisation

How many more heads will roll?

The Island Friday 7th June, 1996

Controversial Kotagala Plantations privatisation

Another head rolls

The Island Friday 2nd August, 1996

Kotagala Plantations saga too much Jekyl and Hyde

The Island Thursday 6th June, 1996

Dr. Bandaranaike handing over the share certificate to Mrs. Mary Ong.

DAILY NEWS, FRIDAY MAY 16, 1997

Objective of privatisation lost due to a few miscreants: CPS president

By Paneetha Ameresekere

THE government should check erring regional plantation companies (RPCs) by exercising the powers vested in it by virtue of the golden share of each of these companies retained by it, said the President of the over 1000 strong Ceylon Planters' Society (CPS), Parakrama Jayatilake at a press conference on Monday.

President on May 20 to discuss these issues, " Mr. Jayatilake said.

For well over three years, one or two of the RPCs have been contravening the law of the land by not remitting EPF monies amounting to millions of rupees due to about 40,000 workers, the CPS president said.

The Labour Department thought that the best way of getting the money back was to whether it's still the legitimate owner of that RPC or not.

" This seeming state of indecisiveness is not good for the industry," Mr. Jayatillake warned.

Why is the government postponing the privatisation of the balance companies? The industry suffers due to this postponement, Mr. Jayatilake said.

sounded the death knell to the cottage industrialists manufacturing coir bags, the CPS president said.

Of the 23 RPCs, 13 have so far been privatised. They being Madulsima, Kegalle, Kotagala, Uda Pusellawa, Hapugatenna, Watawala, Balangoda, Bogawantalawa, Maskeliya, Kelani Valley, Agalawatte, Horana and Agrapatana Plantations. The balance to

The Island Wednesday 23rd July, 1997

Principal parties fined in proportion to profits made

Merchant Bank rapped hardest in Kotagala deal

by Sumadhu Weerawarne

The Merchant Bank of Sri Lanka,

1995 had supported 100 per cent ownership of companies by non-nationals. When pointed out that the regulations

control regulations in transacting the deal. Kotagala Plantations Limited was privatised under the supervision of the Public

SUNDAY LEADER - 31st December 1995

Chandrika tells PERC to file action against George Steuart's

Mr. Asirwatham when contacted to confirm the story told The Sunday Leader that "I am frankly dismayed at what this company has done. They have let down the entire private sector by their actions".

PAGE 10 FINANCE THE SUNDAY LEADER, OCTOBER 11, 1998

Strike price : ill advised?

Was the president unaware of all this?

by Bismarck

THE Sunday Leader pub- ... were sold between August 1995 and December 1995 to the respective plantation management companies, on the basis of such exclusive options, at the absurd nominal price of Rs. 10 per share only, without any open competitive bidding on the trading floor of the Colombo Stock Exchange.

The irony is that, in the warrant issued by President Kumaratunga on February 20, 1995 appointing the special presidential commission of ... plantation companies did, in fact, command a premium price at that time.

The so-termed 'strike price' for the sale of the majority shareholdings of the plantation companies had been structured to be the lowest price that was to be received on the fragmented sale to the public of 20% shareholdings of the respective plantation companies.

Ought it not have been known at the very outset, that the lowest price that would be received would in fact be the ... refrained from carrying out for undisclosed reasons. Subsequently, however, the majority shareholdings of the other plantation companies sold on the CSE realised prices ranging from Rs. 21.50 to Rs. 65.25 for a Rs. 10 share.

The Sunday Leader exposures highlighted the colossal losses caused to the government on the sale of the majority shareholdings of the first six profitable plantation companies. The government immediately suspended the ...

The Sunday Leader investigations into the records of the registry of companies and businesses, Singapore, have further revealed that Agricultural Development Services (Singapore) Pte. Ltd. with a issued and paid-up share capital of Singapore $ 66,562 had been registered in Singapore as a private company and its principal activities had been disclosed as business management and consultancy services.

The directors of the com- ...

CT SMITH STOCKBROKERS (PVT) LTD. SRI LANKA

Hayleys Limited

Making Hay(leys) While The Sun Shines

Director, Bank of Ceylon and Chairman, Hayleys, Sunil Mendis

... the stock markets both in India and Sri Lanka, giving profiles of certain companies in India and in Sri Lanka of John Keells, Aitken Spence, DFCC, Hayleys and NDB.

The Lehman Brothers report in its profile on Hayleys at page 56, *inter alia*, had stated — "DPL Plantations Ltd., a wholly owned subsidiary of DPL (Dipped Products Ltd), was formed to undertake estate management under the government's plantation restructuring program in June 1992. **DPL Plantations is working in association with Agricultural Development Services (Singapore) Pte. Ltd.**" (*Emphasis added*).

Chairman, Hayleys Group, Sunil Mendis is also a director of the Bank of Ceylon, appointed by President Kumaratunga, as the minister of finance.

PHILIP R. MELKYE

Agricultural Development Services (Singapore) Pte. Ltd.

TIMOTHY HOOPER

Agricultural Development Services (Singapore) Pte. Ltd.

The business cards of Melkye and Hooper

The address of Philip Reginald Melkye

... itly disowned by the government.

It is even more baffling why President Kumaratunga had apparently not taken any ... Plantations Ltd, a wholly owned subsidiary of DPL, was formed in June 1992 to undertake management of the government owned regional ...

Rajan wants commission to probe PERC privatisation

THE SUNDAY LEADER, JANUARY 28, 1996

Contacted by 'The Sunday Leader,' Asirwatham said he will request the President to appoint a commission with the editor of 'Ravaya' Victor Ivan as Chairman and former finance Ministry Advisor Nihal Ameresekera as a member.

"I want to clear my name as well as the handling of the government's privatisation programme. If the commission finds me guilty of any wrongdoing. I will resign immediately" he said.

The President had earlier made a series of allegations against the Former Government for its handling of the privatisation programme and political analysts said, the President's credibility would suffer badly if she does not accept Asirwatham's challenge.

PAGE 12 FINANCE THE SUNDAY LEADER, OCTOBER 4, 1998

Share harvest: unfair?

by Bismarck

INFLUENCE-peddling and lobbying is prevalent not only in democratic societies, but also in other political set-ups. Such phenomena have come to stay in contemporary society. Don't politicians lobby and use influence in seeking party nominations for elections and don't elected members do likewise in seeking ministerial portfolios? Similarly, are business entrepreneurs and corporate organisations innocent of influence peddling and lobbying to achieve their business goals?

While such behavioural trends may be the reality on the ground, in developing a free and open market economy, would it not be the responsibility of good government to ensure equality of ... owned by the foreign companies. Such policy guidelines by the government had apparently been on the premise that the rest of the private sector unduly influenced public officials or resorted to corrupt practices in concluding deals which at times are unfavourable to the government.

The policy guidelines enunciated by the government therefore presumed that listed public companies with a market capitalisation of Rs. 200 million and local liaison offices directly owned by foreign companies do not unduly influence public officials or resort to corrupt practices in concluding deals (which at times are unfavourable to the government).

The Sunday Leader questioned this assumption in the light of the several scandalous exposures published in these columns ... had forwarded a letter dated Feb- ...

These profitable plantation companies had been gifted on a platter as it were, sans free and open competition, to selected parties at the nominal value of Rs. 10 per share based on an absurd pricing formula

URGENT & CONFIDENTIAL (REVISED PROPOSAL)

TO	: Secretary General - Planters Association
FROM	: Chandra Jayaratne - CTC Eagle Insurance Co Ltd
DATE	: 25th January 1994
SUBJECT	: DIVESTITURE OF SHARES OF RPC'S VESTED WITH THE LEASE OF PLANTATION LAND AND IMMOVABLES AND OTHER ASSETS

Revised proposal; Subject — Divestiture of shares of RPCs vested with the lease of plantation land and immovables and other assets

Management Committee

THE PLANTERS' ASSOCIATION OF CEYLON

Proposed management & equity agreement, dated February 3, 1994

... the plantation sector unit trust."

Deputy Chairman, Hayleys, Chairman, Planters' Association, M. J. C. Amarasuriya — did not want the share market used to establish the transfer price of the controlling shareholdings.

THE SUNDAY LEADER, APRIL 6, 1997

Regulators refrain from action

by Bismarck

THE Sunday Leader has received the following commendation from Shirley Peiris, of 31/11, Sulaiman Terrace, Colombo 5 in a letter dated ...

Stock Exchange concedes

As far back as 1995, Shirley Peiris had made representations to the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission (SEC) on the need for proper reporting and disclosure by merchant banks in their published accounts.

In response to Shirley Peiris' letter dated October 5, 1995, the Colombo Stock Exchange by its letter dated October 13, 1995, also copied to the SEC, replied to Shirley Peiris as follows:

"In general terms, we agree with you that financial reporting standards for merchant banks need to be further strengthened to avoid any possibility of misleading/inadequate information being published.

Accountants' institute notified

On August 2, 1996, Shirley Peiris ... accounts circulated? Do the directors of the company have any obligations to bring to the notice of the shareholders and the investing public such omissions in the accounts circulated ?"

interalia, stated:

"Can quoted investments purchased by a company over a period of years as trade investments, be converted to long term investments by a mere change of an accounting policy, in the preparation of accounts? The changes in the accounting polices of a company, materially affecting the results or the value of assets require board approval. Obviously, companies which have changed the policy will have such approval on record, but these decision are taken within the course of the year and not after the preparation of accounts for the last quarter at the year end. Nevertheless, are the directors acting in a responsible manner, when changes not relevant to the industry as a whole are made purely to show better results?"

"The Securities and Exchange Commission has given serious thought to the matters raised by you in your letter, and sincerely appreciates the suggestions made by you. The commission wholeheartedly ...

New Chairman, Stock Exchange, Rienzie Wijetilleke — What action will he take?

... ards, SLAS 10 – on changes in accounting policies, SLAS 12 – on contingencies and events occurring after the balance sheet date and SLAS 30 — related party disclosure, drawing reference to specific matters in ... counts were audited by the same firm in the previous years but they failed to report on same, although the amounts involved are material in ...

When interested members of the public raise relevant issues with the SEC, CSE or Institute of Chartered Accountants, why is action not taken?

value.... taking the above into account can anyone conclude that the auditors have reported to the shareholders with the sense of responsibility? .... Do the directors of the company expect the shareholders to take the audit report seriously?....

Chartered Accountants will be agreeable to same, as such rules will safeguard the interest of the shareholders, who rely on an auditors report.... However, in my view deterrent measures, such as penalising for non-com- ...

Chairman SEC, C P de Silva - "Nobody is above the law" — will deeds match the words?

... an ex-officio member of the SEC in his status as the president of the institute.

This no doubt, is a serious issue, not only for the governor of the Central Bank, A.S. Jayawardena, on the ... ought to have known better. If not, why?

After all, Chairman, SEC, C.P. de Silva, was interested in giving effect to Hong Kong standards, in representations made by his friend Ian Hardy of Asia Capital, to get rid of the nonsense and shenanigans in the local capital market! What SEC Chairman, C.P. de Silva has to consider is, how would the Securities and Exchange Commission in Hong Kong have acted in the given circumstances, and would they have dealt with the directors concerned, and if so, in what manner.

Incidentally, Ian Hardy who appeared to be anxious to improve the local standards upto those prevalent in Hong Kong, has so far failed to respond to the invitation extended to him by *The Sunday Leader* on 2, ...

... to write a letter to the chairman or the director general of the SEC. He can be sure that if the allegations are well founded they will be investigated and action will be taken against the offender. There are many punish- ... of trouble. The commission consists of a body of very eminent men chosen for their individual expertise and reputations, and their main concern is to ensure the integrity of the share market thereby protecting the interests of investors. As nobody is above the law, the SEC would not hesitate to take action where it is necessary. Eventually this is the guarantee to both local and foreign investors that our share market is a safe place to invest in."

Chairman, SEC, C.P. de Silva took very high ground then. Holding out is one thing, but action is another. What action would Chairman, SEC, C.P. de Silva and "the body of very eminent men chosen for their individual expertise and reputations", as he had referred to, take now, more so as had been acknowledged by the ...

THE SUNDAY LEADER, MARCH 9, 1997

Governor, Central Bank, A. S. Jayawardene — Turning a Nelsonian eye?

Should shareholders just grin and bear it?

What is the point of a plethora of rules, regulations, accounting standards and legal provisions unless the SEC, Central Bank and other regulatory bodies are ready to rap erring companies on the knuckles? How are the ordinary investor's interests to be protected?

Bismarck continues to investigate

President, ICASL and SEC member, Reyaz Mihular — Conflicting roles?

Plantations

THE SUNDAY LEADER, JUNE 08, 1997

Govt taken for a ride?

by Bismarck

THE startling revelations by *The Sunday Leader* last week on the sale of majority shareholdings in six profitable plantation companies, namely Agalawatte, Horana, Kegalle, Kotagala, Bogawantalawa and Kelani Valley, has aroused considerable public interest and concern. In response to requests for more details and clarifications on last week's exposure *Plantations gifted with bonanza*, two revealing charts are reproduced here,

Furthermore, by the conversion of the mandatorily convertible debentures, the controlling interests that would be acquired by the management companies in these six profitable plantation companies would be much more than 51%—going up to 60.8% to 71.2%. By the acquisition of such controlling interests of the share capitals of these six profitable plantation companies towards end 1995, the respective management companies inherit such percentage proportions of the balance profits of these six

Kadi — "whitewash"

GL — accountable

able plantation companies not sold, as normally should and ought to have been done, on the trading floor of the CSE, with minimum floor price stipulations based on professional valuations? Why was there no conventional fanfare and professionally designed share promotional campaigns, to get the maximum possible prices, on the basis of open market competition, on the sale of the majority shareholdings in these six profitable plantation companies? Was this not what ought to have been

pany shares should have been professionally promoted?

In whose interests did PERC and those who handled the privatisation of the plantations discharge their responsibilities? Surely, how would they have ever acted in the interest of the management companies and the underwriters, since they were bounden in duty to represent and safeguard the interests of the government and the plantation companies, that were owned by the government? How could the government's position have been

THE SUNDAY LEADER, MARCH 8, 1998

Kotagala transaction structured by Merchant Bank,

by Bismarck

Blessed by BOI

THE investigative exposé on the controversial privatisation of Kotagala Plantations Ltd. (KPL) published by *The Sunday Leader* revealed last week, that Secretaries & Registrars Ltd, chairman of which was also the then Chairman, Public Enterprise Reform Commission (PERC), Rajan Asirwatham, had by its letter dated November 3, 1995, applied to the Board of Investment of Sri Lanka (BOI) for the approval of a foreign investment amounting to the sum of US$ 6 million (SL Rs. 312.4 million) into George Steuart Management Services (Pvt) Ltd (GSMSPL), the total share capital of which company at that time, comparatively, had been merely Rs. 50,000.

BOI aware of investment

Pointedly, the said letter of application by Secretaries & Registrars Ltd, written on behalf of GSMSPL to BOI had clearly stated that out of the total foreign investment of US$ 6 million (SL Rs. 312.4 million), only Rs. 33,400 (US$ 641) would constitute share capital comprising 3340 new shares of Rs. 10 each, affording the foreign investor an equity shareholding of 40% of GSMSPL. The balance 60% had [illegible]

been Rs. 138.7 million. This was because 69.4% of the Rs. 120 million loaned as debentures, when converted into shareholdings of KPL, would have continued to belong to GSMSPL and only the balance 30.6% thereof i.e. Rs. 36.72 million would have passed on to the ownership of the treasury secretary thereby making the total effective purchase consideration for a 69.4% shareholding of KPL, so acquired by GSMSPL, only Rs. 138.7 million.

Foreign investment more than total cost for Kotagala

It is quite clear that the total cash outlay that had been required by GSMSPL for the acquisition of 51% controlling interest of KPL had only been Rs. 220 million — i.e. the consideration of Rs. 102 million for the 51% shareholding plus the convertible debenture loan of Rs. 120 million. Of this total cash outlay of Rs. 220 million, the effective purchase consideration for the [illegible]

Then board of directors of Merchant Bank L - R: Chairman Rajan N. Asirwatham, M. N. Cader, M. T. L. Fernando, Karu Jayasuriya, Rohini L. Nanayakkara, MD/CEO Changa J. Samaraweera — the bank charged legal fees and "fees for structuring the deal" from George Steuarts

The Sunday Leader reliably understands that the memorandum of understanding dated August 3, 1995 entered into between the said consortium of foreign investors and GSMSPL and George Steuart & Co. Ltd, had been drawn up by MBSL and that MBSL had assisted in the drafting of the consequent agreement that had been entered into on December 4, 1995

The Island Saturday 24th May, 1997

Privatisation of four govt institutions

Opposition demands parliamentary probe

by Shan Wijetunga

The opposition will forward a request to the Speaker next Wednesday to appoint a Parliamentary Select Committee to look into the alleged misappropriation of money, in the privatisation of four government institutions and for a two day debate on the subject.

International Airport.

Members of Parliament, Mahinda Samarasinghe and Dr. Karunasena Kodituwakku are in the last stages of finalising this motion. It is also noted that before this motion is forwarded the opposition will collect the signatures of the opposition members in favour of this motion.

Korean company while Orient Lanka, the duty free shop was sold off for Rs. 100 m.

Lanka Salts was sold at Rs. 463m and was purchased by the Employees Trust Fund.

MP, Mahinda Samarasinghe explaining the situation said that they have

THE SUNDAY LEADER, FEBRUARY 15, 1998

by Bismarck

The scandal that is Kotagala

THE *Sunday Leader* this week turns the spotlight to focus upon the highly controversial transaction pertaining to the privatisation of Kotagala Plantations Ltd., that were carried out by the Public Enterprise Reforms Commission [PERC]. Several exposes were published in the print media, subjecting this highly controversial privatisation transaction of the government, to much discussions at various fora.

A clear and comprehensive picture of this very controversial privatisation transaction carried out by PERC had not, however, surfaced transparently, to expose to the public as to what actually had in fact transpired, except for the publication of certain aspects of the several controversial issues and veiled allegations made by various parties concerning certain other parties; ironically, all of whom had been the very actors in this national drama, that unfolded with public outcry.

Exchange control actions?

This highly controversial privatisation transaction of Kotagala Plantations Ltd. becomes quite topical today given the current scenario that President Chandrika Bandaranaike Kumaratunga, as finance minister is at this very moment of time considering the appeals that have been made to her under

▲ Central Bank Governor A. S. Jayewardena: Have probes shown all?

Attorney General Sarath Silva: Has he been briefed with the full, correct facts? ▶

parently after consultation with President Kumaratunga, Asirwatham had made a complaint to the Criminal Investigation Department against Victor Ivan for such publication. It was then speculated that DIG, CID, T. V. Sumanasekere himself had gone to Rajan Asirwatham's Ford, Rhodes, Thornton & Co. office to have recorded such complaint. Consequently, CID officers had recorded the statement of *Ravaya* Editor Victor Ivan, who had firmly stood by his publication made in the public interest.

Sometime thereafter, *The Sunday Times* of June 2, 1996 quoted Chandra Jayaratne, then member, PERC and director, Lankem

President Kumaratunga having appointed several commissions to probe various allegations and issues pertaining to the period under the previous regime did not, however, appoint a commission

THE SUNDAY LEADER, MAY 18, 1997

G. L. Peiris — Does he plan any civil or criminal action on account of loss to the state?

Ronnie de Mel — Are those responsible to be brought to book?

" The courageous move by the government to proceed with privatisation of plantations has been acclaimed as one of the largest privatisation schemes attempted in the agricultural sector worldwide. "

DAILY NEWS, TUESDAY MAY 13, 1997

Mendis concluded by describing the privatisation of plantations as a "courageous move by the government which has been acclaimed as one of the largest privatisation schemes attempted in the agricultural sector worldwide".

THE SUNDAY TIMES BUSINESS ◆ SUNDAY, JUNE 15, 1997

PERC will monitor post-privatisation

The PERC is looking to have a more planned approach to privatization following the setbacks it faced earlier. The new Director General Mano Tittewella who has had hands-on experience in capital market activities says the PERC will no longer seek to maximize revenue at the expense of other objectives of privatization. The PERC will set up a post-privatization monitoring unit and also revamp the Fair Trading Act to strengthen the regulatory framework in the country.

By Asantha Sirimanne

Q : The PERC is now said to be formulating a new policy framework or strategy on which to base the privatization exercise of the government in the coming years. Can you explain what this is?

A : The basis for the formulation of the new program is that we are looking again at all the objectives of the PERC. If you look at the PERC Act there are several objectives that have been stated. Obviously revenue maximization to the government by divestiture is important, it is still

beefing up to make it like the SEC. The SEC is very pro-active they have a surveillance division. The Fair Trading Commission should be re-structured with such type of powers.

Q : One of the accusation levelled against the PERC in the past had been that it sought to bypass the stock market and tended to sell 90 per cent stakes and not list the companies in the share market. How will you look at this in the future ?

A : I think wherever possible, it is important that companies get a listing. All the deals we are looking

Mano Tittewella: going for sector strategy

negotiate any outstanding issue with the selected bidder. The way SLT has been handled and I must

THE SUNDAY LEADER, JUNE 15, 1997

PERC redefines its objectives

Mano Tittawella

Devika Karunaratne and Asgar Hussein

new Director General, Public Enterprises Reform Commission (PERC), Mano Tittawella has redefined the objectives of PERC to cover public enterprise reform and not just

Industries and the Kantale sugar factory.

Last Friday, PERC signed an agreement with Kabool Lanka for the reprivatising of Mattegama Textile Mills.

Discussions on Lanka Loha and CCC Engineers, are now in the advanced stage, said

"Privatisation is only successful if it benefits the people," Tittawella asserted.

He said PERC is also assisting the ministry of trade and commerce and the finance ministry, to set up an effective regulatory mechanism. He pointed out it is proposed to

13 companies will be offered with the objective of getting retailers of participate.

"We will give preference to the small investor in this case," he promised.

Beginning end August, the government will issue shares to plantation workers in the 19 pri-