



# Company at a Glance

(All figures in Sri Lankan Rupees thousands unless otherwise stated)

<i>For the year ended 31st March</i>	<b>2006</b>	2005	% Change
Revenue	<b>15,602</b>	61,822	(74.64)
Profit/(Loss) from operations	<b>(40,610)</b>	(26,975)	50.55
Profit/(Loss) before taxation	<b>(40,610)</b>	(26,975)	50.55
Profit/(Loss) after taxation	<b>(40,610)</b>	(26,975)	50.55
Net assets	<b>568,323</b>	300,699	89.00
Total assets	<b>717,050</b>	510,187	40.54
Return on ordinary shareholders' funds (%)	<b>(7.15)</b>	(8.97)	(20.29)
Profit/(Loss) per share (Rs.)	<b>(2.60)</b>	(1.92)	35.42
Net assets per share - Book value (Rs.)	<b>20.78</b>	42.21	(50.77)
Market capitalisation (Rs. mn)	<b>964.17</b>	142.46	576.80

## Contents

Chairman's Statement .....	1	Cash Flow Statement .....	13
Review of Operations .....	3	Significant Accounting Policies .....	14
Report of the Directors .....	5	Notes to the Financial Statements .....	20
Statement of Directors' Responsibilities .....	8	Statement of Value Added .....	32
<b>Financial Reports</b>		Information to Shareholders & Investors .....	33
Report of the Auditors .....	9	Financial Highlights .....	35
Income Statement .....	10	Notice of Meeting .....	36
Balance Sheet .....	11	Form of Proxy .....	Enclosed
Statement of Changes in Equity .....	12	Corporate Information .....	IBC

## Financial Calendar

Financial Year End – 31st March, 2006

### Announcement of Results

First Quarter ended 30th June, 2005	– 27th July, 2005
Second Quarter ended 30th September, 2005	– 14th November, 2005
Third Quarter ended 31st December, 2005	– 30th January, 2006
Year ended 31st March, 2006	– 25th April, 2006
<b>40th Annual General Meeting</b>	<b>– 17th May, 2006</b>

# Chairman's Statement

Dear Shareholders,

I welcome you to the fortieth Annual General Meeting of the Company and would like to, on behalf of the Board of Directors, present to you the Annual Report and audited Financial Statements for the financial year 2005/2006.

The Pegasus Reef Hotel recommenced operations in January 2006 after the closure for refurbishment following the tsunami damage. The extensive refurbishment programme which covered all areas of the hotel was undertaken at a cost of Rs. 220 mn and was aimed at repositioning the hotel and giving it a contemporary look and feel more in line with the preferences of the Hotel's target clientele. The entire Hotel has been re-modelled on a theme based on an open concept affording better views of the beach from the public areas, while the other facilities within the Hotel were upgraded to be able to command higher rates from all market segments. The staff strength was enhanced to provide a high quality service to our guests.

The Hotel now has a qualified and experienced management team and staff who possess the necessary skills to meet the challenges in the tourism industry, to take your Hotel to new heights. Staff training and development to improve product quality and enhance service levels will be a key focus area during the year. The refurbishment programme also laid emphasis on improving the staff facilities within the Hotel.

We strengthened the marketing division with a view to promoting the Hotel more aggressively to both leisure and business travellers.

A focused marketing strategy was developed and the Hotel was repositioned as "the City Resort that's just right". The Company has plans to market to the middle and higher end tourist segments through special promotional and value added packages. In the local market we are targeting corporate conferences and events as well as private banquets and family based weekend packages. The amenities and the range of food & beverages and leisure activities will complement the needs of these segments.

The development of the infrastructure in the vicinity of the Hotel, namely the access road is vital to provide a better overall experience to our guests. The access road construction is in its last stages of completion and it will add value to our property. The Hotel will regain significant beach frontage as a result of the government's land reclamation and coast conservation programme which is now underway. This programme will be completed shortly and will make the Hotel reflect its positioning of a "city based beach resort". The vacant land of 16 acres adjacent to the present property will also be under consideration for development once the infrastructural facilities improve.

The Sri Lankan tourism industry is now in the process of recovering from the post-tsunami impact. At the national level, the total number

## Chairman's Statement (*Contd.*)

of tourist arrivals in January 2006 increased by 37% over the previous year. However, the improvement in the tourism industry will be highly dependent on the continuation of the peace process and the prevalence of a state of security and stability in the country.

According to a recent survey conducted by the Tourist Board, Indian tourist arrivals to the country have increased over the past few years. South Asian tourists accounted for 15% of the total tourist arrivals in 2005. According to this survey, sight seeing, shopping and beach based holidays are some of the more popular activities among Indian tourists, while Colombo City is one of the key attractions. The city hotels had an average of 75% occupancy rates during the year, one of the highest in the national averages. These trends in the industry will be beneficial for City Resorts such as the Pegasus Reef.

The Pegasus Reef Hotel looks forward to the future to be able to compete successfully in its chosen market segments with the newly remodelled hotel, a dedicated team and heightened marketing efforts. We are confident that the ongoing financial year will bring higher earnings for the Hotel and will deliver stable returns to shareholders.

*(Sgd.)*

**D.C.R. Gunawardena**

*Chairman*

19th April, 2006

# Review of Operations

The year under review was a landmark year for the Pegasus Reef Hotel. It recommenced operations in January after completing a successful re-modelling and refurbishment programme. The Hotel was repositioned under a new theme as a "city based beach resort" and marketing efforts will revolve under its new theme, targeting higher spending foreign clientele and local corporates and individuals for banquets, conferences and weekend packages.

The Hotel recorded a turnover of Rs. 15.6 mn for the 3 month period in which it was operational. Revenue from accommodation contributed to 51% of the turnover. The loss for the year was Rs. 40.6 mn in comparison to Rs. 26.9 mn for the previous year. The loss has increased by 50% for the year as the Hotel was not operational for the first nine months of the year. We expect these losses to be covered in future operations.

The current level of external borrowings of the Hotel stands at Rs. 75.8 mn. Since higher interest on loans will have a negative impact on the shareholder returns, it would be necessary to keep the borrowing levels at manageable levels. The Hotel is now in a position to meet these requirements.

## REFURBISHMENT

The total refurbishment cost amounted to approx. Rs. 220 mn. The Company received Rs. 40 mn during the year (Rs. 10 mn the previous year) from the insurance claim to cover the tsunami loss, while confirmation of a further Rs. 40 mn has been obtained. The refurbishment programme to restore the damages from the tsunami was funded through the proceeds from insurance, while a part of the rights issue proceeds and loans of Rs. 130 mn were used to fund the balance upgrades.

107 rooms of the Hotel were fully refurbished with improved facilities. The Hotel was re-modelled on a more open concept to give a better view of the beach from the public areas while the lobby, dining areas, garden, swimming pool and banquet halls were re-designed to keep in line with this new theme. A brand new kitchen with state-of-the-art facilities able to handle a greater variety of food preparations was constructed, while the new laundry has additional capacity to cater to outside orders. This will provide an additional income to the Hotel. The quality of the staff facilities and infrastructure was enhanced to provide a better environment for our staff and service to our customers. Infrastructural facilities such as the water purification system were upgraded.

### **RIGHTS AND BONUS ISSUE**

The Company completed a rights issue of eleven ordinary shares for every five held at Rs. 18.00 per share inclusive of the premium. The total amount received from the issue was Rs. 282 mn. The issue was fully subscribed. The new capital was mainly used for repaying the parent company's loans advanced to fund the refurbishment and working capital requirements. The parent company's loan inclusive of working capital funding of Rs. 212 mn as at that date was settled in full and the balance Rs. 70 mn was utilised for the refurbishment.

The Company also made a bonus issue of one ordinary share for every five shares held in February 2006. The bonus issue has further increased the value created to our shareholders.

### **SHAREHOLDER WEALTH**

The Colombo Stock Market performed well during the year recording a 28.63% increase in All Share Price Index. The closing share price of the Company was Rs. 35.25. The total wealth created for shareholders grew by 165% for the year after considering the rights and bonus issue.

We are confident that our extensive refurbishment programme and the positive trends in the industry will bring much benefit to the Hotel in the future thus improving returns to shareholders.

**Carsons Management Services (Pvt) Ltd.**  
*Managers*

Colombo  
19th April, 2006

# Report of the Directors

The Directors are pleased to submit their Report for the twelve months ended 31st March, 2006 together with the audited financial statements of the Company.

## THE PRINCIPAL ACTIVITY OF THE COMPANY

The Company owns and operates Pegasus Reef Hotel, Wattala.

## REVIEW FOR THE YEAR

The Chairman's Statement and the Review of Operations describe in detail the year's operations of the Company.

## SIGNIFICANT EVENTS DURING THE YEAR

The Hotel completed the restoration and renovation of the damages occurred due to tsunami and upgraded the Hotel to star class level. The total cost of the renovation and upgrade is approximately Rs. 220 mn., which was funded through insurance claim of Rs. 90 mn., loan from Commercial Bank of Rs. 60 mn. and balance of Rs. 70 mn. from rights issue. The expenses incurred thereon up to 31 March, 2006 are given in Note No. 2.2 and 6.

## FINANCIAL RESULTS

*For the year ended 31st March*

	Note	2006 Rs. '000	2005 Rs. '000
Loss for the year after taxation		(40,610)	(26,975)
Transfers	10.1	6,180	8,832
Accumulated loss brought forward		(118,507)	(100,364)
Accumulated loss carried forward		(152,937)	(118,507)

## RESERVES

After absorbing the above loss, the total reserves as at 31st March, 2006 stood at Rs. 294.80 mn (2005 - Rs. 229.47 mn). The movements are set out in the Statement of Changes in Equity and Notes 10 and 11 to the financial statements.

## CAPITAL EXPENDITURE

The total expenditure on purchases/construction of property, plant & equipment during the year amounted Rs. 134.94 mn.

The movements in property, plant & equipment during the year are set out in Note 6 to the financial statements.

## STATUTORY PAYMENTS

The Directors to the best of their knowledge and belief are satisfied that all relevant statutory dues have been paid up to date, or have been provided for in the financial statements.

## Report of the Directors (*Contd.*)

### VALUE OF PROPERTIES

The Company's land and the building shown in the financial statements carries a market value of Rs. 560.49 mn, based on a valuation carried out in March, 2006 by an independent valuer.

### GOING CONCERN

The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, financial statements are prepared based on the going concern concept.

### DIRECTORATE

The names of the Directors who served during the year are shown in inner back cover.

In terms of Article 84 of the Articles of Association, Messrs. S. Nagendra and D.C.R. Gunawardana retire from the Board, but being eligible offer themselves for re-election.

### AUDIT COMMITTEE

Tilak de Zoysa (*Chairman*)

Tennyson Rodrigo

D.C.R. Gunawardana

### DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts of the Company are disclosed in Note 22 to the financial statements and have been declared at meetings of the Directors. The Directors have no direct or indirect interests in any other contracts or proposed contracts of the Company, while they had the following interests in shares of the Company:

<i>As at 31st March</i>	<b>2006 No. of Shares</b>	<b>2005 No. of Shares</b>
D. C. R. Gunawardana	-	-
M. Selvanathan	-	-
H. Selvanathan	-	-
S. Nagendra	-	-
P.M. Withana	-	-

### ALTERNATE DIRECTORS

P.C.P. Tissera ( <i>for D.C.R. Gunawardana</i> )	-	-
D.J. Kulatunge ( <i>for H. Selvanathan</i> ) - <i>ceased to be an alternate Director with effect from 25th July 2005</i>	-	-
K.C.N. Fernando ( <i>for M. Selvanathan</i> )	-	-

### DIVIDEND

No dividend is proposed in view of the current year and brought forward losses.

## SHARE CAPITAL

As approved by the shareholders at an Extraordinary General Meeting of the Company held on 6th December, 2006 the authorised share capital of the Company was increased from Rs. 100 mn consisting of 9.78 mn ordinary shares of Rs. 10/- each, 170,000 'A' Class 9% redeemable cumulative preference shares of Rs. 10/- each and 50,000 'B' Class 9% redeemable cumulative preference shares of Rs. 10/- each to Rs. 750 mn consisting of 74.78 mn ordinary shares of Rs. 10/- each, 170,000 'A' Class 9% redeemable cumulative preference shares of Rs. 10/- each and 50,000 'B' class redeemable preference shares of Rs. 10/- each.

## RIGHTS & BONUS ISSUES OF SHARES

The company made a rights issue of 11 shares for every 5 ordinary shares held as at end of trading on 23rd November, 2005 at Rs. 18/- and a bonus issue of 1 share for every 5 fully paid ordinary shares held as at end of trading on 2nd February, 2006.

The issued and paid up ordinary share capital increased to Rs. 273.52 mn after these share issues.

## EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Subsequent to the date of the Balance Sheet, no circumstances have arisen, which require adjustments to, or disclosure in the financial statements other than those disclosed in Note 19 to the financial statements.

## AUDITORS

Messrs. KPMG Ford, Rhodes, Thornton & Company are eligible for re-appointment.

## MAJOR SHAREHOLDINGS

Carson Cumberbatch & Company Ltd. 25,369,210 - 92.75% (5,587,242 - 78.44%), Mrs. E.E.M. Woodward - 161,479 - 0.59% (134,566 - 1.89%), Carekleen (Pvt) Ltd. - 153,300 - 0.56% (0, 0.00%), DFCC Bank A/C 1 - 128,400 - 0.47% (307,200 - 4.31%), Miss N.R. Packeer - 90,200 - 0.33% (0 - 0.00%), Mr. M. Najmudeen - 57,600 - 0.21% (0 - 0.00%) Mr. D Abeyisiri Wijerathne - 54,800 - 0.20% (0 - 0.00%), Ceylon Hotel Corporation - 48,000 - 0.18% (0 - 0.00%), Mrs. I. Gwyn - 46,766 - 0.17% (7,179 - 0.10%), Mr. K.K.Weerasinghe - 43,000 - 0.16% (0 - 0.00%), Mr. E.K.K. Gunapala - 30,000 - 0.11% (0 - 0.00%), Mr. S. De Costa Colombage - 27,200 - 0.10% (0 - 0.00%), Mr. N.G. Upulsiri - 22,600 - 0.08% (0 - 0.00%), Mr. D.L.B.C. Perera - 20,000 - 0.07% (0 - 0.00%), Mr. N. Kunama Hannadige - 19,300 - 0.07% (0 - 0.00%), Merchant Bank of Sri Lanka/Union Investment - 18,240 - 0.07% (15,200 - 0.21%), Waldox Mackenzie Ltd/Oxford Garment Industries Ltd - 16,764 - 0.06% (0 - 0.00%), Mr. K.K. Udukawa Gamage - 15,000 - 0.05% (0 - 0.00%), Mr. M.W. De Silva - 14,032 - 0.05% (4,800 - 0.07%), Dr. C.M. Fernando - 13,824 - 0.05% (11,520 - 0.05%)

By Order of the Board,

(Sgd.)

**P.C.P. Tissera**

*Director*

**Carsons Management Services (Pvt) Ltd.**

*Managers & Secretaries*

Colombo

19th April, 2006

# Statement of Directors' Responsibilities

The responsibilities of the Directors, in relation to the financial statements, are detailed in the following paragraphs while the responsibilities of the Auditors are set out in the Report of the Auditors.

According to the Companies Act, No. 17 of 1982 and the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, Directors are required to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the said period.

In preparing these financial statements the Directors are required to ensure that:

- appropriate accounting policies have been selected and applied consistently while material departures, if any, have been disclosed and explained,
- all applicable Accounting Standards have been complied with and,
- reasonable and prudent judgements and estimates have been made.

The Directors are responsible for ensuring that the Company maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company, in order to ensure that the financial statements of the Company meet with the requirements of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 and the Companies Act, No. 17 of 1982. They are also responsible for taking reasonable measures to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate systems of internal control with a view to prevent, detect and rectify frauds and other irregularities.

These financial statements have been prepared on a going concern basis, since the Directors are of the view that the Company has adequate resources to continue in operation for the foreseeable future.

The Directors are also of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board,

*(Sgd.)*

**P.C.P. Tissera**

*Director*

**Carsons Management Services (Pvt) Ltd.**

*Managers & Secretaries*

Colombo

19th April, 2006

# Report of the Auditors

## **TO THE MEMBERS OF PEGASUS HOTELS OF CEYLON LTD.**

We have audited the Balance Sheet of Pegasus Hotels of Ceylon Ltd. as at 31st March, 2006 and the related Statements of Income, Changes in Equity and Cash Flow for the year then ended, together with the Accounting Policies and Notes as set out on pages 10 to 31 of the Annual Report.

### **Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

### **Basis of Opinion**

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st March, 2006 and to the best of our information and according to the explanations given to us, the said Balance Sheet and related Statements of Income, Changes in Equity, Cash Flow and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act, No. 17 of 1982, and give a true and fair view of the Company's state of affairs as at 31st March, 2006, and of its Loss and Cash Flows for the year then ended.

### **Directors' Interests in Contracts with the Company**

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st March, 2006 other than those disclosed in Note 22 to these financial statements.

*(Sgd.)*

**KPMG Ford, Rhodes, Thornton & Company**

*Chartered Accountants*

Colombo

19th April, 2006

# Income Statement

*(All figures are in Sri Lankan Rupees '000)*

<i>Year ended 31st March</i>	Note	2006	2005
<b>Revenue</b>	1	<b>15,602</b>	61,822
Cost of sales		<b>(4,601)</b>	(16,767)
<b>Gross profit</b>		<b>11,001</b>	45,055
Selling and promotional cost		<b>(759)</b>	(328)
Administrative expenses		<b>(41,031)</b>	(44,844)
Other operating expenses		<b>(6,077)</b>	(22,112)
<b>Loss from operations before finance cost</b>	2	<b>(36,866)</b>	(22,229)
Finance cost	3	<b>(3,744)</b>	(4,746)
<b>Loss before taxation</b>		<b>(40,610)</b>	(26,975)
Taxation	4	-	-
<b>Loss for the year after taxation</b>		<b>(40,610)</b>	(26,975)
Loss per share	5	<b>2.60</b>	1.92

The Accounting Policies and Notes from page 14 to 31 form an integral part of these financial statements.

*Figures in brackets indicate deductions.*

# Balance Sheet

(All figures are in Sri Lankan Rupees '000)

As at 31st March	Note	2006	2005
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant & equipment	6	641,950	494,942
<b>Current assets</b>			
Inventories	7	8,586	1,663
Trade and other receivables	8	65,770	4,567
Cash at bank and in hand		744	9,015
		75,100	15,245
<b>Total assets</b>		<b>717,050</b>	<b>510,187</b>
<b>Equity and Liabilities</b>			
<b>Capital and Reserves</b>			
Share capital	9	273,524	71,230
Capital reserves	10	447,560	347,800
Revenue reserves	11	(152,761)	(118,331)
<b>Total equity</b>		<b>568,323</b>	<b>300,699</b>
<b>Non-Current Liabilities</b>			
Long-term borrowings	12	68,215	13,494
Retirement benefit obligations	13	1,444	1,021
		69,659	14,515
<b>Current liabilities</b>			
Trade and other payables	14	19,053	18,058
Amounts due to related companies	15	43,769	167,613
Long-term loans repayable within one year	12	7,561	8,835
Bank overdrafts		8,685	467
		79,068	194,973
<b>Total equity and liabilities</b>		<b>717,050</b>	<b>510,187</b>
Net assets per ordinary share	16	20.78	42.21

The Accounting Policies and Notes from page 14 to 31 form an integral part of these financial statements.

Figures in brackets indicate deductions.

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed on behalf of the Managers,

Approved and signed on behalf of the Board,

(Sgd.)

P.C.P. Tissera

Director

Carsons Management Services (Pvt) Ltd.

Colombo

19th April, 2006

(Sgd.)

D. C. R. Gunawardena

Chairman

(Sgd.)

M. Selvanathan

Director

# Statement of Changes in Equity

(All figures are in Sri Lankan Rupees '000 )  
For the year ended 31st March, 2006

	Note	Non-distributable Capital & Reserves				Distributable Revenue Reserves			Total Equity
		Share Capital	Share Premium	Revaluation Reserve	Capital Accretion Reserve	General Reserve	Accumulated Loss		
Balance as at 1st April, 2004	9, 10 & 11	71,230	-	318,595	15,144	176	(100,364)	304,781	
Transfers	10.1	-	-	(8,832)	-	-	8,832	-	
Revaluation		-	-	22,893	-	-	-	22,893	
Net loss for the year		-	-	-	-	-	(26,975)	(26,975)	
<b>Balance as at 31st March, 2005</b>	9, 10 & 11	<b>71,230</b>	<b>-</b>	<b>332,656</b>	<b>15,144</b>	<b>176</b>	<b>(118,507)</b>	<b>300,699</b>	
Balance as at 1st April, 2005	9, 10 & 11	71,230	-	332,656	15,144	176	(118,507)	300,699	
Additions	9 & 10	156,707	125,365	-	-	-	-	282,072	
Transfers	9, 10 & 11	45,587	-	(51,767)	-	-	6,180	-	
Revaluation	6.3	-	-	26,162	-	-	-	26,162	
Net loss for the year		-	-	-	-	-	(40,610)	(40,610)	
<b>Balance as at 31st March, 2006</b>	9, 10 & 11	<b>273,524</b>	<b>125,365</b>	<b>307,051</b>	<b>15,144</b>	<b>176</b>	<b>(152,937)</b>	<b>568,323</b>	

The Accounting Policies and Notes from page 14 to 31 form an integral part of these financial statements.

Figures in brackets indicate deductions.

# Cash Flow Statement

(All figures are in Sri Lankan Rupees '000)

Year ended 31st March	Note	2006	2005
<b>Cash flows from operating activities</b>			
Loss before taxation		(40,610)	(26,975)
<b>Adjustments for:</b>			
Assets written off		-	2,000
Profit on disposal of property, plant & equipment		(1,696)	-
Depreciation on property, plant & equipment	6	14,091	14,875
Provision for gratuity	13	614	42
Inventory write off		-	5,010
Debtors write off		-	1,237
Finance cost	3	3,744	4,746
Profit/(Loss) before working capital changes		(23,857)	935
Increase in inventories		(6,922)	(1,430)
(Increase)/Decrease in trade and other receivables		(61,203)	6,099
Increase/(Decrease) in trade and other payables		267	(605)
Increase/(Decrease) in amounts due to related companies		(123,844)	24,822
Cash generated from/(used in) operations		(215,559)	29,821
Finance cost paid		(3,015)	(2,453)
Gratuity paid	13	(191)	(272)
<b>Net cash generated from/(used in) operating activities</b>		<b>(218,765)</b>	<b>27,096</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant & equipment		1,696	-
Purchase of property, plant & equipment	6	(134,938)	(4,017)
<b>Net cash used in investing activities</b>		<b>(133,242)</b>	<b>(4,017)</b>
<b>Cash flows from financing activities</b>			
Proceeds from Rights Shares		282,071	-
Borrowings during the year		61,385	-
Loans repaid during the year	12	(7,938)	(14,457)
<b>Net cash generated from/(used) in financing activities</b>		<b>335,518</b>	<b>(14,457)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		<b>(16,489)</b>	<b>8,622</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>8,548</b>	<b>(74)</b>
<b>Cash and cash equivalents at the end of the year (Note A)</b>		<b>(7,941)</b>	<b>8,548</b>
<b>Note A - Cash and cash equivalents</b>			
Cash at bank and in hand		744	9,015
Bank overdrafts		(8,685)	(467)
		(7,941)	8,548

The Accounting Policies and Notes from page 14 to 31 form an integral part of these financial statements.

Figures in brackets indicate deductions.

# Significant Accounting Policies

## 1. GENERAL POLICIES

### 1.1 Basis of Preparation

The financial statements of Pegasus Hotels of Ceylon Ltd., comprise the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, Accounting Policies and Notes to the financial statements. These statements are prepared in accordance with the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

The Accounting Policies have been applied by the Company consistent with the previous year, and the previous year figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

The financial statements of the Company have been prepared on a historical cost convention except for revaluation of certain property, plant & equipment as stated in the respective Notes to the financial statements.

All values presented in the financial statements are in Sri Lankan Rupees (Rs.) unless otherwise indicated.

### 1.2 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except those that are directly attributable to the acquisition/construction of property, plant & equipment which are capitalised as part of the cost of the asset during the period of construction development.

### 1.3 Conversion of Foreign Exchange

All foreign exchange transactions are converted at the rates of exchange prevailing at the time the transactions are effected. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. The resulting gains and losses are accounted for in the Income Statement.

#### 1.4 Taxation

**(a) Current Income Tax**

The Company's liability to taxation has been computed in accordance with the provisions of the Inland Revenue Act, No. 38 of 2000 and amendments thereto as detailed in Note 4 to the financial statements.

**(b) Deferred Taxation**

Deferred taxation is provided on the liability method. The tax effect on all timing differences which occur when items are allowed for income tax purposes in a period different to which they are recognised in financial statements is included in the provision for deferred taxation at current rates of taxation.

#### 1.5 Events occurring after the Balance Sheet date

The materiality of events occurring after the Balance Sheet date has been considered and appropriate adjustments to or disclosure has been made in the financial statements where necessary.

## 2. ASSETS AND BASES OF THEIR VALUATION

Assets classified as current assets in the Balance Sheet are cash and those which are expected to be realised in cash, during the normal operating cycle of the Company's business or within one year from Balance Sheet date, whichever is shorter. Assets other than current assets are those which the Company intends to hold beyond a period of one year from the Balance Sheet date.

### 2.1 Property, Plant & Equipment and Depreciation

**2.1.1 Valuation**

Property, plant & equipment are stated at cost or valuation less accumulated depreciation.

The cost of property, plant & equipment is the cost of purchase or construction together with any incidental 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 a permanent nature by means of which to carry on the business or to increase the earning capacity of the business has been treated as capital expenditure.

## Significant Accounting Policies (Contd.)

### 2.1.2 Revaluation

The freehold land & buildings have been revalued. Revaluation of these assets are carried out at least once in five years in order to ensure that the book value reflects the realisable value. Any surplus or deficits arising from revaluation is adjusted through the revaluation reserve.

### 2.1.3 Depreciation

Depreciation is provided on a straight line basis over the estimated useful lives of different types of assets, at varying rates specified on their cost or revalued amounts as follows:

	<u>per annum</u>
Buildings	100 years
Plant & machinery	01-14 years
Furniture & fittings	01-20 years
Equipment	01-14 years
Motor vehicles	4 years

No depreciation is provided on freehold land.

No depreciation is provided in the year of purchase while a full year's depreciation is provided in the year of disposal.

### 2.1.4 Capital Work-in-Progress

Capital work-in-progress is transferred to the respective asset accounts at the time of first utilisation of the asset or at the time the asset is commissioned.

## 2.2 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost of each category of inventory is determined on the following basis:

Food - first in first out basis.

Crockery & Cutlery - first in first out basis.

Engineering spares and others - weighted average basis.

Linen stocks - in the year of purchase at cost and in the second year in use, at 25% of the cost.

### **2.3 Trade and Other Receivables**

Trade and other receivables are stated at the amounts estimated to be realised. Where necessary, provision has been made for bad and doubtful debts.

### **2.4 Cash and Cash Equivalents**

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise cash at bank and in hand, short-term deposits with banks, net of bank overdrafts and overnight borrowings.

Interest paid is classified as operating cash flows, interest received is classified as investing cash flows, while dividend paid is classified as financing cash flows for the purpose of presentation of the Cash Flow Statement reported based on the indirect method.

## **3. LIABILITIES AND PROVISIONS**

Liabilities classified as current liabilities in the Balance Sheet are those obligations payable on demand or within one year from the Balance Sheet date. Items classified as long-term liabilities are those obligations which expire beyond a period of one year from the Balance Sheet date.

All known liabilities have been accounted for in preparing the financial statements. Provisions and liabilities are recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

### 3.1 Retirement Benefit Obligations

#### 3.1.1 Defined Benefit Plan - Gratuity

The Company is liable to pay Gratuity in terms of the Payment of Gratuity Act, No. 12 of 1983.

Gratuity provision for employees has been made based on an actuarial valuation which was carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd. As recommended by the relevant Sri Lanka Accounting Standard, the "Projected Unit Credit" (PUC) method has been used in this valuation. It is expected that such actuarial valuations will be carried out once in every two years. The principal assumptions made are given below:

Rate of discount	11.00% p.a.
Rate of pay increase	10.00% p.a.
Retirement age	55 years

The Company will continue in business as a going concern.

The liability is not externally funded.

#### 3.1.2 Defined Contribution Plan - Employees' Provident Fund and Employees' Trust Fund

All employees who are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions are covered by relevant contribution funds in line with the respective statutes. Contributions to the defined contribution plans are recognised as an expense in the Income Statement when incurred.

### 3.2 Capital Commitments and Contingent Liabilities

Capital commitments and contingencies which exist as at the Balance Sheet date are disclosed in the respective Notes to the financial statements.

#### 4. INCOME STATEMENT

##### 4.1 Revenue Recognition

Revenue is matched with the related expenditure and is recognised in accordance with Sri Lanka Accounting Standard No. 29 in the following manner:

Room Revenue - on a daily basis on the rooms occupied.

Food & Beverage Revenue - recognised at the time of sale.

Other Income - on an accrual basis.

Gain or loss of a revenue nature resulting from a disposal of property, plant & equipment have been accounted for in the Income Statement and where the gain is on immovable property, such gain is appropriated to capital accretion reserve.

##### 4.2 Expenditure Recognition

*The Profit/(Loss) before Taxation is arrived at after*

**4.2.1** Providing for bad and doubtful debts, all known liabilities and depreciation on property, plant & equipment.

**4.2.2** Charging all expenses incurred in day-to-day operations of the business and in maintaining the property, plant & equipment in a state of efficiency.

**4.3** For the purpose of presentation of the Income Statement, the Directors are of the view that Function of Expenses Method fairly presents the elements of the Company's performance. Hence, such a presentation method is adopted.

#### 5. RELATED PARTY TRANSACTIONS

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating decisions/policies of the other, irrespective of a price being charged.

# Notes to the Financial Statements

(All figures in Notes to the financial statements are in Sri Lankan Rupees '000 unless otherwise stated)

<i>For the year ended</i>	<b>31st March 2006</b>	31st March 2005
<b>1. REVENUE</b>		
<b>1.1 Revenue Analysis (Net)</b>		
Room revenue	7,720	30,098
Food & beverage revenue	4,711	29,829
Others	3,171	1,895
	<b>15,602</b>	<b>61,822</b>
<b>2. LOSS FROM OPERATIONS</b>		
Loss from operations is stated after charging/(crediting) all expenses/(income) including the following:		
Auditors' remuneration	90	90
Depreciation (Note 6)	14,091	14,875
Debtors write off	-	1,237
Foreign exchange gain	(8)	(91)
Tsunami damage related expenses (Note 2.2)	3,653	(1,105)
Profit on disposal of property, plant & equipment	1,696	-
Personnel costs (Note 2.1)	13,795	16,617
<b>2.1 Personnel Costs</b>		
Salaries, wages and other related expenses	12,141	15,347
Defined benefit plan cost - Gratuity	614	42
Defined contribution plan cost - EPF & ETF	1,040	1,228
	<b>13,795</b>	<b>16,617</b>
The above include:		
Directors' emoluments	900	-
Directors' fees	-	-
	<b>900</b>	<b>-</b>

**2. LOSS FROM OPERATIONS (CONTD.)****2.2 Tsunami damage and related expenses net of insurance claims up to 31st March, 2006**

	2006	2005
Insurance claim - Receivable/Received	(80,000)	(10,000)
Write off of capital assets which are beyond repairs	-	2,000
Stock write off - Food & Beverage	-	1,815
- Operational stock	-	3,195
Repair/restoration expenses	83,653	1,885
	<b>3,653</b>	<b>(1,105)</b>

	31st March 2006	31st March 2005
<b>3. FINANCE COST</b>		
Interest expenses on long-term loans	3,735	4,448
Interest expenses on overdrafts	9	298
	<b>3,744</b>	<b>4,746</b>

**4. TAXATION**

**4.1** In terms of the provisions of the Inland Revenue Act, No. 38 of 2000 and amendments thereto, the operating profit of the Company is liable to income tax at 15%. However, in view of the tax losses currently being incurred, no provision has been made in the financial statements.

**4.2** Reconciliation between the tax loss and the accounting loss:

Accounting loss before tax	(40,610)	(26,975)
Aggregate disallowable items	16,178	19,620
Aggregate allowable claims	(14,221)	(9,616)
Tax loss	(38,653)	(16,971)
Tax loss brought forward	(198,032)	(181,061)
Tax loss carried forward	(236,685)	(198,032)

#### 4. TAXATION (CONTD.)

##### 4.3 Deferred Taxation

No deferred tax has been provided in the financial statements due to current year's and brought forward tax losses. The timing differences for the year is Rs. 6 mn and tax losses of the Company is Rs. 237 mn.

4.4 The Company has paid Rs. 706,977/- as Economic Service Charge. This amount can be carried forward for 2 years as income tax credit.

4.5 The utilisation of losses brought forward was restricted to 35% of statutory income. This came into force from 1st April, 2004. With effect from the same date the current time bar on carry forward losses of 7 years was also withdrawn. The Company would now be entitled to carry forward losses indefinitely.

#### 5. EARNINGS/(LOSS) PER SHARE

The earnings/(loss) per share of Rs. (2.60) [2005 - Rs. (1.92)] is calculated on the net loss for the year after taxation attributable to ordinary shareholders over the weighted average number of ordinary shares outstanding during the year. Comparative figures are adjusted to reflect the effect of Rights and Bonus issues.

The following reflects the income and share data used in the earnings/(loss) per share computation:

	31st March 2006	31st March 2005
<b>Amounts used as the Numerator</b>		
Net loss attributable to ordinary shareholders	(40,610)	(26,975)
<b>Number of ordinary shares in issue used as the Denominator</b>		
	15,594	14,049
<b>Earnings per ordinary share - Rs.</b>	<b>(2.60)</b>	<b>(1.92)</b>
<b>Earnings/(loss) per share previously reported - Rs.</b>	-	(3.79)
Number of ordinary shares as adjusted to reflect the Right issue and Bonus issue	-	20,229,367
Adjusted earnings/(loss) per share - Rs.	-	1.92

<b>6. PROPERTY, PLANT &amp; EQUIPMENT</b>									
<b>6.1</b>									
	Freehold Land	Freehold Building	Plant & Machinery	Motor Vehicles	Furniture & Fittings	Equipment	Capital Work-in-Progress	Total as at 31st March 2006	Total as at 31st March 2005
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>									
Balance as at the beginning of the year	229,200	235,181	28,409	2,006	5,903	9,766	-	510,465	533,686
Revaluation (Note 6.3)	18,950	2,746	-	-	-	-	-	21,696	(23,878)
Additions	-	74,413	20,401	-	16,173	5,585	18,366	134,938	4,016
Written Off/Disposals	-	-	-	(2,006)	-	-	-	(2,006)	(3,359)
Balance as at the end of the year	248,150	312,340	48,810	-	22,076	15,351	18,366	665,093	510,465
<b>Depreciation</b>									
Balance as at the beginning of the year	-	2,310	4,984	2,006	2,256	3,968	-	15,524	48,778
Revaluation (Note 6.3)	-	(4,466)	-	-	-	-	-	(4,466)	(46,772)
Charge for the year	-	2,352	6,253	-	2,077	3,409	-	14,091	14,875
Written Off/Disposals	-	-	-	(2,006)	-	-	-	(2,006)	(1,358)
Balance as at the end of the year	-	196	11,237	-	4,333	7,377	-	23,143	15,523
<b>Net Book Value as at</b>									
<b>31st March, 2006</b>	<b>248,150</b>	<b>312,144</b>	<b>37,573</b>	<b>-</b>	<b>17,743</b>	<b>7,974</b>	<b>18,366</b>	<b>641,950</b>	<b>-</b>
31st March, 2005	229,200	232,871	23,425	-	3,647	5,799	-	-	494,942

**6. PROPERTY, PLANT & EQUIPMENT (CONTD.)**

6.2 Carrying value of the revalued assets as at 31st March, 2006, if carried at historical cost are given below:

	Freehold Land	Freehold Building	Other Assets
<b>Carrying value of revalued assets if carried at historical cost</b>			
Cost as per previously reported	8,190	126,511	58,822
Additions during the previous year	-	4,187	3,168
Disposals during the previous year	-	-	(3,359)
Balance as at the end of the year	8,190	130,698	58,631
Accumulated depreciation	-	(11,774)	(51,553)
Depreciation for the year	-	(1,307)	(4,070)
Despreciation on disposal	-	-	1,358
Written down value	<b>8,190</b>	<b>117,617</b>	<b>4,366</b>

6.3 Freehold land and buildings were written up in the books of accounts in March, 2006 to conform to the market values on a going concern basis by Independent valuers Messrs. A.Y. Daniel & Son. The resultant surplus arising therefrom, was transferred to the revaluation reserve and included under capital reserves.

	As at 31st March 2006	As at 31st March 2005
<b>7. INVENTORIES</b>		
Food	958	35
Beverage	274	144
Engineering spares	771	318
Cutlery, crockery and linen	5,504	862
Others	1,079	304
	<b>8,586</b>	<b>1,663</b>

	As at 31st March 2006	As at 31st March 2005
<b>8. TRADE AND OTHER RECEIVABLES</b>		
Trade debtors	3,903	2,832
Advances, prepayments and other receivables (Note 8.1)	61,639	1,534
Loans given to Company officers (Note 8.2)	228	201
	<b>65,770</b>	<b>4,567</b>

**8.1 Advances, Prepayments and Other Receivables**

Deposits and prepayments	2,224	1,534
VAT recoverable	19,415	-
Insurance claim receivable	40,000	-
	<b>61,639</b>	<b>1,534</b>

**8.2 Loans given to Company Officers**

Balance as at the beginning of the year	201	317
Granted during the year	331	475
Recovered during the year	(304)	(591)
Balance as at the end of the year	<b>228</b>	<b>201</b>

**9. SHARE CAPITAL****Authorised**

74,780,000 (2005 - 9,780,000) Ordinary Shares of Rs. 10/- each	747,800	97,800
170,000 "A" Class 9% Redeemable Cumulative Preference Shares of Rs. 10/- each	1,700	1,700
50,000 "B" Class 9% Redeemable Cumulative Preference Shares of Rs. 10/- each	500	500
	<b>750,000</b>	<b>100,000</b>

**Issued and Fully Paid**

Balance as at the beginning of the year 7,123,017 shares of Rs. 10/- each	71,230	71,230
Rights Issue of 15,670,637 shares made during the year (Note 9.1)	156,707	-
Bonus Issue of 4,558,730 shares made during the year (Note 9.2)	45,587	-
Balance as at the end of the year 27,352,385 shares of Rs. 10/- each	<b>273,524</b>	<b>71,230</b>

**9. SHARE CAPITAL (CONTD.)**

**9.1 Authorised Share Capital**

**Ordinary Shares**

Authorised share capital of ordinary shares were increased from Rs. 97.8 mn consisting of 9.78 mn ordinary shares of Rs. 10/- each to Rs. 747.8 mn consisting of 74.78 mn ordinary shares of Rs. 10/- each.

**9.2 Rights Issue**

During the year the Company made a rights Issue of Eleven (11) ordinary shares for every Five (5) ordinary shares held as at end of trading on 23rd November, 2005. A share was issued at a premium of Rs. 8/-.

**9.3 Bonus Issue**

A bonus issue of One (1) fully paid ordinary shares was made for every Five (5) fully paid ordinary shares held as at end of trading on 2nd February, 2006, utilising the revaluation reserves of the Company.

	As at 31st March 2006	As at 31st March 2005
<b>10. CAPITAL RESERVES</b>		
Balance as at the beginning of the year	347,800	333,739
Movement during the year (net)	99,760	14,061
Balance as at the end of the year	447,560	347,800
<b>Represented by:</b>		
Share premium	125,365	-
Revaluation reserve	307,051	332,656
Capital accretion reserve	15,144	15,144
	447,560	347,800

**10.1 Transfers from Revaluation Reserve**

The revaluation surplus of Rs. 6,180,478/- (2005 - Rs. 8,831,716/-) realised by the use of assets has been transferred to retained earnings from the revaluation reserve. The amount of surplus realised is the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost.

**10.2** The movement of the above reserves is given in the Statement of Changes in Equity.

	As at 31st March 2006	As at 31st March 2005
<b>11. REVENUE RESERVES</b>		
Balance as at the beginning of the year	(118,331)	(100,188)
Movements during the year (net)	(34,430)	(18,143)
Balance as at the end of the year	(152,761)	(118,331)
<b>Represented by:</b>		
General reserve	176	176
Accumulated loss	(152,937)	(118,507)
	(152,761)	(118,331)

11.1 The movement of the above reserves is given in the Statement of Changes in Equity.

## 12. LONG-TERM BORROWINGS

### 12.1 Long-Term Bank Loans

	Total as at 1st April 2005 Rs.	Obtained during the year Rs.	Payments during the year Rs.	Total as at 31st March 2006 Rs.	Interest Rates
<b>Secured Loans</b>					
National Development					
Bank (NDB)	3,698	-	(3,698)	-	13.5%
Commercial Bank	14,584	61,385	(2,280)	<b>73,689</b>	PLR + 1% - PLR+2%
Sampath Bank	4,047	-	(1,960)	<b>2,087</b>	15% - 17%
Total	22,329	61,385	(7,938)	<b>75,776</b>	
Amounts falling due					
within one year	(8,835)			<b>(7,561)</b>	
Amounts falling due					
after one year	13,494			<b>68,215</b>	

**12. LONG-TERM BORROWINGS (CONTD.)**

- 12.2** NDB loan has been secured on the Hotel's land, buildings and plant & machinery. The loan was fully paid during the year, and the security was released.
- 12.3** The Commercial Bank and Sampath Bank loans have been guaranteed by Carson Cumberbatch & Co. Ltd. (CC&CL)
- 12.4** During the year Company has obtained Rs. 60 mn from the Commercial Bank of Ceylon as a bridging loan secured on corporate guarantee provided by CC&CL. This loan will be swapped with a special tsunami related funding scheme which will be provided at reduced interest rate. This funding line will be secured by the Company's property.

	As at	As at
	31st March	31st March
	2006	2005

**13. RETIREMENT BENEFIT OBLIGATIONS**

**Retirement Benefit Cost - Gratuity**

Balance as at the beginning of the year	1,021	1,251
Provision for the year	614	42
	<b>1,635</b>	1,293
Payments made during the year	<b>(191)</b>	(272)
Balance as at the end of the year	<b>1,444</b>	1,021

- 13.1** The gratuity provision as at 31st March, 2006 amounting to Rs. 1,021,551/- is based on an Actuarial Valuation carried out as at 31st March, 2005 which prescribes extended assumptions for the year 2006, by Messrs. Actuarial & Management Consultants (Pvt) Ltd. As recommended by Sri Lanka Accounting Standard No. 16 "Retirement Benefit Costs", the 'Projected Unit Credit' (PUC) method has been used in this valuation. The principal assumptions used are:
- \* Rate of discount 11% p.a.
  - \* Rate of pay increase 10% p.a.
  - \* Retirement age 55 years.
  - \* The Company is a going concern
- 13.2** The liability for gratuity is not externally funded.

	As at 31st March 2006	As at 31st March 2005
<b>14. TRADE AND OTHER PAYABLES</b>		
Trade creditors	7,809	10,363
Other creditors	675	1,668
Provisions and accruals	10,569	6,027
	<b>19,053</b>	<b>18,058</b>

	As at 31st March 2006	As at 31st March 2005
<b>15. AMOUNTS DUE TO RELATED COMPANIES</b>		
Carsons Management Services (Pvt) Ltd.	43,769	167,613

**16. NET ASSETS PER ORDINARY SHARE**

The net assets per ordinary share is based on the total shareholders' equity over the number of ordinary shares in issue as at the Balance Sheet date.

	As at 31st March 2006	As at 31st March 2005
Total shareholders' equity	568,323	300,699
Number of shares issued	27,352	7,123
Net assets per ordinary share - Rs.	20.78	42.21

**17. CAPITAL COMMITMENTS**

There were no contracts for capital expenditure of a material amount as at the Balance Sheet date.

**18. CONTINGENT LIABILITIES**

Two employees have filed action in the Labour Tribunal against the termination of their services on disciplinary grounds. The cases are in progress and the estimated potential liability that may arise, in the event the decision is awarded against the Company, is approx. Rs. 103 k.

There were no contingent liabilities other than those disclosed above as at the date of the Balance Sheet.

**19. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

Subsequent to the date of the Balance Sheet, no circumstances have arisen, which required adjustments to, or disclosure in the financial statements other than those disclosed above.

**20. COMPARATIVE FIGURES**

Previous year figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

**21. TSUNAMI DAMAGES**

The replacement/repairs of tsunami affected assets will not have an impact on the cash outlay of the Company as it is expected to be fully recovered from insurance claim.

**22. DIRECTORS' INTERESTS IN CONTRACTS**

Messrs. D. C. R. Gunawardena, M. Selvanathan, H. Selvanathan, S. Nagendra, P.C.P. Tissera (Alternate for D. C. R. Gunawardena), D.J. Kulatunge (Alternate for H. Selvanathan) (ceased to be an alternate w.e.f. 25th July, 2005) and K.C.N. Fernando (Alternate for M. Selvanathan), Directors of the Company, have an interest in all or some of the transactions of the Company as referred to in Note 23 to the financial statements. They either individually or indirectly have share ownership of companies forming part of the Carsons Group and/or hold Directorates in such related companies.

## 23. RELATED PARTY TRANSACTIONS

Name of Company	Names of Directors	Nature of Transactions
23.1 Carsons Management Services (Pvt) Ltd.	D.C.R. Gunawardena M. Selvanathan H. Selvanathan P.C.P. Tissera D.J. Kulatunge ( <i>ceased to be an alternate w.e.f 25th July 2005</i> ) K.C.N. Fernando	<ul style="list-style-type: none"> <li>An amount of Rs. 43,768,527/- (2005 - Rs. 167,612,596/-) is payable to Carsons Management Services (Pvt) Ltd. as at 31st March, 2006, on account of funds advanced on which no interest was charged.</li> </ul>
23.2 Carson Cumberbatch & Co. Ltd.	D.C.R. Gunawardena M. Selvanathan H. Selvanathan P.C.P. Tissera	<ul style="list-style-type: none"> <li>The long-term loan of Rs. 19.6 mn (exposure as at 31.03.2006 - Rs. 2,086,665/-) obtained from Sampath Bank has been guaranteed by Carson Cumberbatch &amp; Co. Ltd.</li> <li>The long-term loan of Rs. 10 mn, Rs. 20 mn. and Rs. 60 mn (exposure as at 31.03.2006 - Rs. 73,688,873/-) obtained from Commercial Bank of Ceylon has been guaranteed by Carson Cumberbatch &amp; Co. Ltd.</li> </ul>
23.3 Union Assurance Ltd.	D.C.R. Gunawardena H. Selvanathan P.C.P. Tissera (appointed w.e.f 1st January, 2006)	<ul style="list-style-type: none"> <li>Insurance premiums amounting to Rs. 1,849,811/- (2005 - Rs. 1,527,320/-) was paid to Union Assurance Ltd. during the year.</li> <li>Rs. 40 mn (2005 - Rs. 10 mn 1st advance) was received as the 2nd advance against tsunami insurance claim.</li> <li>Rs. 40 mn to be received as the final settlement against the claim.</li> </ul>

There were no material related party transactions other than those disclosed above.

## Statement of Value Added

*(All figures in the Statement of Value Added are in Sri Lankan Rupees '000 unless otherwise indicated)*

<i>For the year ended 31st March</i>	<b>2006</b>		2005	
Turnover	<b>15,602</b>		61,822	
Cost of materials and services bought from outside	<b>(24,582)</b>		(52,559)	
	<b>(8,980)</b>		9,263	
<b>Distributed as follows:</b>		<b>%</b>		<b>%</b>
To Employees as remuneration	<b>13,795</b>	<b>153</b>	16,617	179
To Government as taxation*	-		-	-
To Providers of capital as interest on loans	<b>3,744</b>	<b>42</b>	4,746	51
Retained in the business				
as depreciation	<b>14,091</b>	<b>157</b>	14,876	161
as loss for the year	<b>(40,610)</b>	<b>(452)</b>	(26,975)	(291)
	<b>(8,980)</b>	<b>100</b>	9,263	100

The Statement of Value Added shows the quantum of wealth generated by the activities of the Company and its applications.

\* *Excluding Value Added Tax/ESC.*

# Information to Shareholders & Investors

## 1. STOCK EXCHANGE LISTING

Pegasus Hotels of Ceylon Ltd., is a Public Quoted Company, the issued ordinary shares of which are listed with the Colombo Stock Exchange of Sri Lanka.

## 2. SHARE VALUATION

The market value of the Company's shares as at 31st March, 2006 was Rs. 35.25/- per share (2005 - Rs. 20/-).

## 3. ORDINARY SHAREHOLDERS

<i>As at 31st March</i>	<b>2006</b>	<b>2005</b>
No. of Shareholders	<b>1,251</b>	<b>961</b>

The number of shares held by non-residents as at 31st March, 2006 was 222,212 which amounts to 0.81% of the issued share capital.

### Resident/Non-Resident Shareholders as at 31st March, 2006

Distribution of Shares	Residents			Non-Residents			Total		
	No. of Members	No. of Shares	%	No. of Members	No. of Shares	%	No. of Members	No. of Shares	%
1 - 1,000	1,013	254,718	0.93	18	3,663	0.01	1,031	258,381	0.94
1,001 - 5,000	153	345,693	1.26	4	10,304	0.04	157	355,997	1.30
5,001 - 10,000	33	269,320	0.99	0	0	0.00	33	269,320	0.99
10,001 - 50,000	22	406,932	1.49	1	46,766	0.17	23	453,698	1.66
50,001 - 100,000	3	202,600	0.74	0	0	0.00	3	202,600	0.74
100,001 - 500,000	2	281,700	1.03	1	161,479	0.59	3	443,179	1.62
500,001 - 1,000,000	0	0	0.00	0	0	0.00	0	0	0.00
Above 1,000,000	1	25,369,210	92.75	0	0	0.00	1	25,369,210	92.75
<b>Total</b>	<b>1,227</b>	<b>27,130,173</b>	<b>99.19</b>	<b>24</b>	<b>222,212</b>	<b>0.81</b>	<b>1,251</b>	<b>27,352,385</b>	<b>100.00</b>

Information to Shareholders & Investors (Contd.)

Categories of Shareholders	No. of Shareholders	No. of Shares	%
Individuals	1,196	1,557,104	5.69
Institutions	55	25,795,281	94.31
<b>Total</b>	<b>1,251</b>	<b>27,352,385</b>	<b>100.00</b>

The percentage of shares held by the public as at 31st March, 2006 - 7.23%.

**4. MARKET VALUES AND SHARE TRADING**

<i>For the year ended 31st March</i>	<b>2006</b>	2005
Highest (Rs.)	<b>39.00</b>	36.00
Lowest (Rs.)	<b>14.00</b>	10.00
Volume traded (No. of shares)	<b>5,098,100</b>	2,494,300
No. of trades	<b>4,014</b>	1,531
Value of shares traded (Rs.)	<b>143,206,950</b>	57,926,150

**5. MARKET CAPITALISATION**

Market capitalisation of the Company, which is the number of ordinary shares in issue multiplied by the market value of shares, was Rs. 964,171,571/- as at 31st March, 2006 (2005 - Rs. 142,460,340/-).

**6. NUMBER OF EMPLOYEES**

The number of permanent employees at the end of the year was 51 (2005 - 57).

# Financial Highlights

(All figures in the Financial Highlights are in Sri Lankan Rupees '000 unless otherwise stated)

For the year ended 31st March	2006	2005	2004	2003	2002
<b>TRADING RESULTS</b>					
Turnover (net)	15,602	61,822	69,460	58,972	59,171
Loss from operations	(36,866)	(22,229)	(5,939)	(10,606)	(19,780)
Finance cost	(3,744)	(4,746)	(7,687)	(11,557)	(12,856)
Loss from operation after finance cost	(40,610)	(26,975)	(13,627)	(22,163)	(32,636)
Compensation	-	-	(3,756)	-	-
Loss before taxation	(40,610)	(26,975)	(17,382)	(22,163)	(32,636)
Taxation	-	-	-	-	-
Loss after taxation	(40,610)	(26,975)	(17,382)	(22,163)	(32,636)
<b>SHAREHOLDERS' FUNDS</b>					
Ordinary share capital	273,524	71,230	71,230	71,230	71,230
Reserves	294,799	229,469	233,551	176,581	198,744
<b>Shareholders' funds</b>	<b>568,323</b>	<b>300,699</b>	<b>304,781</b>	<b>247,811</b>	<b>269,974</b>
<b>ASSETS EMPLOYED</b>					
Property, plant & equipment	641,950	494,942	484,908	401,943	408,697
Current assets	75,100	15,245	19,173	11,570	14,124
Current liabilities	(79,068)	(194,973)	(179,073)	(153,246)	(130,070)
<b>Working capital</b>	<b>(3,968)</b>	<b>(179,728)</b>	<b>(159,899)</b>	<b>(141,676)</b>	<b>(115,946)</b>
<b>Assets employed</b>	<b>637,982</b>	<b>315,214</b>	<b>325,009</b>	<b>260,267</b>	<b>292,751</b>
Long-term loans	(68,215)	(13,494)	(18,976)	(10,765)	(21,261)
Retirement benefit obligation	(1,444)	(1,021)	(1,251)	(1,691)	(1,515)
<b>Net assets</b>	<b>568,323</b>	<b>300,699</b>	<b>304,781</b>	<b>247,811</b>	<b>269,974</b>
<b>PROFITABILITY</b>					
Profit margin (%)	-	-	-	-	-
Return on shareholders' funds (%)*	-	-	-	-	-
Return on equity (%)**	-	-	-	-	-
<b>LIQUIDITY</b>					
Current ratio (times)	0.95	0.08	0.11	0.08	0.11
<b>DEBT RATIO</b>					
Debt equity (%)	21	63	60	61	50
<b>INVESTOR RATIOS</b>					
Earnings/(loss) per share (Rs.)	(2.60)	(1.92)	(1.24)	(1.58)	(2.32)
Net assets per share (Rs.)	20.78	42.21	42.79	34.79	37.90
Market price per share (Rs.)	35.25	20.00	13.00	8.50	10.00
<b>HOTEL OPERATIONS</b>					
Occupancy (%) (based on 140 rooms)	17	36	29	25	26

## Notes

\* Profit attributable to shareholders divided by shareholders' funds (total of share capital and reserves).

\*\* Profit attributable to shareholders divided by the share capital.

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the FORTIETH Annual General Meeting of the Company will be held at 12.00 noon on Wednesday the 17th day of May, 2006 at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala for the following purposes:

1. To receive and adopt the Report of the Directors and the Financial Statements for the year ended 31st March, 2006, together with the Report of the Auditors thereon.
2. To re-elect Mr. S. Nagendra who retires in terms of the Articles of Association of the Company.
3. To re-elect Mr. D.C.R. Gunawardena who retires in terms of the Articles of Association of the Company.
4. To appoint Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board,

**Carsons Management Services (Pvt) Ltd.**

*Secretaries*

Colombo

19th April, 2006

## **Notes**

1. *A member is entitled to appoint a proxy to attend and vote instead of him/herself. A proxy need not be a member of the Company. A Form of Proxy accompanies this notice.*
2. *The completed Form of Proxy must be deposited at the Registered Office, No. 61, Janadhipathi Mawatha, Colombo 1, not later than 12.00 noon on Monday the 15th day of May, 2006.*
3. *A person representing a corporation is required to carry a certified copy of the resolution authorising him/her to act as the representative of the corporation. A representative need not be a member.*
4. **Security Check**  
*We shall be obliged if the shareholders attending the Annual General Meeting produce their National Identity Cards to the security personnel stationed at the entrance lobby.*

# Form of Proxy

\* I/We .....

of .....

being \* a Member/Members of **PEGASUS HOTELS OF CEYLON LTD.**, hereby appoint:

Don Chandima Rajakaruna Gunawardena	or failing him,
Manoharan Selvanathan	or failing him,
Hariharan Selvanathan	or failing him,
Sega Nagendra	or failing him,
Pushpakumara Manel Withana	or failing him

.....

of .....

as \*my/our proxy to \*\* ..... vote as indicated hereunder for \*me/us on \*my/our behalf at the Annual General Meeting of the Company to be held at 12.00 noon on Wednesday the 17th day of May, 2006 at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

	For	Against
(i) To adopt the Report of the Directors and the Financial Statements for the year ended 31st March, 2006 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To re-elect Mr. S. Nagendra who retires in terms of Article 84 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect Mr. D.C.R. Gunawardena who retires in terms of Article 84 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-appoint as Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co. and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

In witness \*my/our hands on this ..... day of .....

Two Thousand and Six.

.....  
Signature of Shareholder/s.

- Notes:**
- (a) \* Please delete the inappropriate words.
  - (b) If you wish your proxy to speak at the meeting you should interpolate the words "speak and" in the place indicated with \*\* and initial such interpolation.
  - (c) Instructions are noted on the reverse hereof.

## Form of Proxy

### INSTRUCTIONS AS TO COMPLETION

1. In terms of Article 67 of the Articles of Association of the Company;

The instrument appointing a proxy shall be in writing and;

- (i) in the case of an individual shall be signed by the appointer or by his attorney; and
- (ii) in the case of corporation shall be either under its common seal or signed by its attorney or by an officer on behalf of the corporation.

The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer. A proxy need not be a member of the Company.

2. Kindly perfect the Form of Proxy by filling in legibly your full name and address and sign in the space provided. Please fill in the date of signature and indicate with an "X" in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his/her discretion will vote as he/she thinks fit.
3. In terms of Article 62 of the Articles of Association of the Company;

In the case of joint-holders of a share the vote of the senior who tenders a vote, whether in person or by proxy or by attorney or by representative, shall be accepted to the exclusion of the votes of the other joint-holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding.

4. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company situated at No. 61, Janadhipathi Mawatha, Colombo 1, not later than 12.00 noon on 15th May, 2006.

Please complete and return this Form on or before 8th May, 2006

The Directors  
Pegasus Hotels of Ceylon Ltd.  
61, Janadhipathi Mawatha  
Colombo 1

**"40th Annual General Meeting"**

Full Name : .....

Address : .....

..... Tel : .....

Folio No. ....

Kindly tick (✓) appropriate Box

Attending the Meeting on 17th May, 2006

Yes	No
-----	----

Signature : .....



# Corporate Information

## NAME OF COMPANY

Pegasus Hotels of Ceylon Ltd.  
(A Carson Cumberbatch Company)

## LEGAL FORM

A Public Quoted Company with Limited Liability  
Incorporated in Sri Lanka in 1966.

## DIRECTORS

D. Chandima R. Gunawardena (*Chairman*)  
Mano Selvanathan  
Hari Selvanathan  
Sega Nagendra  
P.M. Withana (*appointed w.e.f. 1st July, 2005*)

## ALTERNATE DIRECTORS

P.C.P. Tissera (*for D.C.R. Gunawardena*)  
D. J. Kulatunge (*for H. Selvanathan*)  
(*Ceased to be an alternate director w.e.f. 25th July, 2005*)  
K. C. N. Fernando (*for M. Selvanathan*)

## PLACE OF BUSINESS

Santha Maria Mawatha, Wattala.

## BANKERS

Commercial Bank of Ceylon  
Sampath Bank  
Standard Chartered Bank  
National Development Bank

## AUDITORS

Messrs. KPMG Ford, Rhodes, Thornton  
& Company  
Chartered Accountants,  
No. 32A, Sir Mohamed Macan Markar  
Mawatha, Colombo 3,  
Sri Lanka.

## MANAGERS & SECRETARIES

Carsons Management Services (Pvt) Ltd.  
No. 61, Janadhipathi Mawatha, Colombo 1,  
Sri Lanka.  
Telephone No. +94-11-4739200  
Fax No. +94-11-4739300

## REGISTERED OFFICE

No. 61, Janadhipathi Mawatha, Colombo 1,  
Sri Lanka.  
Telephone No. +94-11-4739200  
Fax No. +94-11-4739300

## COMMITTEE OF MANAGEMENT

P.M. Withana  
A. Weeratunge  
Y. De Silva  
R. Kurukulasooriya  
A. Piyadigama  
T. Ganeshan  
V.R. Wijesinghe  
S. Subasinghe  
D. Nanayakkara  
N. Naganathan  
A. Perera  
M. Munasinghe  
M. Perera  
S. Muttiah

## HOTEL WEBSITE

[www.pegasusreefhotel.com](http://www.pegasusreefhotel.com)

## CORPORATE WEBSITE

[www.carsoncumberbatch.com](http://www.carsoncumberbatch.com)

The Company is a member of the Carson  
Cumberbatch Group of Companies.

