

Ceylon Tea Brokers Limited – IPO

Date of the Prospectus: 03-02-2010

Issue Opens : 16-02-2010

Issue Closes : 05-03-2010 or the earlier date which the issue is over subscribed

Public is invited to subscribe for 14,000,000 new ordinary voting shares at a price of Rs.2.00 per share. Minimum subscription per application is 5,000 shares (Rs.10,000). Application that exceeds the minimum subscription should be in multiples of 1,000 shares. The 14,000,000 shares, upon allotment will rank **pari passu** with the existing issued ordinary shares of the company. The company expects to raise a total equity capital of Rs.28,000,000 through its IPO.

Objectives of the issue

The primary Objective of this Issue is to list the shares of the Company in the Official List of the Colombo Stock Exchange, and facilitate the Company to access the Capital Markets of Sri Lanka. The funds raised would further enhance working capital, enabling the Company to lend more funds to tea estates & factories, which would facilitate an increase in market share. The Company plans to employ funds raised from the IPO within three months, and lend same to tea estates & factories, to acquire new clients and better service current customers.

Listing

An application has been made to the CSE for permission to deal in and for a listing 114,000,000 Ordinary Shares being the entirety of Issued and Paid up Ordinary Shares of the Company subsequent to the Offering, in the “Diri Savi Board”.

Sri Lankan Tea Industry

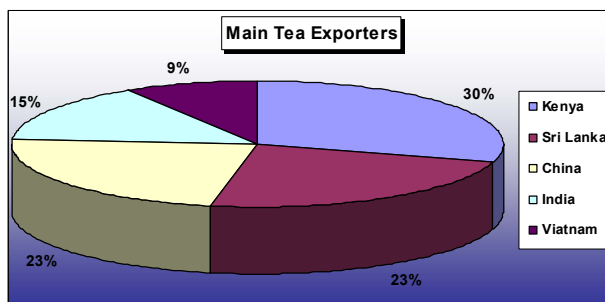
Tea

Tea is of high importance to the Sri Lankan economy and the world market. The country is the world's second largest producer for tea and the industry is one of the country's main sources of foreign exchange and a significant source of income for labors, with tea accounting for US \$1Bn foreign income annually.

Top Tea Exports of the World	
Country	Exports in 2008 (MT)
Kenya	383,444
Sri Lanka	298,785
China	296,935
India	193,000
Vietnam	115,000

Source: Tea Board

Tea Production



Total Tea Production in kg/Mn						
Elevation	2004	2005	2006	2007	2008	2009
High Grown Tea	74.6	80.4	74.7	73.9	84.4	72.3
Medium Grown Tea	49.7	55.1	51.5	50.9	49.0	44.3
Low Grown Tea	183.9	181.8	184.6	180.4	185.2	173.1
Total Tea Production	308.2	317.3	310.8	305.2	318.6	289.7

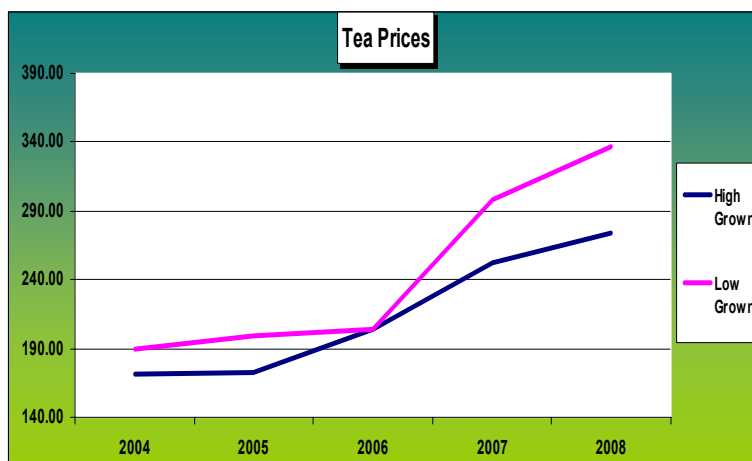
Source: Sri Lanka Tea Board

Local tea production hit its record highest in 2008 with 318.6kg/Mn that generated US \$1.23Bn income to the economy. Tea manufacturing in the first two quarters of 2009 shows a drastic drop, that registered the lowest ever production during last decade. Dry whether conditions prevailed in tea plantation areas was the major factor for this production drop. During first seven months of 2009 production declined by 9% compared to the previous year.

Tea Prices

Sri Lanka tea industry currently shows positive sign on a price recovery, despite the production slowdown as the average auction price of high grown and low grown tea has increased by Rs.82 per kg and Rs.74 per kg respectively.

Year	Average Tea Prices	
	High Grown	Low Grown
2000	128.46	144.79
2001	135.56	154.50
2002	141.73	160.55
2003	138.31	160.86
2004	171.78	189.86
2005	172.24	199.01
2006	204.58	204.50
2007	252.46	298.66
2008	273.83	336.38
Jan - 2010	358.98	393.04



Tea Industry Outlook

Tea production is expected to improve moderately in the next quarter, with the improved weather conditions and recovery of green leaf from recent drought as against the first quarter. The fertilizer subsidy that is offered by the state would improve the production of small scale tea farmers.

In 2009, the tea production in Sri Lanka has dropped by 9% to 290 million Kgs compared to 318 million Kgs recorded in 2008. The resulted drop in production is attributed to dry weather conditions experienced in tea growing areas and interruptions in fertilizer application, tea plucking and processing owing to problems experienced in the first quarter.

Ceylon Tea Brokers Limited (CTB)

Ceylon Tea Brokers Limited is a subsidiary of Capital Alliance Holdings Limited, the core business of the company is to participate in tea brokering. CTB acts as an intermediary between the tea buyer and the tea seller and receive 1% commission from the seller for acting as the broker. Currently it owns 6.5% market share in Colombo

Company Name	Market Share
Forbes & Walkers Tea Brokers (Pvt) Ltd	21.4%
John Keells Ltd	20.8%
Asia Siyaka Commodities (Pvt) Ltd	15.4%
Lanka Commodity Brokers Ltd	13.3%
Mercantile Produce (Brokers (Pvt) Ltd	12.4%
Bartleet & Company Ltd	6.7%
Ceylon Tea Brokers Ltd	6.2%
Eastern Brokers Ltd	3.8%

Future Strategies of CTB

- Improve existing relationship with Tea Sellers based on “Relationship Manager” concept
- Professional Corporate Management through continue training and development of staff
- Selling only high quality Tea to gain highest standard from buyers
- Improving credit control
- Investments in IT systems
- Strong ethical behavior

Tea Auction according to data provided in 2009. In addition to the main income source of brokerage or commission CTB earns income from storage, lot fee, sundry income and interest.

Year	2005	2006	2007	2008	2009
Brokerage	16,387	13,879	21,873	53,675	56,813
Storage	5,152	5,477	7,374	17,933	26,398
Lot Fee	281	281	371	623	1,481
Sundry Income	1,466	2,894	3,731	12,185	13,675
Interest Earned	7,087	12,413	20,473	36,164	94,785
Total Income	30,373	34,944	53,822	120,580	193,151

Financial Forecasting

Year	2008	2009	2010	2011
Turnover	120,579,512	193,151,017	202,308,560	222,539,416
Gross Profit	124,979,802	192,995,256	200,365,412	220,401,953
EBIT	44,116,969	94,153,672	94,020,778	103,422,856
Finance Cost	(25,694,357)	(74,006,107)	(67,874,093)	(74,661,502)
PAT	12,285,381	10,365,078	16,220,453	17,842,499
EPS	0.12	0.10	0.14	0.16
PER		19.30	14.06	12.78

CTB made Rs.10.3Mn profit during the FY2009 that resulted an EPS of 10 cents per share. The forecasted net profit for the FY2010 is Rs.16.2Mn that would generate an EPS of 14 cents per share. Accordingly CTB has offered its IPO at a PER of 14.06 times where the leading PER is expected to be 12.78 times.

The expected profit growth that coupled with the affordability of the issue price would attract the investors' attention but the current PER or the PER for FY 2009 is relative high compared to the peers PER and the overall market PER. Further currently the net asset value per share is Rs.1.12 and the offer is made at a 78% premium to the current net asset value.

Shareholding Structure

Shareholders Name	Prior to the offering	Subsequent to the offering
	No. of Shares	No. of Shares
Capital Alliance Holdings Limited	95,999,290	95,999,290
Directors	4,000,310	4,000,310
Public	400	14,000,400
Total	100,000,000	114,000,000

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