

Pegasus Hotels of Ceylon Limited



ANNUAL REPORT 2002/2003

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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*)
(Appointed as chairman w.e.f. 26th February 2003)
Reginald F. Poulter (*Resigned w.e.f. 3rd February 2003*)
Mano Selvanathan
Hari Selvanathan
Sega Nagendra
G. Udaya Nanayakkara

ALTERNATE DIRECTORS

P.C.P. Tissera (Appointed w.e.f. 26th July 2002 for
Mr. D.C.R. Gunawardena.)

PLACE OF BUSINESS

Santha Maria Mawatha, Wattala.

BANKERS

Commercial Bank of Ceylon
HSBC
Sampath Bank
Standard Chartered bank

AUDITORS

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

MANAGERS & SECRETARIES

Carsons Management Services (Pvt) Ltd.
No. 61, Janadhipathi Mawatha,
Colombo 1.

REGISTERED OFFICE

No. 61, Janadhipathi Mawatha,
Colombo 1.

MANAGERS OF THE HOTEL

Keells Hotel Management Services Ltd.
No. 130, Glennie Street,
Colombo 2.
(From 1st April 2000 to 30th September 2002;
Management agreement terminated with mutual
consent)
Carsons Management Services (Pvt) Ltd.
(Appointed w.e.f. 1st October 2002).

COMMITTEE OF MANAGEMENT

D. J. Kulathunge
K. C. N. Fernando
A. Weeratunge
R. Perera
T. Ganesan
S. Karunasena
P. Perera
E. Rodrigo
R. Godage
Ms. M. Pillai
G. Perera
S. Subasinghe

CORPORATE WEBSITE

www.carsoncumberbatch.com



Chairman's Statement

It is with pleasure that I welcome the members to the Thirty-Seventh Annual General Meeting of the Company and present on behalf of the Board of Directors, the Annual Report together with the Audited Financial Statements for the year ended 31st March 2003.

The tourism industry after a prolonged war in the country is now recovering. Tourism has been a mainstay of the nation's economy as a source of foreign exchange and a major employer. However during the last two decades the industry returns have been poor and its primary product has not been following growth opportunities or trends in world tourism demand. With the ongoing peace initiative and the economic recovery in the country, tourist arrivals have seen a much-awaited increase when compared to the previous year. At end December 2002, the tourist arrivals grew by 16.7% over the previous year, and was largely contributed by tourist arrivals from the Asian region - India, Malaysia and Singapore in particular. This impact of the upward trend in tourist arrivals had a positive effect on the profitability of the hotel in the latter part of the year. However the current year may register a slowdown due to the decline in global tourism as a result of geopolitical situations.

The hotel, which has been incurring losses due to the instability of the economy and the tourism industry underwent several changes during the year. As a strategy to reduce the incurring losses and to maintain a breakeven performance, the management curtailed the hotel's operations during the year and is now maintained with

50 rooms in operation. Another major change was the change in the management of the hotel. The contract with Keells Hotel Management Services Ltd. who were the managers for the past 2 ½ years was terminated by mutual agreement and at present the hotel is managed by the Hotel Management Team of Carsons.

The hotel performed moderately during the year and recorded a revenue of Rs. 59.0 mn (2002 - Rs. 59.2 mn), The net loss recorded was Rs. 22.2 mn an improvement of 31% when compared to last year's loss of Rs. 32.6 mn and can be attributed to the cost saving restructuring efforts initiated by the hotel. With the future looking very promising for the tourism industry we are hopeful that the hotel will improve its performance and recover at least a part of its losses during the current financial year.

On behalf of the Company, I wish to extend my sincere thanks to my predecessor Mr. Reginald F. Poulter, who resigned from his position as Chairman, and from the Board of Directors, with effect from 3rd February 2003. Mr. Poulter's guidance during his tenure as Chairman of Pegasus Hotels of Ceylon Ltd. is much appreciated.

In conclusion, I wish to thank our valued shareholders for the confidence placed in our Company, and I wish to express our sincere thanks to all our staff for their commitment and dedication during these difficult conditions. Last but not least, I thank my colleagues on the Board for their invaluable contribution amidst these difficult times.

D.C.R. Gunawardena
Chairman

24th April, 2003.

Review of Operations



INDUSTRY TRENDS

Tourism is a growth industry and an engine of development worldwide. In Sri Lanka the industry has been a mainstay of the nation's economy, its fourth largest source of foreign exchange and a major employer. Sri Lanka though negotiating for peace in a bid to come out of its two-decade long civil strife, has lost its shares of growth in world averages and among rival destinations in Asia. While the civil conflict had much to do with this, structural issues too contributed to this loss. In the last 20 years having become dependent on a low-cost, low-value market segment dominated by tour operators, Sri Lankan firms now compete against rival destinations and each other on the basis of a standardised product - a packaged beach holiday - delivered to the international tourist at the lowest price. Industry returns have been poor and its primary product has not been following growth opportunities or trends in world tourism demand. Tourism is an increasingly competitive trade globally due to homogeneity of the product.

At end December 2002, the tourist arrivals grew by 16.7% over the previous year. The growth came in the last six months of the year, largely contributed by the Asian region - India, Malaysia and Singapore in particular. This boosted the hotel sector's occupancy rates from 39% to 53% towards the end of the year and the impact of the upward trend in tourist arrivals had a positive effect on the profitability of the hotel in the latter part of the year.

COMPANY PERFORMANCE

As a strategy to reduce accumulation of losses from overheads related to idle capacity, the management curtailed the level of operations of the hotel to 50 rooms during the year. In doing so the Company had to reduce its staff numbers and an application has been filed to terminate the services of 50 staff

members which is currently being heard by the Commissioner of Labour. This restructuring process has helped to contain the losses, while maintaining a high quality service to our clients.

However the Company is yet to reap the full benefit of the above strategy with the Company still continuing to make all payroll commitments to the said staff members pending finalisation of the said application.

The hotel performed moderately during the year with a turnover of Rs. 59.0 mn, same levels as last year. The net loss recorded decreased significantly and amounted to Rs. 22.2 mn when compared to last year's loss of Rs. 32.6 mn. This is mainly attributed to the aforesaid cost saving measures implemented at the hotel with the second half of the year recording a marginal loss of Rs. 3.8 mn compared to the loss of 18.4 mn incurred during the 1st half of the period under review.

The management contract with Keells Hotel Management Services Ltd. who were the managers for the past 2½ years was terminated by mutual agreement on 30th September 2002. The hotel is since being managed by the Hotel Management Team of Carsons which comprises Directors and a group of managers experienced in restructuring businesses.

The main contributors to occupancy were regional tourists who came to Sri Lanka for several sports events. The Company was hopeful to see a positive trend in European arrivals, which is the mainstay of the country's tourism industry. However due to the war in the Gulf region there has been a decrease in the expected tourist arrivals from Europe.



Review of Operations (Contd.)

DIVIDEND, TAXATION AND SHARE PRICE

With the tourism industry still in the process of stabilizing and in view of the brought forward losses, no provisions for dividend or taxation were made. The market price of the Company's shares closed at Rs. 8.50 as at 31st March 2003 when compared to Rs. 10.00 recorded as at 31st March 2002.

FUTURE PROSPECTS

All stakeholders of the tourism sector have accepted that Sri Lanka, if it is to take advantage of the developments in the international marketplace and to improve its performance, must improve its competitiveness. It means propelling the industry into a position where it is recognised for sophisticated, differentiated and highly valued products and services that command a premium price.

To transform Sri Lanka's tourism sector, focussed strategies are underway to convert a low-end mass-market destination to an upmarket high quality destination; to manage the impact of the civil conflict; to offer new tourism products; to develop human resources; modernize industry relationships; to increase promotion budgets; to embrace new information technologies and to reform the tourism policy.

The peace dividend together with the new strategies to transform the industry should result in a significant boost in the size and value of tourism in Sri Lanka.

Carsons Management Services (Pvt) Ltd.

Managers

Colombo

24th April, 2003.

Report of the Directors



The Directors are pleased to submit their Report for the twelve months ended 31st March, 2003 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 AND FUTURE

DEVELOPMENTS

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

SIGNIFICANT EVENTS DURING THE YEAR

As a strategy to minimise accumulation of losses due to overheads related to idle capacity, and thereby to maintain a breakeven performance, the management curtailed the level of operations of the hotel to 50 rooms commencing from the second half of the period under review. These steps significantly contributed to a better performance of the results with the Company recording a net loss of Rs. 22.2 mn for the year compared to Rs. 32.6 mn recorded last year. Results for the second half was a marginal loss of Rs. 3.8 mn, compared to a first half loss of Rs. 18.4 mn.

This exercise resulted in the Company having to reduce its staff numbers and an application has been filed to terminate the services of 50 staff members, and is currently being heard by the Commissioner of Labour. The Company however continue to make all payroll commitments to these staff, pending finalisation of the inquiry.

Another event was the change in management of the Hotel. Keells Hotel Management Services Ltd., who were the managers for the past 2½ years terminated the contract by mutual consent. Now the hotel is managed by the Hotel Management Team of Carsons.

FINANCIAL RESULTS

<i>For the year ended 31st March</i>	2003	2002
	Rs.	Rs.
Loss for the		
year after taxation	(22,163,146)	(32,636,280)
Accumulated loss		
brought forward	(61,546,212)	(28,909,932)
Accumulated loss		
carried forward	(83,709,358)	(61,546,212)

RESERVES

After absorbing the above loss, the total reserves as at 31st March, 2003 stood at Rs. 176.58 mn (2002 - Rs. 198.74 mn). The movements are set out in the Statement of Changes in Equity.

CAPITAL EXPENDITURE

The total expenditure on purchase of property, plant & equipment, during the year, amounted to Rs. 0.98 mn (2002 - 1.66 mn). Items transferred from capital Work in Progress amounted to Rs. 0.43 mn (2002-Nil). [Total additions Rs. 1.41 mn (2002 - 1.66 mn)]. The movements are set out in Note 6 to the financial statements.

VALUE OF PROPERTIES

The Company's Land and the building shown in the financial statements carries a market value of Rs. 391.54 mn, based on a valuation carried out as at 31st March, 2001 by an independent qualified valuer.

GOING CONCERN

The Board of Directors are 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.



Report of the Directors (Contd.)

DIRECTORATE

The names of the Directors who served during the year are shown on page 1.

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

Mr. Reginald F. Poulier relinquished his position as Director of the Company with effect from 3rd February, 2003.

AUDIT AND COMPLIANCE COMMITTEE

Tilak de Zoyza (*Chairman*)
Tennyson Rodrigo
D.C.R. Gunawardena

DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts of the Company are disclosed in Note 21 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>	2003	2002
	No. of	No. of
	Shares	Shares
D. C. R. Gunawardena	–	78
R. F. Poulier	–	–
<i>(Resigned w.e.f. 3rd February, 2003)</i>		
M. Selvanathan	–	–
H. Selvanathan	–	–
S. Nagendra	–	–
G. U. Nanayakkara	–	–

ALTERNATE DIRECTORS

P.C.P. Tissera (<i>Alternate for</i> <i>Mr. D.C.R. Gunawardena</i>)	–	–
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SUBSTANTIAL SHAREHOLDINGS

The substantial holdings in the issued share capital of the Company have been disclosed in Note 4 of the Information to Shareholders & Investors. As at 31st March, 2003 the Company had 856 shareholders (2002 - 795) whose holdings are indicated in Note 3 of the Information to Shareholders & Investors.

DIVIDEND

No dividend was declared in view of the current year and brought forward loss.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Subsequent to the Balance Sheet date, no circumstances have arisen, which required adjustments to or disclosure in the financial statements.

AUDITORS

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

By Order of the Board,
Carsons Management Services (Pvt) Ltd.
Managers & Secretaries

Colombo
24th April, 2003

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,
Carsons Management Services (Pvt) Ltd.
Managers & Secretaries

Colombo
24th April, 2003



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, 2003 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 9 to 23 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, 2003 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 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, 2003, and its Loss, Changes in Equity and Cash Flow 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, 2003 other than those disclosed in Note 21 to these financial statements.

(Sgd.)

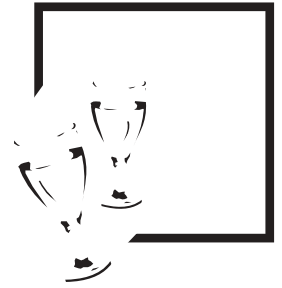
KPMG Ford, Rhodes, Thornton & Company

Chartered Accountants

Colombo

24th April, 2003

Income Statement



(All figures are in Sri Lankan Rupees)

<i>Year ended 31st March</i>	Note	2003	2002
Revenue	1	58,972,086	59,170,833
Cost of sales		(15,640,930)	(16,763,425)
Gross profit		43,331,156	42,407,408
Selling and promotional cost		(656,585)	(835,878)
Administrative expenses		(32,863,259)	(42,812,505)
Other operating expenses		(20,417,116)	(18,539,513)
Loss from operations	2	(10,605,804)	(19,780,488)
Finance cost	3	(11,557,342)	(12,855,792)
Loss before taxation		(22,163,146)	(32,636,280)
Taxation	4	-	-
Loss for the year after taxation		(22,163,146)	(32,636,280)
Accumulated loss brought forward		(61,546,212)	(28,909,932)
Accumulated loss carried forward		(83,709,358)	(61,546,212)
Earnings per share	5	(3.11)	(4.58)

The Accounting Policies and Notes from page 13 to 23 form an integral part of the financial statements.

Figures in brackets indicate deductions.

Statement of Changes in Equity



(All figures are in Sri Lankan Rupees)

For the year ended 31st March, 2003

	Note	Share Capital	Revaluation Reserve	Capital Accretion Reserve	General Reserve	Accumulated Loss	Total Equity
Balance as at							
1st April, 2001		71,230,170	244,970,052	15,144,002	176,172	(28,909,932)	302,610,464
Net loss for the year		-	-	-	-	(32,636,280)	(32,636,280)
Balance as at							
31st March, 2002	9,10 & 11	71,230,170	244,970,052	15,144,002	176,172	(61,546,212)	269,974,184
Balance as at							
1st April, 2002	9,10 & 11	71,230,170	244,970,052	15,144,002	176,172	(61,546,212)	269,974,184
Net loss for the year		-	-	-	-	(22,163,146)	(22,163,146)
Balance as at							
31st March, 2003	9,10 & 11	71,230,170	244,970,052	15,144,002	176,172	(83,709,358)	247,811,038

The Accounting Policies and Notes from page 13 to 23 form an integral part of the financial statements.

Figures in brackets indicate deductions.



Cash Flow Statement

(All figures are in Sri Lankan Rupees)

<i>Year ended 31st March</i>	Note	2003	2002
Cash flows from operating activities			
Loss before taxation		(22,163,146)	(32,636,280)
Adjustments for:			
Profit on disposal of property, plant & equipment		(94,600)	(7,518)
Depreciation on property, plant & equipment	6	7,735,289	7,621,868
Provision for gratuity	13	431,371	390,362
Provision for doubtful debts		500,000	-
Finance cost	3	11,557,342	12,855,792
Loss before working capital changes		(2,033,744)	(11,775,776)
Decrease in inventories		868,210	1,041,787
Decrease in Trade and other receivables		1,358,064	18,277,957
Decrease in Trade and other payables		(3,659,901)	(5,200,396)
Increase in amounts due to related companies		36,046,964	8,241,274
Cash generated from operations		32,579,593	10,584,846
Finance cost paid		(11,557,342)	(10,048,974)
Gratuity paid	13	(256,258)	(297,724)
<i>Net cash generated from operating activities</i>		20,765,993	238,148
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		900,000	37,590
Cost incurred on disposal of property plant & equipment		(805,400)	-
Purchase of property, plant & equipment		(981,161)	(1,657,370)
<i>Net cash used in investing activities</i>		(886,561)	(1,619,780)
Cash flows from financing activities			
Loans repaid during the year	12	(11,990,850)	(3,804,356)
<i>Net cash used in financing activities</i>		(11,990,850)	(3,804,356)
Net Increase/(decrease) in cash and cash equivalents		7,888,582	(5,185,988)
Cash and cash equivalents at the beginning of the year		(34,076,723)	(28,890,735)
Cash and cash equivalents at the end of the year (Note A)		(26,188,141)	(34,076,723)
Note A - Cash and cash equivalents			
Cash at bank and in hand		448,799	276,522
Bank overdrafts		(26,636,940)	(34,353,245)
		(26,188,141)	(34,076,723)

The Accounting Policies and Notes from page 13 to 23 form an integral part of the 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 the respective notes 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.



Significant Accounting Policies (Contd.)

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.

2.1.2 Revaluation

The freehold land & buildings have been revalued. Revaluation of these assets are carried out 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:

	per annum
Buildings	1%
Plant & machinery	7.5%
Furniture & fittings	5%
Equipment	7.5%
Motor vehicles	25%

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.



Significant Accounting Policies (Contd.)

2.2 Inventories (Contd)

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 as at 31st March, 2003 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.



Significant Accounting Policies (Contd.)

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 unless otherwise stated)

	31st March 2003	31st March 2002
I. REVENUE		
1.1 Revenue Analysis (Net)		
Room revenue	33,931,128	27,420,679
Food and beverage revenue	21,014,850	27,658,764
Others	4,026,108	4,091,390
	58,972,086	59,170,833
2. LOSS FROM OPERATIONS		
Loss from operations is stated after charging/(crediting) all expenses/(income) including the following:		
Auditors' remuneration	82,500	75,000
Management fees- Keells Hotel Management Services Ltd. <i>(from 1st April 2002 to 30th September 2002)</i>	751,523	1,887,126
- Carsons Management Services (Pvt) Ltd.	751,523	1,887,126
Depreciation	7,735,289	7,621,868
Provision for doubtful debts	500,000	-
Foreign exchange gain	(162,982)	(323,702)
Profit on disposal of property, plant & equipment	(94,600)	(7,518)
Personnel costs (Note 2.1)	14,822,820	17,745,851
2.1 Personnel Costs		
Salaries, wages and other related expenses	13,255,616	15,890,739
Defined benefit plan cost - Gratuity	431,371	390,362
Defined contribution plan cost - EPF & ETF	1,135,833	1,464,750
	14,822,820	17,745,851
The above include:		
Directors' emoluments	-	-
Directors' fees	5,000	40,000
	5,000	40,000
3. FINANCE COST		
Interest expenses on long-term loans	5,223,279	6,028,723
Interest expenses on overdrafts	6,334,063	6,827,069
	11,557,342	12,855,792
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 loss, no provision has been made in the financial statements.		



Notes to the Financial Statements (Contd.)

4. TAXATION (Contd.)

4.2 Reconciliation between the tax loss and the accounting loss:

	31st March 2003	31st March 2002
Accounting loss before tax	(22,163,146)	(32,636,280)
Aggregate disallowable items	9,086,831	8,673,526
Aggregate allowable claims	(3,458,093)	(4,200,090)
Taxable loss	(16,534,408)	(28,162,844)
Tax loss brought forward	(149,031,054)	(120,868,210)
Tax loss carried forward	(165,565,462)	(149,031,054)

4.3 Analysis of Tax Loss:

	Tax loss Incurred Rs.	Period available for
Loss on Depreciation of Capital Assets	28,382,070	Indefinitely
Loss incurred in 1997/98	92,024,069	1 year
1999/00	231,677	3 years
2000/01	6,916,293	4 years
2001/02	24,584,180	5 years
2002/03	13,427,173	6 years
	165,565,462	

4.4 Investment tax allowance of approximately Rs. 9.3 mn is being carried forward for set off against assessable income of future years.

4.5 In view of the Company's brought forward tax loss, no provision has been made for deferred taxation with regard to timing differences.

5. EARNINGS PER SHARE

The earnings per share of Rs. (3.11) [2002 - Rs. (4.58)] is calculated on the net loss for the year after taxation over the number of ordinary shares in issue as at the Balance Sheet date.

The following reflects the income and share data used in the earnings per share computation:

	31st March 2003	31st March 2002
Amounts used as the Numerator		
Net loss attributable to ordinary shareholders	(22,163,146)	(32,636,280)
Number of ordinary shares in issue used as the Denominator		
	7,123,017	7,123,017
Earnings per ordinary share	(3.11)	(4.58)



Notes to the Financial Statements (Contd.)

6. PROPERTY, PLANT & EQUIPMENT

6.1	Freehold Land	Freehold Building	Plant & Machinery	Furniture & Fittings	Equipment	Motor Vehicles	Work-in- Progress	Total as at 31st March 2003	Total as at 31st March 2002
Cost/Valuation									
Balance as at the beginning of the year	192,776,000	198,766,000	25,738,969	11,566,612	19,637,182	7,064,367	432,825	455,981,955	454,362,175
Additions	-	265,145	525,540	611,551	11,750	-	-	1,413,986	1,657,370
Disposals	-	-	-	-	-	(5,058,146)	-	(5,058,146)	(37,590)
Transfers	-	-	-	-	-	-	(432,825)	(432,825)	-
Balance as at the end of the year	192,776,000	199,031,145	26,264,509	12,178,163	19,648,932	2,006,221	-	451,904,970	455,981,955
Depreciation									
Balance as at the beginning of the year	-	1,987,660	23,625,921	3,665,024	12,708,143	5,298,276	-	47,285,024	39,670,674
Charge for the year	-	1,987,660	1,930,421	578,330	1,472,787	1,766,091	-	7,735,289	7,621,868
On disposals	-	-	-	-	-	(5,058,146)	-	(5,058,146)	(7,518)
Balance as at the end of the year	-	3,975,320	25,556,342	4,243,354	14,180,930	2,006,221	-	49,962,167	47,285,024
Net Book Value									
As at 31st March, 2003	192,776,000	195,055,825	708,167	7,934,809	5,468,002	-	-	401,942,803	
As at 31st March, 2002	192,776,000	196,778,340	2,113,048	7,901,588	6,929,039	1,766,091	432,825		408,696,931

6.2 Carrying value of the revalued assets as at 31st March, 2003, if carried at historical cost are given below:

	Freehold Land	Freehold Building
Carrying value of Revalued assets if carried at historical cost:		
Cost	8,190,026	126,245,780
Accumulated depreciation	-	(9,246,340)
	8,190,026	116,999,440

6.3 Freehold land and buildings were written up in the books of accounts to conform to the market values as at 31st March, 2001, based on a valuation conducted 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.



Notes to the Financial Statements (Contd.)

	As at 31st March 2003	As at 31st March 2002
7. INVENTORIES		
Food	521,238	394,213
Beverage	411,220	421,221
Engineering spares	611,215	1,268,248
Cutlery, crockery and linen	2,886,152	3,273,883
Others	770,561	711,031
	5,200,386	6,068,596
8. TRADE AND OTHER RECEIVABLES		
Trade debtors	6,400,694	7,893,229
Less: Provision for doubtful debts	(1,500,000)	(1,000,000)
	4,900,694	6,893,229
Advances, prepayments and other receivables	665,973	657,880
Loans given to company officers (Note 8.1)	354,027	227,649
	5,920,694	7,778,758
8.1 Loans given to Company Officers		
Balance as at the beginning of the year	227,649	244,911
Granted during the year	589,504	463,068
Recovered during the year	(463,126)	(480,330)
Balance as at the end of the year	354,027	227,649
9. SHARE CAPITAL		
Authorised		
9,780,000 Ordinary Shares of Rs. 10/- each	97,800,000	97,800,000
170,000 "A" Class 9% Redeemable Cumulative Preference Shares of Rs. 10/- each	1,700,000	1,700,000
50,000 "B" Class 9% Redeemable Cumulative Preference Shares of Rs. 10/- each	500,000	500,000
	100,000,000	100,000,000
Issued and Fully Paid		
7,123,017 Ordinary Shares of Rs. 10/- each	71,230,170	71,230,170



Notes to the Financial Statements (Contd.)

	As at 31st March 2003	As at 31st March 2002
10. CAPITAL RESERVES		
Balance as at the beginning of the year	260,114,054	260,114,054
Movement during the year	-	-
Balance as at the end of the year	260,114,054	260,114,054
Represented by:		
Revaluation reserve	244,970,052	244,970,052
Capital accretion reserve	15,144,002	15,144,002
	260,114,054	260,114,054

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

11. REVENUE RESERVES		
Balance as at the beginning of the year	(61,370,040)	(28,733,760)
Transfers during the year	(22,163,146)	(32,636,280)
Balance as at the end of the year	(83,533,186)	(61,370,040)
Represented by:		
General reserve	176,172	176,172
Accumulated loss	(83,709,358)	(61,546,212)
	(83,533,186)	(61,370,040)

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 2002 Rs.	Obtained during the year Rs.	Payments during the year Rs.	Total as at 31st March 2003 Rs.	Interest Rates
Secured Loans					
DFCC Bank	1,807,480	-	(493,032)	1,314,448	2%-11%
National Development Bank (NDB)	26,415,198	-	(8,557,818)	17,857,380	2%-17%
Commercial Bank	6,850,000	-	(2,940,000)	3,910,000	17%
Total liability	35,072,678	-	(11,990,850)	23,081,828	
Amounts falling due within one year	(13,811,688)			(12,316,828)	
Amounts falling due after one year	21,260,990			10,765,000	

12.2 DFCC and NDB loans have been secured on the Hotel's land, buildings and plant & machinery.

12.3 The Commercial Bank loan has been guaranteed by Carson Cumberbatch & Co. Ltd.



Notes to the Financial Statements (Contd.)

	As at 31st March 2003	As at 31st March 2002
13. RETIREMENT BENEFIT OBLIGATIONS		
Retirement Benefit Cost - Gratuity		
Balance as at the beginning of the year	1,515,432	1,422,794
Provision for the year	431,371	390,362
	1,946,803	1,813,156
Payments made during the year	(256,258)	(297,724)
Balance as at the end of the year	1,690,545	1,515,432

13.1 The gratuity provision as at 31st March, 2003 amounting to Rs. **1,690,545/-** is based on an Actuarial Valuation carried out as at 31st March, 2003 by Messrs. Actuarial & Management Consultants (Pvt) Ltd. As recommended by the related Sri Lanka Accounting Standard 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%
- * Retirement age 55 years.
- * The company is a going concern

13.2 The liability for gratuity is not externally funded.

14. TRADE AND OTHER PAYABLES

Trade creditors	7,675,905	7,566,739
Other creditors	604,170	2,854,053
Provisions and accruals	3,741,565	5,260,749
	12,021,640	15,681,541

15. AMOUNTS DUE TO RELATED COMPANIES

Carsons Management Services (Pvt) Ltd.	102,270,691	66,223,727
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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.

Total shareholders' equity	247,811,038	269,974,184
Number of shares issued	7,123,017	7,123,017
Net assets per ordinary share	34.79	37.90

17. CAPITAL COMMITMENTS

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



Notes to the Financial Statements (Contd.)

18. CONTINGENT LIABILITIES

Consequent to a decision made by the management of the Company to down size the Hotel's operations, an application has been made to the Department of Labour seeking approval to terminate the services of 50 employees of the Company under the Termination of Employment (Special Provisions) Act. The Inquiry pertaining to this is in progress. If the approval is granted subject to the payment of a compensation, a contingent liability would arise to the extent of such compensation. The quantum of such compensation will be at the discretion of the Commissioner of Labour and therefore cannot be quantified at this point in time.

A few employees have also filed action in the Labour Tribunal against the termination of their services on disciplinary grounds etc. The cases are in progress and therefore, there may be a potential liability arising in the event the decisions are awarded against the Company.

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.

20. COMPARATIVE FIGURES

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

21. DIRECTORS' INTERESTS IN CONTRACTS

Messrs. D. C. R. Gunawardena, R. F. Poulier (resigned w.e.f. 3rd February, 2003), M. Selvanathan, H. Selvanathan, S. Nagendra and G.U. Nanayakkara and P.C.P. Tissera (Alternate for D. C. R. Gunawardena), Directors of the Company, have an interest in all or some of the transactions of the Company as referred to in Note 22 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.

22. RELATED PARTY TRANSACTIONS

Name of Company	Names of Directors	Nature of Transactions
22.1 Carsons Management Services (Pvt.) Ltd.	D.C.R. Gunawardena M. Selvanathan H. Selvanathan P.C.P. Tissera	<ul style="list-style-type: none"> ● Management fees of Rs. 751,523/- was charged by Carsons Management Services (Pvt) Ltd., during the year. ● An amount of Rs. 102,270,691/- is payable to Carsons Management Services (Pvt) Ltd. as at 31st March, 2003, on account of management fees and funds advanced on which no interest was charged. ● During the year a motor vehicle with a Nil net book value was transferred from Pegasus Hotels of Ceylon Ltd. to Carsons Management Services (Pvt) Ltd. This motor vehicle was transferred at Rs. 500,000/-.
22.2 Carson Cumberbatch & Co. Ltd.	D.C.R. Gunawardena M. Selvanathan H. Selvanathan P.C.P. Tissera	<ul style="list-style-type: none"> ● Overdraft facilities obtained from Sampath Bank amounting to Rs. 15,000,000/- is secured on a guarantee given by Carson Cumberbatch & Co. Ltd. ● The long-term loan of Rs. 10 mn. (exposure as at 31.03.2003 - Rs. 3,910,000/-) obtained from Commercial Bank has been guaranteed by Carson Cumberbatch & Co. Ltd.
22.3 Union Assurance Ltd.	D.C.R. Gunawardena H. Selvanathan	Insurance premiums amounting to Rs. 1,154,727/- was paid to Union Assurance Ltd. during the year.

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 unless otherwise indicated)

<i>For the year ended 31st March</i>	2003		2002	
Turnover	58,972,086		59,170,833	
Cost of materials and services bought from outside	(47,019,781)		(53,583,602)	
	11,952,305		5,587,231	
Distributed as follows:		%		%
To Employees as remuneration	14,822,820	124.0	17,745,851	317.6
To Government as taxation*	–		–	–
To Providers of capital as interest on loans	11,557,342	96.7	12,855,792	230.1
Retained in the business				
as depreciation	7,735,289	64.7	7,621,868	136.4
as loss for the year	(22,163,146)	(185.4)	(32,636,280)	(584.1)
	11,952,305	100.0	5,587,231	100.0

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

** Excluding Goods & Services Tax / Value Added Tax*

Information to Shareholders & Investors



I. 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, 2003 was Rs. 8.50/- per share (2002 - Rs. 10/-).

3. ORDINARY SHAREHOLDERS

<i>As at 31st March</i>	2003	2002
No. of Shareholders	856	795

The number of shares held by non-residents as at 31st March, 2003 was 250,144 which amounts to 3.51% of the issued share capital.

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	703	173,668	2.44	17	3,439	0.05	720	177,107	2.49
1,001 - 5,000	98	226,014	3.17	3	10,680	0.15	101	236,694	3.32
5,001 - 10,000	15	104,028	1.46	1	7,179	0.10	16	111,207	1.56
10,001 - 50,000	12	197,870	2.78	1	25,000	0.35	13	222,870	3.13
50,001 - 100,000	1	64,000	0.90	1	69,280	0.97	2	133,280	1.87
100,001 - 500,000	2	458,051	6.43	1	134,566	1.89	3	592,617	8.32
500,001 - 1,000,000	-	-	-	-	-	-	-	-	-
Above 1,000,000	1	5,649,242	79.31	-	-	-	1	5,649,242	79.31
Total	832	6,872,873	96.49	24	250,144	3.51	856	7,123,017	100.00

Categories of Shareholders	No. of Shareholders	No. of Shares	%
Individuals	810	744,854	10.46
Institutions - Carsons Group	01	5,649,242	79.31
- Others	45	728,921	10.23
Total	856	7,123,017	100.00

The percentage of shares held by the public as at 31st March, 2003 - 20.69% (2002- 20.69%).



Information to Shareholders & Investors (Contd.)

4. SUBSTANTIAL SHAREHOLDINGS

<i>As at 31st March</i>	2003		2002	
Name of Shareholder	No. of Shares	% Holding	No. of Shares	% Holding
Carson Cumberbatch & Co. Ltd.	5,649,242	79.31	5,649,164	79.31
DFCC Bank	307,200	4.31	307,200	4.31
D.P.M.C. Financial Services (Pvt) Ltd.	150,851	2.12	150,951	2.12
Mrs. E.E.M. Woodward	134,566	1.89	134,566	1.89
Thurston Investments Ltd.	69,280	0.97	69,280	0.97
Keystone Ltd.	64,000	0.90	64,000	0.90
Ceylon Hotels Corporation	40,000	0.56	40,000	0.56
Mr. T. Balasubramaniam & Dr. Mrs. S.S. Balasubramaniam	25,500	0.36	25,500	0.36
Mr. M. Nandakumara	25,000	0.35	-	-
HSBC - National Equity Fund	18,100	0.25	51,900	0.73
Miss D. Captain	16,000	0.22	16,000	0.22
Mrs. P. Captain	15,260	0.21	15,260	0.21
Oxford Garment Industries Ltd.	13,970	0.20	13,970	0.20
First Capital Markets Limited/ Mr. S.H. Jayasuriya	13,300	0.19	-	-
Waldock Mackenzie Limited	11,800	0.17	-	-
Dr. C.M. Fernando	11,520	0.16	11,520	0.16
Mr. P. Wijesekera	11,200	0.16	11,200	0.16
Miss N.S. Rathnagopal	10,660	0.15	10,660	0.15
Mr. S.M.A. Hameed	10,560	0.15	10,560	0.15
Mr. S. M. Sabaratnam	9,800	0.14	10,800	0.18
Mr. G.L.A. Ondaatjie	-	-	37,600	0.53
Mr. M. Radhakrishnan	-	-	24,400	0.34
Mrs. E.C. Rodrigo	30	-	12,363	0.17
Mrs. M.A. De Silva	-	-	10,000	0.14

5. MARKET VALUES & SHARE TRADING

<i>For the year ended 31st March</i>	2003	2002
Highest (Rs.)	14.50	17.25
Lowest (Rs.)	8.00	3.00
Volume traded (No. of shares)	458,300	4,048,100
No. of trades	379	221
Value of shares traded (Rs.)	5,214,275	31,843,300

6. 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. 60,545,645/- as at 31st March, 2003 (2002 - Rs. 71,230,170/-).

7. NUMBER OF EMPLOYEES

The number of employees at the end of the year was 118 (2002 - 156).

Financial Highlights



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

Year ended 31st March	2003	2002	2001	2000	1999
TRADING RESULTS					
Turnover (net)	58,972,086	59,170,833	90,869,472	86,666,813	104,267,856
(Loss)/profit from operations	(10,605,804)	(19,780,488)	(1,472,526)	2,163,299	18,170,785
Finance cost	(11,557,342)	(12,855,792)	(12,481,969)	(9,577,006)	(10,197,565)
(Loss)/profit before taxation	(22,163,146)	(32,636,280)	(13,954,495)	(7,413,707)	7,973,220
Taxation	-	-	-	-	-
(Loss)/profit after taxation	(22,163,146)	(32,636,280)	(13,954,495)	(7,413,707)	7,973,220
SHAREHOLDERS' FUNDS					
Ordinary share capital	71,230,170	71,230,170	71,230,170	71,230,170	71,230,170
Reserves	176,580,868	198,744,014	231,380,294	82,853,509	90,267,216
Shareholders' funds	247,811,038	269,974,184	302,610,464	154,083,679	161,497,386
ASSETS EMPLOYED					
Property, plant & equipment	401,942,803	408,696,931	414,691,501	252,941,283	241,857,119
Current assets	11,569,879	14,123,876	33,513,604	23,855,909	39,368,592
Current liabilities	(153,246,099)	(130,070,201)	(120,229,239)	(85,239,434)	(112,477,191)
Working capital	(141,676,220)	(115,946,325)	(86,715,635)	(61,383,525)	(73,108,599)
Assets employed	260,266,583	292,750,606	327,975,866	191,557,758	168,748,520
Creditors due after one year	(10,765,000)	(21,260,990)	(23,942,608)	(36,070,216)	(5,846,634)
Deferred liabilities	(1,690,545)	(1,515,432)	(1,422,794)	(1,403,863)	(1,404,500)
Net assets	247,811,038	269,974,184	302,610,464	154,083,679	161,497,386
PROFITABILITY					
Profit margin (%)	-	-	-	-	7.65
Return on shareholders' funds (%)*	-	-	-	-	4.94
Return on equity (%)**	-	-	-	-	11.19
LIQUIDITY					
Current ratio (times)	0.08	0.11	0.28	0.28	0.35
DEBT RATIO					
Debt equity (%)	61	50	41	47	44
INVESTOR RATIOS					
(Loss)/earnings per share (Rs.)	(3.11)	(4.58)	(1.96)	(1.04)	1.12
Net assets per share (Rs.)	34.79	37.90	42.48	21.63	22.67
Market price per share (Rs.)	8.50	10.00	5.00	7.00	8.00
HOTEL OPERATIONS					
Occupancy (%)	25	26	48	44	57
(based on 140 rooms)					

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 THIRTY-SEVENTH Annual General Meeting of the Company will be held at 11.00 a.m. on Thursday the 22nd day of May, 2003 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, 2003, together with the Report of the Auditors thereon.
2. To re-elect Mr. H. Selvanathan 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.
Managers & Secretaries

Colombo
29th April, 2003

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 11.00 am on Tuesday the 20th May, 2003.*
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,
Godaliyanage Udaya Nanayakkara	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 11.00 a.m. on Thursday the 22nd day of May, 2003 at Pegasus Reef Hotel, 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, 2003 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To re-elect Mr. H. Selvanathan 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
ofTwo Thousand and Three.

.....
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. Kindly perfect the form of proxy after filling in legibly your full name and address, by signing in the space provided. Please fill in the date of signature.
2. A proxy need not be a member of the Company.
3. If the shareholder is a Company or Body Corporate, the form of proxy should be executed under its common seal in accordance with its Articles of Association or Constitution.
4. If the form of proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed form of proxy if it has not already been registered with the Company.
5. 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 11.00 am on Tuesday the 20th May 2003.



Please complete and return this Form on or before 12th May, 2003

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

"37th Annual General Meeting"

Full Name :.....

Address :.....

..... Tel :

Kindly tick (✓) appropriate Box

Attending the Meeting and Lunch on 22nd May, 2003

Yes	No
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Signature :.....

