

PEGASUS REEF



ANNUAL REPORT 2011/2012

Excellence is the
foundation on which
Pegasus Hotel operates...

A BUSINESS FUSION OF EXCELLENCE

As business climates evolve, excellence is constantly redefined as we strive to break the mold in the leisure industry.

Exceeding guests expectations...
With nearly fifty years of experience,
Pegasus Hotel is an expert at creating
leisure experiences designed
to exceed most guests expectation...



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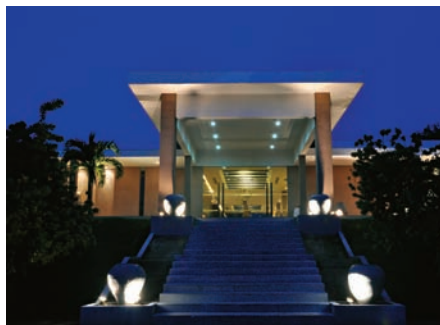
FINANCIAL HIGHLIGHTS



(All figures are in Sri Lankan Rupees Thousands)

	2012	2011	Change %
Group revenue	425,975	289,104	47
Profit from operations	136,603	69,475	97
Profit before taxation	127,722	59,116	116
Profit after taxation	112,491	48,850	130
Operating cash flow	129,195	192,565	(33)
Net assets	1,208,875	1,006,441	20
Total assets	1,532,894	1,316,232	16
Return on ordinary shareholders' funds (%)	9.31	4.85	92
Earnings per share (Rs.)	4.10	1.78	130
Net assets per ordinary share (Rs.)	44.20	36.80	20
Dividend per share (Rs.)	0.50	0.30	67
Market value per share (Rs.)	38.00	71.00	(46)
Market capitalization (Company)	1,039,391	1,942,019	(46)

CHAIRMAN'S STATEMENT



On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Pegasus Hotels of Ceylon PLC for the financial year ended March 2012.

The economy

With the cessation of prolonged conflict of war and the subsequent measures taken by the Government, there is a revival in the tourism industry with the removal of the travel adversaries.

Industry performance

As per the Sri Lanka Tourism statistics, foreign tourist arrivals to Sri Lanka was a record high of 654,476 in 2010 with a 46.1 percent year-on-year rise and was able to surpass the previous record of 566,202 set in 2004.

Our performance during the year

The year under review was a transition year for the Hotel industry. The improvement in tourist arrivals over the last financial year has contributed to the improved financial performance of the Company and the Group. The Group ended the year with a net profit after tax of Rs. 112.5 mn, an increase of Rs. 45.09mn in comparison to the profit of Rs. 63.6mn recorded in the year 2011 which is a 130% increase. The revenue of the Company recorded a growth of 24% over the previous year, whereas the revenue of the Group recorded Rs. 426.0mn compared to Rs. 289.1mn recorded in the comparative period. This growth is remarkable in a year when the global economy was under tremendous pressure and most countries recorded negative growth in tourist arrivals. The performance of the company improved due to the peace environment in the country,

higher tourist arrivals resulting in higher occupancy and increase in Average Room Rate (ARR) due to the implementation of the minimum room rate notified by the Government.

"The year under review was a transition year for the Hotel industry. The improvement in tourist arrivals over the last financial year has contributed to the improved financial performance of the Company and the Group."

Conclusion

On behalf of the Board of Directors, I extend my sincere thanks to the members of the staff and all stakeholders at all levels for their dedicated service and contribution to the Company. I also wish to thank my colleagues on the Board, Audit Committee and the Remuneration Committee for their continued guidance and support.

(Sgd).

D.C.R. Gunawardena
Chairman

2nd May 2012



Giritala Hotel

THE CITY RESORT THAT IS JUST RIGHT!

For many years now, Pegasus Reef Hotel has been building a reputation as the right choice for a business traveller who wants to be by the ocean. Offering the finest of leisure options combined with efficient and comprehensive business facilities, Pegasus has now firmly established its claim...





Giritale Hotel

REVIEW OF OPERATIONS



Pegasus Reef Hotel

A four star classified city resort, situated in the west cost of Sri Lanka close to Colombo with ample garden space, sunshine beaches facing the Colombo international port and geared to cater to the local and foreign tourist, business or leisure oriented.

Industry boom

After the cessation of hostilities in May 2009, a very conducive business environment was created for tourism, with statistics indicating a definite increase of tourist traffic to the country.

Therefore, Sri Lanka tourism will continue to expedite successful programmes conducted during 2011, attracting nearly 200 journalists from reputed media institutes around the world to generate positive publicity, based on their first hand experience to attract potential travelers to the destination. This year Sri Lanka tourism focuses on web page marketing, the visiting journalist programme and trade positive results. Social network page of Sri Lanka Tourism has been very popular on facebook; the Sri Lanka Tourism facebook fan page has recorded a growth of 55%, reaching 4.3 mn viewers.

Sri Lanka tourism will work closely with foreign missions and Sri Lankan airlines offices abroad to undertake promotions. The tourism industry will continue its participation in more than 16 trade fairs annually such as London, ATM Middle East and Topreza France, which represent important markets for Sri Lanka tourism. All promotional activities and strategic planning are aimed to achieve the target of 2.5 mn

tourists by 2016. Accordingly, the tourism industry is expected to take a quantum leap in serving the country at all levels of economic, social and cultural facets and addressing wider issues related to covering sustainability, manpower, infrastructure development, improving service standards, regulate public relations and tourist safety on a wider scale to boost the industry.

Operations

In the process of steady improvement for the year 2011, tourist arrivals to Sri Lanka has increased 30% compared to the previous year. As a destination, Sri Lanka made a significant impression on European and Asian travelers and this increase in demand and the improved facilities offered by the hotel had a very positive impact on the revenue generated by the hotel.

The hotel will be upgrading the interiors of further 1/3rd of its rooms and fully refurbish its to the banquet halls from mid June, without any hindrance to the hotel operations. A totally new landscaping programme too is underway to blend the garden area with the theme of the hotel.

The international food safety management standard Swiss Certification, the ISO 22000:2005 was awarded to the Pegasus Reef Hotel for a period of three years from 1st November 2011.

With the increased occupancy rate and a healthy average room rate, the financial year ended at an operational profit of Rs. 136.6 mn and net profit of Rs. 112.5 mn after tax for the Group.

Markets

We expanded to new market destinations (Israel, Spain and Australia) with the support of travel agents and tour operators whilst continuing with the existing group bookings, tying up with leading tour operator brochures.

The hotel has been rated as photographic location by the Bridal photographic Association, increasing the demand, as a venue for weddings. Continuing popularity as a MICE location, weekend buffets and special F&B promotions has also contributed to the increased revenue.

As marketing strategies, the hotel web site has been revamped and upgraded to facilitate on line reservations, hoardings were placed in the strategic points of the city and the distribution of brochures with enhancing images of the hotel.

The Hotel is in the process upgrading the beachfront with enhanced facilities and attractions for long stay tourists and MICE market clients.

Entire ground floor rooms and Restaurant areas were fully refurbished, the Gym was fully air-conditioned and facilitated with new gym equipment. Club Members are offered discounts and value added services to attract more membership and generate related revenue.

Restaurant & banquet

Rasaketha, the open air Restaurant with an ocean view and a seating capacity of more than 200 guest at one seating, out door dining facilities in the garden and beach area



Giritale Hotel



are some of the facilities offered to guest dining at the hotel.

We serve a wide range of international, theme and authentic local cuisine in theme nights and Buffets. Well trained customer oriented staff offering value added food & beverage services complement our excellent food.

The week-end Buffets are popular as we offer exclusive family oriented facilities and entertainment for both adults and kids with our animation team in attendance.

Banquet and conference halls with a capacity range of 50 to 550 are available for day and residential conferences, event management activities, receptions and weddings. The vast garden space and pool area offer the clients an environment of relaxation after lengthy indoor conferences and also serves as a location for private functions.

The long beach stretch is ideal for special functions such as beach carnivals, beach B.B.Qs, beach volleyball and bonfire dinners and as special day and night promotional activities. The hotels North lawn area is also available for day outings for more than 1000 pax and micro level sports meets and various outdoor activities.

Front office

Round the clock operated front office helps in organizing of recreational activities and excursions, assistance to the sales and marketing department for room reservations and banquet sales, tourist information and locations and in-house promotional activities

Comfort zone

The hotel has facilities of Swimming pool, gymnasium, squash, tennis and indoor games such as table tennis, carom and chess. In addition, we offer boutique style souvenir shop, and spa facilities.

The hotel has a fully equipped laundry with in-house treated water using a modern water treatment plant. The Pegasus Laundromat is popular among customers and the hotel is in the process of opening two more outlets in addition to the two in Wattala.

Investing in new technology

The hotel has been upgrading its technology gradually, such as the Computer network system, conference equipment, maintenance equipment, communication network system and room key card systems.

The new air condition chiller and a second generator with higher capacity have been commissioned to meet the current and future demands. Due to this, the hotel has an effective back up system, in case of any emergency, to run its normal operations without any discomfort to the guest.

Internal customer & CSR programme

Due recognition is given to the staff members for outstanding performance and are elevated to suitable positions. Special rewards are offered to get maximum productivity.

Departmental training programmes are conducted for internal staff and school leavers of the area to improve employee knowledge and as a CSR project for the school leavers to procure employment.

A programme is underway to station lifeguards with the help of the Sri Lanka Coast Guard Life Saving Unit along the hotel beachfront.

The Hotel is in the process of training and supplying First-aid kit boxes to near by schools, with the assistance of the St. Johns Ambulance Brigade.

Compensation receivable on land acquired

The status of the claim made on the portion of the hotel land acquired by the government has progressed to the Valuations Department. However, we believe that it had been referred back to the Divisional Secretary for technical clearance.

The Company is in constant dialogue with the Divisional Secretary and other relevant authorities to expedite the claim process.

Carsons Management Services (Private) Limited Managers

2nd May 2012

PROFILES OF DIRECTORS

Chandima Gunawardena

Chandima Gunawardena is a Director of Carson Cumberbatch PLC. He serves as a Director in most of the Carsons Group Companies in Sri Lanka and overseas. Since assuming Non Executive status in the group he currently serves as an advisor to the group's strategic planning and management forums and serves on Board Committees including its Audit Committees of the Group.

Mr. Gunawardena has over four decades of experience in varied fields of business and commercial activities and has held senior positions in the Corporate, Mercantile and State Institutions. He was appointed to the Carsons Group Directorate in 1990.

He has served in the Management Committee of the Ceylon Chamber of Commerce for over 10 years, and was a Founder Council member of the Sri Lanka Institute of Directors (SLID) and continued to serve in the council for over 10 years.

He is a Fellow of the Chartered Institute of Management Accountants, UK.

Hari Selvanathan

Hari Selvanathan is the Deputy Chairman of Carson Cumberbatch PLC and President Commissioner of the palm oil related companies in Indonesia. He holds Directorships in several subsidiary companies within the Carsons Group and is also a Director of Sri Krishna Corporation (Private) Limited. He is also the Chairman of Express Newspapers (Ceylon) Ltd and Carsons Management Services (Private) Limited, the Groups Management company. He is also the Past President of the National Chamber of Commerce and Past Vice Chairman of the International Chamber of Commerce (Sri Lanka).

Counts over 20 years experience in commodity trading in International Markets. He holds a Bachelor of Commerce Degree.

Mano Selvanathan

Mano Selvanathan is the Chairman of Sri Krishna Corporation (Private) Limited, Ceylon Finance & Securities (Private) Limited and Selinsing PLC and is a Group Director of most Companies in the Carson Cumberbatch Group in Sri Lanka, Indonesia, Malaysia, Singapore & India and is an active Member of its Executive Management Forums. He is also the Deputy Chairman of Ceybank Asset Management Limited.

He is a Director of Holcim (Lanka) Limited. Past Chairman of the Indo Lanka Chamber of Commerce & Industry and has served as the Chairman of the Ceylon Chamber of Commerce and as the President of the Rotary Club of Colombo North.

Mano Selvanathan was conferred the highest National Honours in Sri Lanka the 'DESAMANYA' title by H.E. the President of Sri Lanka, in recognition of the services rendered to the Nation. In January 2011 he was awarded with the prestigious 'PRAVASI BHARATIYA SAMMAN AWARD' by the President of India in Delhi. He holds a Bachelors Degree in Commerce. He is also the Hon. Consul of the Republic of Chile in Sri Lanka.

Sega Nagendra

Sega Nagendra is a Director of Equity One PLC. He is a Former Senior Director of Carson Cumberbatch PLC and several of its subsidiaries and Associate Companies.

Senior Director & Financial Consultant of CML - MTD Construction Ltd., Executive Chairman Travelserv Ltd., and Travelon Ltd. He is also Chairman & Director of several public listed and private companies.

Past President of Skat International Colombo (International Association of Travel and Tourism Professionals), Past Secretary of the Skat International, Asian Area Region and Past President of the Pacific Asia Travel Association (Sri Lanka Chapter). Immediate Past President of the Sri Lanka Benelux Business Council and also Immediate Past President of the Sri Lanka-Pakistan Business Council. Served as an Executive Committee member of The Ceylon Chamber of Commerce and former Chairman of the Imports Section of the Ceylon Chamber of Commerce.

Former Committee Member on Transport, Highways and Aviation of the Monitoring & Progress Division of the Ministry of Policy Developing and Implementation.

Past President of the Chartered Management Institute - U.K. Sri Lanka Branch. Fellow of the Chartered Management Institute - UK, Master of Business Administration UK and Fellow of the Certified Professional Managers, Sri Lanka.

Pushpakumara Withana

Pushpakumara Withana is a Director of Equity Hotels Limited.

Former Chairman of the Sri Lanka Tourist Board, former Director, Food & Beverage, Keells Hotels Sri Lanka and Maldives and Former Director/General Manager of Keells Hotels. He is also the past Chairman of the Hotel & Catering International Management Association U.K, Sri Lanka Chapter, Past President and Fellow of the Ceylon Hotel School Graduates Association and Past District Governor of the International Association of Lions Clubs Sri Lanka. He is a Graduate of the Ceylon Hotel School.

RISK MANAGEMENT

An effective system of internal control and risk management is instrumental towards enriching business performance and thereby the success of any organization, which is of no exception to the Company, Pegasus Hotels of Ceylon PLC and its subsidiary. In this environment, the Group has acknowledged the importance of a better risk management mechanism, which identifies and measures key risks that the business is confronted with, and to take a proactive role in the decision making process, whereby opportunities are exploited to deliver shareholder value and threats are dealt with appropriately, which could have otherwise lead to losses and business failures in the long run.

Risks are managed until they are mitigated and re-assessed to be within Group's risk appetite.

Risk management in objective setting process

Group-wide risk management practices, policies and procedures are designed around the business objectives of each of the entities, which will act in identification and management of events, situations or circumstances, if occurred, may adversely impact the achievement of each of such objectives.

Enterprise risk management

In formulating and implementing the business plan, the Group has given due consideration to 'Enterprise risk management' formalities, thus ensuring the business priorities are adequately addressed within the set risk management guidelines

and thereby the achievement of desired business objectives.

The risk management process supports;

- Corporate Governance
- Quality of business planning
- Audit planning
- Project planning and implementation
- Building confidence of various stakeholder groups

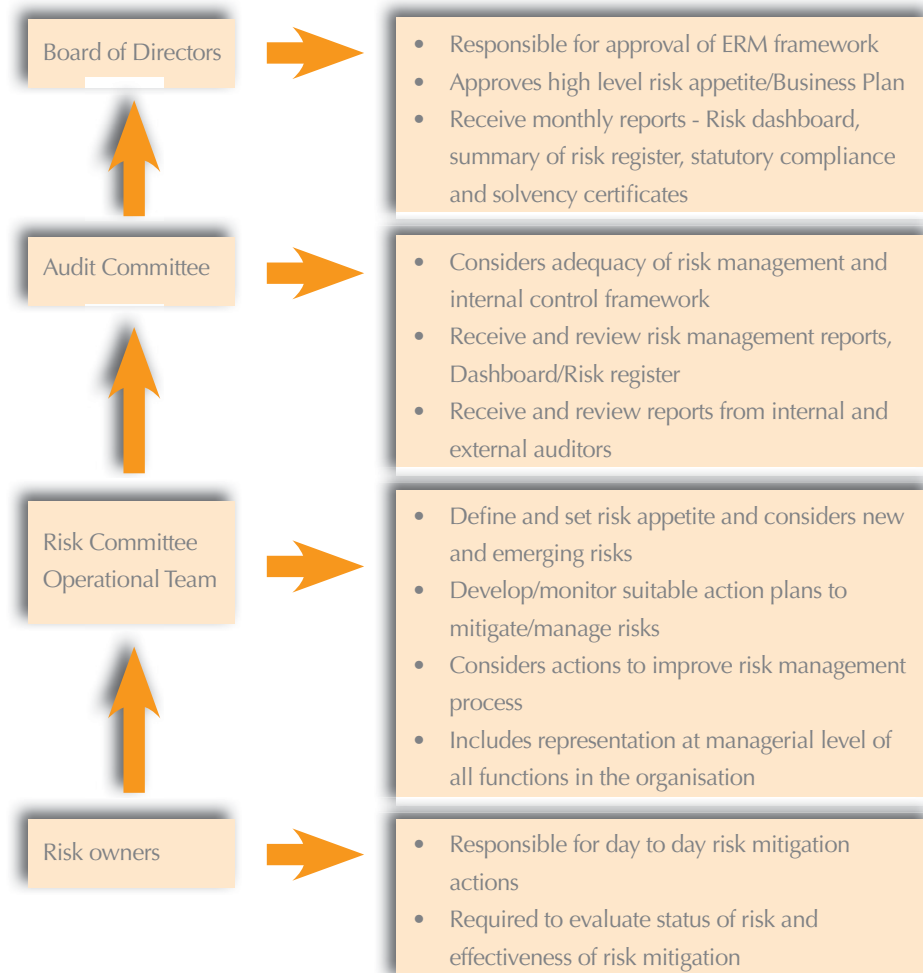
Risk management gives additional comfort that the relevant internal control systems

are in place and provides assurance to Management/Board of Directors that processes are robust and working effectively.

Risk management governance structure

Enterprise Risk Management extends to include a reporting framework, which mandates the mode and frequency of communication within the organisation and to the Board of Directors, thereby keeping the relevant parties informed and enabling the Directors to assume their supervisory function for better Corporate Governance.

Risk Management Governance Structure



Optimizing the Audit Committee and Internal Audit function for better risk management

Group Internal Audit (GIA) division of the parent Company, Carson Cumberbatch PLC, yearly meets with the Sector Management teams to determine an internal audit plan for the year. Such audit plan will be based on the risk assessment of the sector considering external factors which have implications over the industry as a whole and internal factors deriving from the governance and management structures formulated and practiced within the Group. Such drafted Annual Internal audit plan will be reviewed and approved by the Audit Committee.

Comprehensive monitoring during implementation of the plan over selected key processes enables the management to identify deficiencies in either the process itself or in activities which aggregates to the entire process. Such findings with suggested improvements are first discussed with the management and then taken for discussion at structured Audit Committee Meetings which are held at the end of each GIA cycle. Agreed mitigating action plans will get in to the next GIA cycle for follow-up whilst any serious matters of concern are escalated upwards to the Board of Directors by the Audit Committee.

The risk management strategy within the Group

The following portray the risk profile of the Group and details the relative impact, risk response and strategies taken on mitigating such risks.

Re-assessment of the risk factors identified, within set timelines and as and when the events dictate, will keep the process abreast and thereby ensure better implementation of group-wide risk management.

Type of Risk	Potential Effect	Mitigating Actions	Impact
Business Risk	Not being able to achieve business objectives	<ul style="list-style-type: none"> • Develop and monitor comprehensive business plans • Budgetary controls and review • Constant monitoring of costs and process efficiencies • Diversification of revenue base 	Low
Compliance and legal Risk	Non compliance with statutory obligations	<ul style="list-style-type: none"> • Group Legal Division reviewing all contracts and agreements prior to signing and obtaining external legal advice on need basis • Regular statutory compliance reviews by Group Internal Audit • Monitoring of tax compliance by Group Tax Division • Implementation of standard guidelines and checklists to monitor statutory payments and obligations 	Low
Market Risk	Lower than anticipated demand/revenue	<ul style="list-style-type: none"> • Diversity of revenue sources • Maintain and build relationships with tour operators • Participation in relevant trade and business promotions, locally and internationally • Maintaining value and standard of the hotel through refurbishment 	Moderate
Operational Risk	Failure to comply with expected performance standards	<ul style="list-style-type: none"> • Continuous and regular training of Staff • Independent review and monitoring of internal control systems including customer feedback/complaints 	Low
Finance and Liquidity Risk	Inability to raise funds or effect payments when required	<ul style="list-style-type: none"> • Maintaining adequate borrowing facilities • Monitoring of cash flows and forecasts • Support from parent Company 	Low
Credit Risk	Inability to collect dues from customers	<ul style="list-style-type: none"> • Implementation of credit policy • Continuous and regular evaluation of creditworthiness of customers 	Low

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The details set out herein provide the pertinent information required by the Companies Act, No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and recommended best accounting practices. The Annual Report was approved by the Board of Directors on 2nd May 2012.

1 General

The Directors have pleasure in presenting to the shareholders their report together with the audited consolidated financial statements for the year ended 31st March 2012 of Pegasus Hotels of Ceylon PLC (the "Company"), a public limited liability company incorporated in Sri Lanka in 1966.

2 The Principal Activities of the Company and its subsidiary

The principal activities of the Company and its subsidiary are engaged in hoteliering and leisure related activities within the Carson Cumberbatch Group.

There were no significant changes in the nature of the principal activities of

the Company and its Subsidiary during the financial year under review.

3 Review of Operations and Future Developments

The Chairman's Statement and Review of operations on pages 3 to 7 provide an overall assessment of the business performance of the Company and the Group and its future developments.

These reports together with the audited consolidated financial statements reflect the state of affairs of the Company and the Group.

4 Financial Statements

The consolidated financial statements which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and Notes to the financial statements of the Company and the Group for the year ended 31st March 2012 are set out on pages 26 to 51. These financial statements do comply with the requirements of the Companies Act, No. 7 of 2007.

4.1 Revenue

The Company and the Group generated revenue of Rs.335.6mn and Rs.426.0mn (2011 - Rs. 269.9mn and Rs. 289.1mn). A detailed analysis of the revenue for the period is given in note 11 to the financial statements.

4.2 Financial results and appropriations

An abridgement of the financial performance of the Company and the Group is presented in the table below.

4.3 Significant accounting policies

The accounting policies adopted in the preparation of these financial statements are given on pages 30 to 37. There have been no changes in the accounting policies adopted by the Company and the Group during the year under review.

4.4 Property, plant and equipment

Details of property, plant and equipment are given in note 17 to the financial statements. There were no significant changes in the property, plant and equipment since the last financial year.

Financial results and appropriations

(In Rupees thousands) For the year ended 31st March	Group		Company	
	2012	2011	2012	2011
Profit for the year	112,491	48,850	91,398	46,302
Retained earnings/(accumulated losses) brought forward from previous year	30,423	(18,427)	27,875	(18,427)
Retained earnings before appropriations	142,914	30,423	119,273	27,875
Dividend paid	(8,203)	-	(8,203)	-
Retained earnings carried forward	134,711	30,423	111,070	27,875

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

4.4.1. Market value of freehold properties

The Company and the Group has recognised the carrying value of its land and building in the Balance Sheet on revalued amounts in accordance with Sri Lanka Accounting Standard No. 18 (Revised 2005) 'Property, Plant and Equipment'.

Accordingly, a professional valuation was performed by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka) an independent professional valuer on 31st March 2012 based on which a revaluation surplus on the building was recognised amounting to Rs. 111.5 mn.

During the financial year 2010/2011, a revaluation gain was recognised on freehold land to the value of Rs. 136.2mn, based on a professional valuation performed by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka) an independent professional valuer.

4.5 Capital expenditure

The details of capital expenditure of the Company and the Group are as follows.

(In Rupees thousands)	Group		Company	
	2012	2011	2012	2011
Property, plant and equipment	78,234	20,581	70,609	19,449

4.6 Reserves

As at 31st March 2012, the Group's total reserves stood at Rs. 810.0mn (2011 - Rs. 607.5mn) comprising capital reserves of Rs. 675.1mn (2011

- Rs.576.9mn) and revenue reserves of Rs. 134.9mn (2011 - Rs. 30.6mn).

The total reserves of the Company stood at Rs. 786.3 mn (2011 - Rs. 605.0mn) comprising capital reserves of Rs. 675.1mn (2011 - Rs. 576.9mn) and revenue reserves of Rs. 111.2mn (2011 - Rs. 28.1 mn).

The movements are set out in the Statement of Changes in Equity and notes 24 and 25 to the financial statements.

5 Independent Auditors' Report

The Independent Auditors' Report on the financial statements is given on page 25 of the Annual Report.

6 Statement of Directors' Responsibilities

Statement of Directors' responsibilities on the financial statements is given on page 22 of this Annual Report.

7 Interests Register

The Company maintains an Interests Register conforming to the provisions of the Companies Act, No. 07 of 2007. All Directors have made declarations as provided for in Section 192(2) of the Companies Act aforesaid.

The Interests Register is available for inspection as required under the Companies Act.

7.1 Remuneration of Directors

Directors' remuneration in respect of the Company for the financial year ended 31st March 2012 is given in note 13 to the financial statements on page 38.

7.2 Directors' interest in contracts and shares

Directors' interests in transactions of the Company are disclosed in note 33 to these financial statements and have been declared at meetings of the Directors. The Directors have had no direct or indirect interest in contracts or proposed contracts in relation to the business of the Company.

The following Directors of the Company did not have any interests in ordinary shares of the Company as at 1st April 2011 or as at 31st March 2012.

- 1 Mr. D.C.R. Gunawardena
- 2 Mr. M. Selvanathan
- 3 Mr. H. Selvanathan
- 4 Mr. S. Nagendra
- 5 Mr. P.M. Withana

8 Directors

The names of the Directors who served during the year are given under the Corporate information in the inner back cover of the Annual Report.

8.1 Directors to retire by rotation

In terms of Articles 72, 73 and 74 of the Articles of Association of the Company, Mr. D.C.R. Gunawardena retires by rotation and being eligible offers himself for re-election.

8.2 Appointment of Director who is over 70 years of age

Upon the recommendation of the Nomination Committee of the Company and the Board, it is recommended that Mr. S. Nagendra, who is over 70 years of age, be re-appointed as a Director of the Company for a further period of one year from the conclusion of the Annual General Meeting and that the age limit stipulated in Section 210 of the Companies Act, No.7 of 2007 shall not be applicable.

9 Corporate Governance

Given below is the status of compliance of Corporate Governance Rules as per the Listing Rules of the Colombo Stock Exchange.

9.1 Board of Directors

The following Directors held office as at the balance sheet date and their brief profiles are given on page 8 of the Annual Report.

Name of the Director	Executive/Non-Executive/Independent
Mr. D.C.R. Gunawardena	Non-Executive
Mr. M. Selvanathan	Executive
Mr. H. Selvanathan	Executive
Mr. S. Nagendra	Non-Executive/Independent
Mr. P.M. Withana	Executive
Mr. K.C.N. Fernando (Alternate Director to Mr. M. Selvanathan)	

- The Board has determined that Mr. S. Nagendra is an Independent, Non Executive Director in spite of being on the Board for more than 9 years, since he is not directly involved in the management of the Company.

The Board is working towards meeting the CSE criteria, in respect of Non Executive Independent Directors on the Board.

The Committee has formulated a remuneration policy based on market and industry factors and individual performance for all Group companies.

Aggregated remuneration paid to the Directors of the Company is disclosed under note 13 on page 38 of this Annual Report.

9.2 Remuneration Committee

As per the Rule 7.10.5 of the listing rules of the Colombo Stock Exchange, the Remuneration Committee of Carson Cumberbatch PLC (CCPLC), the parent company, functions as the Remuneration Committee of the Company and comprises of the following members;

Remuneration Committee members	Executive/Non Executive/Independent
Mr. I. Paulraj - (Chairman)	Non Executive/ Independent Director of CCPLC
Mr. M. Moonesinghe	Non Executive/ Independent Director of CCPLC
Mr. D.C.R. Gunawardena	Non Executive Director of CCPLC

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

9.3 Audit Committee

As per the Rule 7.10.6 of the Listing Rules of the Colombo Stock Exchange the Audit Committee of Carson Cumberbatch PLC (CCPLC), the parent Company, functions as the Audit Committee of the Company and comprises of the following members. Additionally, Mr. Tennyson Rodrigo was the Expert Advisory member to the Leisure Sector.

Audit Committee members	Executive/Non Executive/Independent
Mr. Vijaya Malalasekera	Non Executive/ Independent Director of CCPLC
Mr. Chandima Gunawardena	Non Executive Director of CCPLC
Mr. Faiz Mohideen	Non Executive/Independent Director of CCPLC

In May 2012, Mr. Tennyson Rodrigo stepped down from the position of Expert Advisor to the Audit Committee of the Leisure Sector.

The Audit Committee Report is given on pages 20 to 21 of this Annual Report.

9.4 Directors meeting attendance

Four (4) Board meetings were convened during the financial year and the attendance of the Directors was as follows

Director	Meetings attended (out of 4)
Mr. D.C.R. Gunawardena	4
Mr. M. Selvanathan	3
Mr. H. Selvanathan	3
Mr. S. Nagendra	4
Mr. P.M. Withana	4

10 Nomination Committee

A Nomination committee of the Company was formed on the 01st April 2012 and comprises of the following Members.

Nomination Committee members	Executive/Non Executive/Independent
Mr. S. Nagendra (Chairman)	Non-Executive/Independent
Mr. D.C.R. Gunawardena	Non-Executive

The primary objective of the Nomination Committee is to lead the process for Board appointments of new Directors to the Board and the nominations of members to represent the Company in Group Companies / Investee Companies.

11 Internal Control And Risk Management

The ultimate responsibility to establish, monitor and review a Group-wide internal control system rests with the Board of Directors. The intensity, depth and the tolerance limits for each component of the internal control

system would be based on the weight of the element of risk imposed on the sustenance of the business by the respective area of operation. Whilst a strong internal control system would mitigate the crystallization

of risk elements to a greater extent, employment of external support structures would also be necessary based on the risk assessments made thereon.

Effective maintenance of internal controls and risk identification and mitigation is handed down to the respective members of Senior Management within the guidelines of benchmark policies, procedures and authority limits clearly laid down.

Group Internal Audit, whose scope of scrutiny is entirely driven by the grading of the risk involved will be monitoring and providing the feedback to the management and the respective Audit Committees. Regular submission of compliance and internal solvency certificates vouched by the heads of the respective divisions as a mandatory agenda item keeps the Directors abreast of the health of the Company and the Group's resource base and governance requirements.

This allows the Board to have total control of the fulfillment of governance requirements by providing opportunity to take timely preventive action in case of potential deterioration of status quo. More detailed description of the risk management strategies of the Company is given on pages 9 to 10.

12 Independent Auditors

Company's Auditors during the year under review were Messrs. KPMG, Chartered Accountants.

A sum of Rs. 191,500/- and Rs. 336,225/- (2011 - Rs. 166,000/- and Rs. 268,000/-) was paid to them by the Company and the Group respectively as audit fees for the year ended 31st March 2012. In addition to the above, the auditors were paid Rs. 382,000/- and Rs. 382,000/- (2011 - Rs. 356,000/- and Rs. 456,000/-) as professional fees for audit related and non-audit services for the Company and the Group respectively.

The retiring auditors have expressed their willingness to continue in office. A resolution to re-appoint them as auditors of the Company and authorizing the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

The Audit Committee reviewed the appointment of the auditors, its effectiveness and their relationship with the Company and its subsidiaries, including the level of audit and non-audit fees paid to the auditor.

12.1 Auditors' relationship or any interest with the Company

The Directors are satisfied that, based on written representations made by the independent auditors to the Board, the auditors did not have any interest

with the Company and its subsidiary that would impair their independence.

13 Significant Events During the year

13.1 Rights issue of shares

Rights Issue of 01 new ordinary share for every 09 existing shares at a price of Rs. 36/50 was recommended by the Board of Directors on 10th February 2012 to raise Rs. 110.9 mn.

An Extraordinary General Meeting in this regard was held on 20th March 2012 to seek approval of shareholders and the approval was received to provisionally allot 3,039,153 ordinary shares. Last day of Acceptance of Rights was declared as 10th April 2012.

The rights issue concluded on the 25th April 2012.

14 Related Party Transactions Exceeding 10% of the Equity or 5% of the Total Assets of the Company

The Company carried out transactions in the ordinary course of business with the following related party and the aggregated monetary value of these transactions exceeded 10% of the shareholders equity or 5% of the total assets of the Company as at 19th April 2012.

The details of amounts due to related companies are disclosed in note 29 to these financial statements.

Company	Carson Cumberbatch PLC (CCPLC)
Relationship	Parent Company
Transaction	Carson Cumberbatch PLC, parent Company subscribed for 2,921,748 ordinary shares of the Company at the rights issue of shares for a total consideration of Rs. 106,643,802/- which included the entitlement and the additional shares allotted to CCPLC.

15 Human Resources

The Company continued to invest in human capital development and implement effective human resource practices and policies to develop and build an efficient and effective workforce aligned around new business priorities and to ensure that its employees are developing the skills and knowledge required for the future success of the Company.

The number of persons employed by the Company and the Group as at 31st March 2012 were 180 and 247 (2011 - 156 and 228) respectively.

16 Equitable Treatment to Shareholders

The Company endeavors at all times to ensure equitable treatment to all shareholders.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

17 Environmental Protection

The Company is sensitive to the needs of the environment and makes every endeavour to comply with the relevant environmental laws, regulations and best practices applicable in the country. After making adequate inquiries from the management, the Directors are satisfied that the Company and its subsidiary operates in a manner that minimizes the detrimental effects on the environment and provides services that have a beneficial effect on the customers and the communities within which the Company and its subsidiaries operate.

18 Dividends

Subject to the approval of the shareholders at the Annual General Meeting, a First and Final dividend of Rs. 0.50 per ordinary share is recommended by the Directors for the year ended 31st March 2012 (2011- Rs. 0.30 per share)

The dividend payable has not been accounted for until it is approved at the forthcoming Annual General Meeting.

19 Solvency Test

Taking into account the said distribution, the Directors are satisfied that the Company would meet the solvency test requirement under Section 56(2) of the Companies Act, No. 07 of 2007 immediately after the distribution.

20 Statutory Payments

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

21 Going Concern

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

22 Stated Capital

The stated capital of the Company as at 31st March 2012 was Rs. 398,888,936/- consisting of 27,352,385 ordinary shares. Subsequent to the conclusion of the rights issue of shares on the 25th April 2012, the stated capital was Rs. 509.8 mn consisting of 30,391,538 ordinary shares.

The movement in stated capital of the Company is given in note 23 to the financial statements.

23 Events After the Balance Sheet Date

Rights Issue of 01 new ordinary share for every 09 existing shares at a price of Rs. 36/50 was recommended by the Board of Directors to raise Rs.110.9 mn.

An Extraordinary General Meeting in this regard was held on 20th March 2012 to seek approval of shareholders and the approval was received to provisionally allot 3,039,153 ordinary shares. Last day for Acceptance of Rights was declared as 10th April 2012. The rights issue concluded on the 25th April 2012.

24 Contingent Liabilities and Capital Commitment

The contingent liabilities and capital commitments made on account of capital expenditure as at 31st March 2012 are given in note 31 to the financial statements.

25 Corporate Donations

There were no donations granted during the year.

26 Share Information

The details relating to earnings, net assets, market value per share and information on share trading is given on pages 52 and 54 to 55 of the Annual Report.

27 Twenty Major Shareholders with Comparatives

The parent company, Carson Cumberbatch PLC, held 92.75% of the total ordinary shares in issue of the Company as at 31st March 2012. As at 25th April 2012 at the conclusion of the rights issue, Carson Cumberbatch PLC holds 93.09% of the total ordinary shares in issue of the Company.

The twenty Major Shareholders with comparatives

As at 31st March Name of shareholders	2012		2011	
	No. of shares	%	No. of shares	%
Carson Cumberbatch PLC A/C No.2	25,369,210	92.75	25,369,210	92.75
David Pieris Motor Company Limited	165,300	0.60	165,300	0.60
Employees Provident Fund	121,400	0.44	121,400	0.44
Mrs. N.H. Abdul Husein	105,000	0.38	-	-
Mr. K. Kularatnam	99,216	0.36	119,920	0.44
Dee Investments (Pvt) Ltd	83,800	0.31	79,600	0.29
Mrs. I. Gwyn	46,766	0.17	46,766	0.17
Mr. H.W.M. Woodward	42,679	0.16	5,579	0.02
Mr. H.S.M. Pieris	40,000	0.15	40,000	0.15
Mr. S.N.C.W.M.B.C. Kandegedara	30,000	0.11	30,000	0.11
Pan Asia Banking Corporation PLC / Mr.Ravindra Erle Rambukwelle	27,900	0.10	32,500	0.12
Mr. N.W. Wijenayake Kankanamge	27,900	0.10	-	-
Asha Financial Services Limited / Mr.E.M.R.Egodawatte	27,000	0.10	-	-
Dr. C.J. Fernando	21,500	0.08	15,200	0.06
Waldock Mackenzie Limited / Mr.L.P. Hapangama	21,500	0.08	-	-
Mrs. R.M.S.A. Jayakody	20,000	0.07	-	-
Merchant Bank Of Sri Lanka Limited/Union Investment Limited	18,240	0.07	18,240	0.07
Trade-Mart Services (Pvt) Ltd	17,500	0.06	17,500	0.06
Mr. N.K. Punchihewa	15,180	0.06	3,680	0.01
Mr. H. Wickremesinghe	15,000	0.05	15,000	0.05

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Further to the conclusion of the Rights Issue the Twenty Major Shareholders with comparatives.

Name of shareholders	25.04.2012		31.03.2012	
	No. of shares	%	No. of shares	%
Carson Cumberbatch PLC A/C No.2	28,290,958	93.09	25,369,210	92.75
David Pieris Motor Company Limited	165,300	0.54	165,300	0.60
Employees Provident Fund	121,400	0.40	121,400	0.44
Mrs. N.H. Abdul Husein	105,000	0.35	105,000	0.38
Mr. K. Kularatnam	96,397	0.32	99,216	0.36
Dee Investments (Pvt) Ltd	83,800	0.28	83,800	0.31
Mrs. I. Gwyn	55,000	0.18	46,766	0.17
Mr. H.W.M. Woodward	42,679	0.14	42,679	0.16
Mr. H.S.M. Pieris	40,000	0.13	40,000	0.15
Mr. D.F.G. Dalpethado	31,002	0.10	902	0.00
Mr. N.K. Punchihewa	30,180	0.10	15,180	0.06
Mr. S.N.C.W.M.B.C. Kandededara	30,000	0.10	30,000	0.11
Pan Asia Banking Corporation PLC./Mr. Ravindra E. Rambukwelle	27,900	0.09	27,900	0.10
Mr. N.W. Wijenayake Kankanamge	27,100	0.09	27,900	0.10
Asha Financial Services Ltd/Mr. E.M.R. Egodawatte	27,000	0.09	27,000	0.10
Dr. C. J. Fernando	24,388	0.08	21,500	0.08
Mrs. R.M.S.A. Jayakody	22,222	0.07	20,000	0.07
Waldock Mackenzie Limited/Mr. L.P. Hapangama	21,500	0.07	21,500	0.08
Merchant Bank of Sri Lanka Limited/Union Investment Ltd	20,266	0.07	18,240	0.07
Trade-Mart Services (Pvt) Ltd	17,500	0.06	17,500	0.06

28 Annual Report

The Board of Directors approved these consolidated financial statements together with the reviews which forms part of the Annual Report on 2nd May 2012.

The appropriate number of copies of the report would be submitted to the Colombo Stock Exchange, Sri Lanka Accounting and Auditing Standard Monitoring Board and the Registrar of Companies within the given time frames.

The notice of the Annual General Meeting is on page 56 of the Annual Report.

Signed on behalf of the Board,

(Sgd).

D.C.R. Gunawardena
Chairman

(Sgd).

M. Selvanathan
Director

Colombo.

2nd May 2012

29 Annual General Meeting

46th Annual General Meeting of the Company will be held on Monday, 18th day of June 2012 at 11.30 a.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala.

AUDIT COMMITTEE REPORT

As provided by the Colombo Stock Exchange Listing Rules, the Audit Committee of Carson Cumberbatch PLC (CCPLC), the Parent Company is the Audit Committee of the Company.

The members of the Audit Committee are as follows :

Audit Committee members	Executive/Non-Executive/Independent
Mr. Vijaya Malalasekera (Chairman)	Non-Executive, Independent (CCPLC)
Mr. Chandima Gunawardena	Non-Executive (CCPLC)
Mr. Faiz Mohideen	Non-Executive, Independent (CCPLC)

Mr. Vijaya Malalasekera is a Non-Executive, Independent Director of CCPLC and a former Director of Ceylon Tobacco Company PLC.

Mr. Chandima Gunawardena is a Non-Executive Director of CCPLC and in most of its Group Companies.

Mr. Faiz Mohideen, a Non-Executive, Independent Director of CCPLC, was the former Deputy Secretary to the Treasury and a former Director of Bank of Ceylon and Securities and Exchange Commission of Sri Lanka.

The audit aspects of Pegasus Hotels of Ceylon PLC are conducted within the Agenda of CCPLC-Audit Committee and the Committee was advised by Mr. Tennyson Rodrigo as a member of the Panel of Expert Advisors to the Audit Committee of CCPLC, for the Leisure Sector, Property Sector and Investment Sector of the Group. Mr. Rodrigo is a Director of Good Hope PLC and Indo-Malay PLC and was the former Managing Director and Chief Executive of Capital

Development and Investment Company PLC and was the former Chairman of the Audit Committee of Eagle Insurance Company Limited.

In May 2012 Mr. Tennyson Rodrigo stepped down from the position of Expert Advisor to the Audit Committee.

CCPLC-Audit Committee held 04 Meetings during the financial year to discuss matters relating to the Company and the attendance of the Members of the Audit Committee was as follows :

Meetings attended (out of four)	
Mr. Vijaya Malalasekera (Chairman)	04
Mr. Chandima Gunawardena	03
Mr. Faiz Mohideen	04

Mr. Tennyson Rodrigo, the Expert Advisor attended all 04 Audit Committee Meetings.

The Audit Committee Meetings were also attended by the internal auditors and senior management staff members.

The Committee met the external auditors twice during the year, i.e. to discuss the audit scope and to deliberate the draft Financial Report and Accounts. The Audit Committee also met the external auditors, Messrs. KPMG and discussed the draft Financial Report and Accounts, without the management being present.

In accordance with the audit plan formulated and approved by the Audit Committee for the financial year 2011/2012, the Group Internal Audit (GIA) carried out six audits of key processes of Leisure Sector companies.

The findings and contents of the Group Internal Audit reports have been discussed with the management and subsequently the audit reports were circulated to the Audit Committee and to the management.

The objectives of the GIA work was to have an independent review of the system of internal controls as established by the management, its adequacy and integrity vis-à-vis objectives served and to determine the extent of adherence to the controls by staff responsible for the function and to take corrective/preventive action where necessary.

The interim financial statements of Pegasus Hotels of Ceylon PLC have been reviewed by the Audit Committee Members at Audit Committee Meetings. The draft financial statements of Pegasus Hotels of Ceylon PLC for the year ended 31st March 2012 were also reviewed at a Meeting of the Audit Committee, together with the External Auditors, Messrs. KPMG, prior to release of same to the Regulatory Authorities and to the shareholders. The Audit Committee was provided with confirmations and declarations as required, by the Managers, Carsons Management Services (Private) Limited that the said financial statements were prepared in accordance with the Sri Lanka Accounting Standards and the information required by the Companies

Act No. 7 of 2007 therein and presented a true and fair view of the Company's state of affairs as at that date and the Company's activities during the year under review.

The Audit Committee has determined that Messrs.KPMG, Auditors are independent on the basis that they do not carry out any management related functions of the Company.

The Audit Committee has concurred to recommend to the Board of Directors the re-appointment of Messrs. KPMG, Auditors for the financial year ending 31st March 2013, subject to the approval of the shareholders of Pegasus Hotels of Ceylon PLC at the Annual General Meeting.

The purpose of the Audit Committee of CCPLC is as follows :

To assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process and the Company's process for monitoring compliance with laws and regulations, Company policies and procedures and the code of conduct.

To ensure that the internal audit activity is well managed, so that it adds value to the organization by being objective in providing relevant assurance, contributing to the effectiveness and efficiency of governance, risk management and control processes.

(Sgd).

Vijaya Malalasekera

Chairman - Audit Committee

Carson Cumberbatch PLC

2nd May 2012

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 Independent Auditors' Report.

According to the Companies Act, No. 7 of 2007 and 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 and the Group as at the end of the financial year and of the performance 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 judgments and estimates have been made.

The Directors are responsible for ensuring that the Company and the Group maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company and the Group, and for ensuring that the financial statements have been prepared and presented in accordance with Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, and meet with the requirements of the Companies Act, No. 7 of 2007.

They are also responsible for taking reasonable measures to safeguard the assets of the Company and the Group and in this regard to give proper consideration to the establishment and effective operation of appropriate systems of internal control with a view to prevent, detect and rectify fraud 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, in the foreseeable future from the date of approving these financial statements.

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).
K.D. de Silva (Mrs.)
Director
Carsons Management Services
(Private) Limited
Secretaries

Colombo.
2nd May 2012

FINANCIAL STATEMENTS





FINANCIAL CALENDAR

Financial year end
46th Annual General Meeting

31st March 2012
18th June 2012

ANNOUNCEMENT OF RESULTS

Interim Financial Statements published in terms of the Listing Rules of the Colombo Stock Exchange

1st Quarter ended 30th June 2011
2nd Quarter ended 30th September 2011
3rd Quarter ended 31st December 2011

12th August 2011
14th November 2011
14th February 2012

INDEPENDENT AUDITORS' REPORT



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

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+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF PEGASUS HOTELS OF CEYLON PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Pegasus Hotels of Ceylon PLC ("Company"), and the consolidated financial statements of the Company and its subsidiary as at 31st March 2012, which comprise the balance sheet as at 31st March 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 26 to 51 of this Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in

accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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 accounting records for the year ended 31st March 2012 and the financial statements give a true and fair view of the Company's state of affairs as at 31st March 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31st March 2012 and the profit and cash flows for the year

then ended, in accordance with Sri Lanka Accounting Standard, of the Company and its subsidiary dealt with thereby, so far as concerns the shareholders of the Company.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 20 to these financial statements. As explained in the said note, the Company has submitted a claim of compensation to the Divisional Secretary for the compulsory acquisition of the land, and a receivable of Rs. 189,462,924 has been recognized in the financial statements under Non Current Assets. As at Balance sheet date, the Company has not received any confirmation regarding the value of the claim from the Divisional Secretary. This situation indicates the existence of uncertainty as at Balance Sheet date, regarding the recovery and ultimate realisation of the compensation due from the Government of Sri Lanka.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 153(2) to 153(7) of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS

Colombo.

02nd May 2012

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA

Ms. M. P. Perera FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapakse ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

INCOME STATEMENT

(All figures are in Sri Lankan Rupees Thousands)

For the year ended 31st March	Notes	Group		Company	
		2012	2011	2012	2011
Revenue	11	425,975	289,104	335,605	269,859
Direct costs		(197,643)	(147,564)	(157,242)	(138,312)
Gross profit		228,332	141,540	178,363	131,547
Other income	12	10,859	6,015	9,290	5,669
Selling and promotional expenses		(10,913)	(12,694)	(8,693)	(12,279)
Administrative expenses		(91,675)	(65,386)	(67,103)	(58,494)
Profit from operations	13	136,603	69,475	111,857	66,443
Finance costs	14	(8,881)	(10,359)	(7,331)	(10,312)
Profit before taxation		127,722	59,116	104,526	56,131
Income tax expenses	15	(15,231)	(10,266)	(13,128)	(9,829)
Profit for the year		112,491	48,850	91,398	46,302
Basic earnings per share (Rs.)	16	4.10	1.78	3.33	1.69
Dividend per share (Rs.)		0.50	0.30	0.50	0.30

The notes from pages 30 to 51 form an integral part of these financial statements.

Figures in brackets indicate deductions

BALANCE SHEET

(All figures are in Sri Lankan Rupees Thousands)

As at 31st March	Notes	Group		Company	
		2012	2011	2012	2011
ASSETS					
Non-current assets					
Property, plant and equipment	17	1,079,292	907,467	1,048,278	882,890
Intangible asset	18	115,287	115,287	-	-
Investment in subsidiary	19	-	-	110,223	110,223
Compensation receivable	20	189,463	189,463	189,463	189,463
Deferred tax asset	27	-	2,304	-	1,222
Total non-current assets		1,384,042	1,214,521	1,347,964	1,183,798
Current assets					
Inventories	21	13,479	13,320	10,508	10,757
Trade and other receivables	22	56,223	38,372	43,219	28,948
Short-term deposits		49,772	22,656	35,306	20,633
Cash at bank and in hand		29,378	27,363	26,561	28,361
Total current assets		148,852	101,711	115,594	88,699
Total assets		1,532,894	1,316,232	1,463,558	1,272,497
EQUITY AND LIABILITIES					
Equity					
Stated capital	23	398,889	398,889	398,889	398,889
Capital reserves	24	675,099	576,953	675,099	576,953
Revenue reserves	25	134,887	30,599	111,246	28,051
Total equity		1,208,875	1,006,441	1,185,234	1,003,893
Non-current liabilities					
Long-term borrowings	26	25,014	34,182	25,014	33,582
Deferred tax liability	27	17,681	-	17,451	-
Employee benefits	28	8,280	5,910	4,657	3,133
Amounts due to related companies	29	97,219	216,591	67,455	188,509
Total non-current liabilities		148,194	256,683	114,577	225,224
Current liabilities					
Trade and other payables	30	51,852	38,154	40,061	30,730
Long-term borrowings	26	8,568	9,468	8,568	8,568
Amounts due to related companies	29	109,638	-	109,638	-
Current tax liabilities		5,767	5,486	5,480	4,082
Total current liabilities		175,825	53,108	163,747	43,380
Total liabilities		324,019	309,791	278,324	268,604
Total equity and liabilities		1,532,894	1,316,232	1,463,558	1,272,497
Net assets per share (Rs.)		44.20	36.80	43.33	36.70

The notes from pages 30 to 51 form an integral part of these financial statements.

I certify that these financial statements comply with the requirements of the Companies Act, No. 7 of 2007.

(Sgd).

V.R. Wijesinghe

Financial Controller

Carsons Management Services (Private) Limited.

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

Approved & Signed on behalf of the Managers,

Approved and signed on behalf of the Board,

(Sgd).

A.P. Weeratunge

Director

Carsons Management Services (Private) Limited.

2nd May 2012

(Sgd).

D.C.R. Gunawardena

Chairman

(Sgd).

M. Selvanathan

Director

STATEMENT OF CHANGES IN EQUITY

(All figures are in Sri Lankan Rupees Thousands)

Group	Stated Capital	Capital reserves		Revenue reserves		Total equity attributable to equity holders of the parent company
		Revaluation reserve	Capital accretion reserve	General reserve	(Accumulated losses)/retained earnings	
On consolidation	398,889	425,643	15,144	176	(18,427)	821,425
Profit for the year	-	-	-	-	48,850	48,850
Surplus on revaluation of land	-	136,166	-	-	-	136,166
Balance as at 31st March, 2011	398,889	561,809	15,144	176	30,423	1,006,441
Balance as at 1st April, 2011	398,889	561,809	15,144	176	30,423	1,006,441
Profit for the year	-	-	-	-	112,491	112,491
Dividends paid	-	-	-	-	(8,203)	(8,203)
Surplus on revaluation of building	-	111,531	-	-	-	111,531
Deferred tax on revaluation surplus (note 17.3)	-	(13,385)	-	-	-	(13,385)
Balance as at 31st March, 2012	398,889	659,955	15,144	176	134,711	1,208,875

Company	Stated capital	Capital reserves		Revenue reserves		Total equity
		Revaluation reserve	Capital accretion reserve	General reserve	(Accumulated losses)/retained earnings	
Balance as at 1st April 2010	398,889	425,643	15,144	176	(18,427)	821,425
Profit for the year	-	-	-	-	46,302	46,302
Surplus on revaluation of land	-	136,166	-	-	-	136,166
Balance as at 31st March 2011	398,889	561,809	15,144	176	27,875	1,003,893
Balance as at 1st April 2011	398,889	561,809	15,144	176	27,875	1,003,893
Profit for the year	-	-	-	-	91,398	91,398
Dividend paid	-	-	-	-	(8,203)	(8,203)
Surplus on revaluation of building	-	111,531	-	-	-	111,531
Deferred tax on revaluation surplus (note 17.3)	-	(13,385)	-	-	-	(13,385)
Balance as at 31st March, 2012	398,889	659,955	15,144	176	111,070	1,185,234

The notes from pages 30 to 51 form an integral part of these financial statements.

Figures in brackets indicate deductions.

CASH FLOW STATEMENT

(All figures are in Sri Lankan Rupees Thousands)

For the year ended 31st March	Notes	Group		Company	
		2012	2011	2012	2011
Cash flows from operating activities					
Profit before taxation		127,722	59,116	104,526	56,131
Adjustments for:					
Depreciation on property, plant & equipment	17	16,618	15,057	14,154	13,857
Provision for employee benefits	28	2,370	2,092	1,524	1,288
Transfer/ adjustment on property, plant and equipment		(178)	-	-	-
Finance costs	14	8,881	10,359	7,331	10,312
Write-off of property, plant and equipment	13	825	-	825	-
Interest income	12	(4,587)	(1,683)	(4,099)	(1,683)
Profit before changes in working capital		151,651	84,941	124,261	79,905
(Increase)/decrease in inventories		(159)	(1,900)	249	(1,946)
Increase in trade and other receivables		(17,851)	(7,063)	(14,271)	(5,483)
Increase/(decrease) in amounts due to related companies		(9,734)	106,995	(11,416)	110,223
Increase in trade and other payables		13,638	10,109	9,271	8,536
Cash generated from operations		137,545	193,082	108,094	191,235
Gratuity paid	28	-	(201)	-	(179)
Income tax paid		(8,350)	(316)	(6,442)	(316)
Net cash generated from operating activities		129,195	192,565	101,652	190,740
Cash flows from investing activities					
Purchase of property, plant & equipment	17	(78,234)	(20,581)	(70,609)	(19,449)
Proceeds from disposal of property, plant & equipment		675	-	1,773	-
Investment in subsidiary net of cash acquired		-	(109,619)	-	(110,223)
Interest received		4,587	1,683	4,099	1,683
Net cash used in investing activities		(72,972)	(128,517)	(64,737)	(127,989)
Cash flows from financing activities					
Dividend paid		(8,143)	-	(8,143)	-
Loans re-paid during the year	26	(10,068)	(17,725)	(8,568)	(17,500)
Interest paid		(8,881)	(10,359)	(7,331)	(10,312)
Net cash used in financing activities		(27,092)	(28,084)	(24,042)	(27,812)
Net increase in cash and cash equivalents		29,131	35,964	12,873	34,939
Cash and cash equivalents at the beginning of the year		50,019	14,055	48,994	14,055
Cash and cash equivalents at the end of the year (note A)		79,150	50,019	61,867	48,994
Note A - Cash and cash equivalents					
Cash at bank and in hand		29,378	27,363	26,561	28,361
Short-term deposits		49,772	22,656	35,306	20,633
		79,150	50,019	61,867	48,994

The notes from pages 30 to 51 form an integral part of these financial statements.

Figures in brackets indicate deductions.

NOTES TO THE FINANCIAL STATEMENTS

1 Reporting entity

Pegasus Hotels of Ceylon PLC (the "Company") is a limited liability company which is incorporated and domiciled in Sri Lanka. The shares of the Company have a primary listing on the Colombo Stock Exchange.

The registered office and principal place of business of the Company is located at No. 61, Janadhipathi Mawatha, Colombo 1 and Santa Maria Mawatha, Wattala, respectively.

The consolidated financial statements for the year ended 31st March 2012 comprise the financial information of the Company and its subsidiary, Equity Hotels Limited, (together referred to as the "Group" and individually "Group entities").

The principal activity of the Company and the Group is hoteliering and leisure related activities.

There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

The Company and the Group had 180 and 247 (2011 - 156 and 228) employees respectively at the end of the financial year.

2 Statement of compliance

The financial statements of the Company and the Group comprise the Balance Sheet, Statements of Income, Changes in Equity and Cash Flows together with 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 and the requirements of the Companies Act, No. 7 of 2007.

The consolidated financial statements for the year ended 31st March 2012 were authorized for issue by the Board of Directors on 2nd May 2012.

3 Basis of preparation

3.1 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis and applied consistently, except for revaluations of land & building as stated in the respective notes to these financial statements.

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLAS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

3.2 Functional and presentation currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'), which is Sri Lankan rupee.

All foreign currency transactions are converted into functional currency at the rates of exchange prevailing at the time the transactions are effected.

At each balance sheet date, foreign currency monetary items are translated using closing rate, non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction and non-monetary items that are measured at fair value are translated using the

exchange rate at the date when the fair values were determined.

The consolidated financial statements are presented in Sri Lankan Rupees thousands (Rs. '000) unless otherwise stated, which is the Company's and the Group's presentation currency.

Figures in brackets indicate deductions /negative changes.

3.3 Materiality and aggregation

Each material class of similar items is presented aggregated in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

4 Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation and uncertainty that have the most significant effect on the amounts recognised in the financial statements are described below.

4.1 Assessment of impairment

The Company and the Group assesses at each balance sheet date whether there is objective evidence that an asset or portfolio of assets is impaired. In determining whether an asset is impaired or not, the Company and the Group compares the carrying amount of such an asset against the

recoverable amount; being the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that reflects the current market assessments of the time value of money and risks specific to the asset.

Fair value less cost to sell will be based on the available market information as at the date of assessment.

4.2 Current taxation

Current tax liabilities are provided for in the financial statements applying the relevant tax statutes and regulations which the management believes reflect actual liability. There can be instances where the stand taken by the Group on transactions is contested by revenue authorities.

Any additional costs on account of these issues are accounted for as a tax expense at the point liability is confirmed on any of the Group entity.

4.3 Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the level of future taxable profits together with future tax planning strategies.

4.4 Defined benefit plan - Gratuity

The cost of defined benefit plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these

plans, such estimates are subject to uncertainty.

5 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The accounting policies of the Company have been consistently applied by the Group entities where applicable, and deviations if any, have been disclosed.

5.1 Basis of consolidation

5.1.1 Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are exercisable presently, are taken into account.

The financial statements of subsidiary are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The Group uses the 'Purchase method' of accounting to account for business combinations.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

In the circumstances where the Group acquires the controlling interest over

a subsidiary, the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill, and is tested for impairment annually. If the cost of acquisition is less than the Group's share of the identifiable net assets of the subsidiary acquired, the resulting negative goodwill is credited to the Income Statement immediately.

Intra-group transactions, balances and unrealised gains on transactions arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated.

The carrying amount of the investment at the date that such entity ceases to be a subsidiary would be regarded as the cost on initial measurement of a financial asset in accordance with Sri Lanka Accounting Standard 22 - "Accounting for investments".

In the Company's financial statements, investments in subsidiaries are carried at cost less accumulated impairment loss, if any.

5.1.2 Transaction with minority interests

Minority interest represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the Consolidated Income Statement and within equity in the Consolidated Balance Sheet, separately from the equity attributable to the equity holders of the parent.

Any excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at a subsequent increase in the controlling interest over a subsidiary is recognized directly in equity, against the revenue reserves.

NOTES TO THE FINANCIAL STATEMENTS

Gain or loss on disposal to minority interests is recognised in the Income Statement.

5.1.3 Financial year end

The Company and its subsidiary have a common financial year, which ends on 31st March.

Assets and bases of their valuation

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

5.2 Property, plant & equipment and depreciation

5.2.1 Basis of recognition

All items of property, plant & equipment are initially recorded at cost. Where items of property, plant & equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the balance sheet date.

The Company and the Group applies revaluation model to freehold land and building and cost model to all other items included under property, plant and equipment

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 intended use. Expenditure incurred for the purpose of acquiring, extending or improving

assets which are of a permanent nature, enabling to carry on the business or to increase the earning capacity of the business are treated as capital expenditure.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and the Group and its cost can be reliably measured.

Subsequent to the initial recognition of the asset at cost, the revalued properties are carried at revalued amounts less accumulated depreciation thereon and accumulated impairment losses.

5.2.2 Revaluation

The freehold land & buildings are carried at revalued amounts. Revaluations of these assets are carried out at least once in three years in order to ensure that the book value reflects the realisable value.

On revaluation of an asset, any increase in the carrying amount is credited directly to equity under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset which was charged to the Income Statement.

Any decrease in carrying amount is recognised as an expense in the Income Statement or debited directly to equity under revaluation reserve to the extent of any credit balance existing in respect of that asset.

5.2.3 Restoration costs

Expenditure incurred on repairs or maintenance of property, plant & equipment in order to restore or maintain the future economic benefits expected from originally assessed

standard of performance is recognised as an expense when incurred.

5.2.4 Depreciation

The provision for depreciation is calculated using the straight-line method on the cost or revalued amounts of different classes of assets and over periods appropriate to the estimated useful lives of each of such different classes of assets.

Asset category	Number of years
Buildings (On owned land)	3-75
Buildings (On leased land)	Over the lease period
Furniture & fittings	1-20
Plant & machinery	1-14
Equipments	1-14
Computer equipments	3
Cutlery, crockery and glassware	5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation of an asset begins when it is available for use whereas depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

5.2.5 Disposal

The gains or losses arising on disposal or retirement of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment

and are recognised in to the 'Other income/(expenses)' in the Income Statement.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

5.2.6 Capital work-in-progress

Capital work-in-progress represents the accumulated cost of materials and other costs directly related to the construction of an asset. Capital work in progress is transferred to the respective asset accounts at the time it is substantially completed and ready for its intended use.

5.3 Leases - Operating leases

Leases, where the lessor effectively retains substantially all of the risks and benefits of ownership over the term of the lease, are classified as operating leases.

Lease payments are recognised as an expense in the Income Statement on a straight-line basis over the term of the lease.

5.4 Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably.

- Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

The negative goodwill is recognised immediately in the Income Statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

- Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and is probable that they will lead to future economic benefits, are included in the Balance Sheet under the category intangible assets and carried at cost less amortization and any accumulated impairment losses.

Computer software are amortised over their estimated useful economic lives over a period between 3 to 10 years, on straight-line basis.

They are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function/ nature of the intangible asset.

Amortisation is commenced when an asset is available for use.

5.5 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 20 – "Borrowing costs". Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the

qualifying asset for its intended use are completed.

Exchange differences arising from borrowing costs are capitalised to the relevant qualifying asset to the extent of interest rate differential.

5.6 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 items	First in first out basis
Engineering spares and others	Weighted average basis
Linen stock	In the year of purchase at cost and in the second year in use at 25% of the cost

5.7 Trade and other receivables

Trade and other receivables are carried at original invoice amount less provision for impairment of trade receivables, when there is objective evidence that the Company and the Group will not be able to collect all amounts due according to the original terms of the receivables.

The carrying amount of the asset is reduced and the amount of the loss is recognised, if any, in the Income Statement under "Selling and promotional expenses". When a trade receivable is uncollectible, it is written off against the provision for trade receivables. Subsequent recoveries

NOTES TO THE FINANCIAL STATEMENTS

of amounts previously written off are credited against "Selling and promotional expenses" in the Income Statement.

5.8 Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand and bank, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash in hand, bank deposits held in banks and investment in money market instruments, net of bank overdrafts.

5.9 Impairment of assets

The Company and the Group assesses assets or groups of assets for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. If any such indication of impairment exists, the Company and the Group makes an estimate of its recoverable amount. Where the carrying amount of an asset or a group of assets exceeds its recoverable amount, the asset or the group of asset is considered to be impaired and is written down to its recoverable amount. The impairment loss is charged to the Income Statement.

Assets with indefinite useful lives, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment and additionally whenever an indication of impairment exists.

Previously recognised impairment losses are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed, if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying amount, which would have been determined, had no impairment losses were recognized previously.

An impairment loss in respect of goodwill is not reversed.

Liabilities and provisions

5.10 Liabilities

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 non-current 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 these financial statements. Liabilities are recognized when the Company and the Group 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.

5.11 Provisions

Provisions are recognised when the Company and the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

5.12 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events the existence of which will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company and the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably.

The Company and the Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company and the Group. The Company and the Group does not recognize contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

5.13 Employee benefits

5.13.1 Defined benefit plan - Gratuity

The Company and the Group is liable to pay retirement benefits under the Payment of Gratuity Act, No. 12 of 1983.

Defined benefit plan defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation. The liability recognized in the Balance Sheet in respect of defined benefit plan is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the 'Projected Unit Credit method' as required by Sri Lanka Accounting Standard 16 (Revised 2006) - "Retirement benefits".

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of long term government bonds or high quality corporate bonds.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in the Income Statement.

5.13.2 Defined contribution plans - Employees' provident fund and Employee's trust fund

All employees who are eligible for provident fund contributions and trust fund contributions are covered by relevant contribution funds in line with the respective statutes. Employer's contributions to the defined contribution plans are recognised as an expense in the Income Statement when incurred. The employer has no further payment obligations once the contributions have been paid.

5.14 Interest-bearing loans and borrowings

Interest-bearing bank loans are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs arising as a result of the interest-bearing loans and borrowings are dealt with as provided for in note 5.5.

Income Statement

5.15 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the Group, and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and sales taxes, and after eliminating sales within the Group. The following specific criteria are used for the purpose of recognition of revenue:

5.15.1 Room revenue

On a daily basis on the rooms occupied.

5.15.2 Food & beverage revenue

At the time of sale.

5.15.3 Other income

On an accrual basis.

5.15.4 Interest income

On accrual basis.

5.15.5 Gains or losses on the disposal of property, plant & equipment

On accrual basis

5.15.6 Dividend income

At the point where the shareholders' right to receive dividend is established.

5.16 Expenditure recognition

5.16.1 Operating expenses

All expenses incurred in day-to-day operations of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit or loss for the year. Provision has also been made for bad and

doubtful debts, all known liabilities and depreciation on property, plant & equipment.

5.16.2 Finance expenses

Interest expenses are recognised on an accrual basis.

5.16.3 Income tax expenses

Income tax expenses comprise current and deferred taxation. Income tax expenses are recognised in the Income Statement except to the extent that it relates to the items recognised directly in equity, in which case it is recognised in Statement of Changes in Equity.

5.16.3.1 Current taxation

The provision for current tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

The relevant details are disclosed in respective notes to the financial statements.

5.16.3.2 Deferred taxation

Deferred taxation is provided based on the liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The balance in the deferred taxation account represents, the tax applicable to the difference between the written down values of the assets for tax purposes on which tax depreciation has been claimed and the net book values of such assets, offset by the provision for retirement benefit which is deductible for current tax purposes only upon payment.

Deferred tax assets are recognized for all deductible temporary differences,

NOTES TO THE FINANCIAL STATEMENTS

carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the assets is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

5.16.3.3 Economic Service Charge (ESC)

As per the provisions of Economic Service Charge Act, No. 13 of 2006 and amendments thereto, is payable on "liable turnover" and is deductible from the income tax payments. Any unclaimed ESC can be carried forward and settle against the income tax payable in the four subsequent years.

5.16.3.4 Social Responsibility Levy (SRL)

As per the provisions of Finance Act, No. 5 of 2005, and amendments thereto, SRL was introduced with effect from 1st January 2005 and was abolished with effect from 1st April 2011.

SRL was payable at the rate of 1.5% on all taxes and levies chargeable as specified in the first schedule of the Act, until the year 2011.

Earnings per share (EPS)

The Company and the Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

Cash flow statement

Interest paid is classified as financing cash flows, interest received and dividend received are classified as investing cash flows for the purpose of presentation of cash flow statement which has been prepared using the "indirect method".

Related party transactions

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

Events after the balance sheet date

All material and significant events which occur after the balance sheet date have been considered and disclosed in note 32.

6 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Company.

7 Presentation

7.1.1 Offsetting income and expenses

Income and expenses are not offset unless required or permitted by accounting standards.

7.1.2 Offsetting assets and liabilities

Assets and liabilities are offset and the net amount reported in the Balance Sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

8 Directors' responsibility

The Board of Directors is responsible for the preparation and presentation of the financial statements. This is more fully described under the relevant clause in the Directors' report.

9 Comparative figures

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

10 New accounting standards issued but not effective as at balance sheet date

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1 January 2012. Accordingly, these standards have not been applied in preparing these financial statements as they were not effective for the period ended 31 March 2012.

These Sri Lanka Accounting Standards comprise accounting standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRSs.

The Company and the Group is currently in the process of evaluating the potential effects of these standards on its financial statements, with the assistance of an independent consultant. Based on the management's assessment the impact on the financial statements on the adoption of these standards will not be material.

NOTES TO THE FINANCIAL STATEMENTS

(All figures are in Sri Lankan Rupees Thousands)

For the year ended 31st March	Group		Company	
	2012	2011	2012	2011
11 Revenue				
Revenue analysis (net)				
Room revenue	249,849	151,405	192,582	139,432
Food & beverage revenue	164,573	129,790	133,339	122,838
Other revenue	11,553	7,909	9,684	7,589
Net revenue	425,975	289,104	335,605	269,859

	Group		Company	
	2012	2011	2012	2011
12 Other income				
Interest income	4,587	1,683	4,099	1,683
Other income	6,272	4,332	5,191	3,986
	10,859	6,015	9,290	5,669

	Group		Company	
	2012	2011	2012	2011
13 Profit from operations				
Profit from operations is stated after charging all expenses including the following:				
Auditors' remuneration - audit Services	336	268	191	166
- audit related Services	45	-	45	-
- non-audit services	335	456	335	356
Depreciation (note 17)	16,618	15,057	14,154	13,857
Write-off of property, plant and equipment	825	-	825	-
Donations	211	57	73	57
Directors' emoluments	7,492	4,575	7,492	4,575
Directors' fees	-	75	-	75
Personnel costs (note 13.1)	69,380	44,280	50,292	40,800
13.1 Personnel costs				
Salaries, wages and other related expenses	61,168	37,557	44,491	35,139
Defined benefit plan cost - Gratuity (note 28)	2,370	2,092	1,524	1,288
Defined contribution plan cost - EPF & ETF	5,842	4,631	4,277	4,373
	69,380	44,280	50,292	40,800

For the year ended 31st March	Group		Company	
	2012	2011	2012	2011
14 Finance costs				
Interest expenses on long-term loans	3,595	4,677	3,451	4,630
Interest expenses on related company loans	5,286	5,682	3,880	5,682
	8,881	10,359	7,331	10,312
	Group		Company	
	2012	2011	2012	2011
15 Income tax expenses				
15.1				
(a) Current tax				
Current tax expenses (note 15.2)	9,650	7,301	7,840	6,756
Over provision for previous years	(1,019)	-	-	-
	8,631	7,301	7,840	6,756
(b) Deferred taxation				
Effect of changes in tax rates (note 27)	-	2,768	-	2,768
Charge during the year (note 27)	6,600	197	5,288	305
	6,600	2,965	5,288	3,073
	15,231	10,266	13,128	9,829
15.2 Reconciliation between the accounting profit and the tax profit				
Accounting profit before taxation	127,722	59,116	104,526	56,131
Aggregate disallowable claim	33,163	29,036	24,216	26,090
Aggregate allowable claim	(32,518)	(17,722)	(28,230)	(17,307)
Interest income	(4,775)	(1,525)	(4,287)	(1,525)
Tax adjusted profit from operations	123,592	68,905	96,225	63,389
Interest income	4,775	1,683	4,287	1,683
Total Statutory Income	128,367	70,588	100,512	65,072
Utilization of tax losses (notes 15.3)	(44,905)	(24,706)	(35,179)	(22,775)
Taxable income	83,462	45,882	65,333	42,297
Taxation thereon (note 15.4 a)	9,650	6,882	7,840	6,345
Social Responsibility Levy (note 15.4 b)	-	103	-	95
Deemed dividend tax	-	316	-	316
Total current tax expense	9,650	7,301	7,840	6,756
15.3 Analysis of tax losses				
Tax losses brought forward	349,992	346,218	326,792	346,218
On consolidation	-	25,131	-	-
Adjustment on finalisation of liability	-	3,349	-	3,349
Utilization of tax losses during the year (note 15.4 c)	(44,905)	(24,706)	(35,179)	(22,775)
Tax losses carried forward	305,087	349,992	291,613	326,792

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(All figures are in Sri Lankan Rupees Thousands)

15.4 Income tax provisions

- (a) In terms of the provisions of the Inland Revenue Act, No. 10 of 2006 and amendment thereto, the taxable profit of the Company is liable to income tax at 12% (2011 - 15%). The taxable profit of the subsidiary is liable to income tax at a reduced rate of 10% (2011 - 15%), being an undertaking engaged in the provision of a service of which the annual turnover is less than Rs. 300mn for the current year.
- (b) Social Responsibility Levy (SRL) was abolished with effect from 1st April 2011 (2011 - 1.5% of income tax expense)
- (c) The utilisation of tax losses brought forward is restricted to 35% of current year's Statutory Income. Unabsorbed tax losses can be carried forward indefinitely.
- (d) The Company and its subsidiary are liable to pay Economic Service Charge (ESC) at 0.5% of the operational turnover. ESC paid is available as income tax credit for a period of four subsequent years. In instances where recoverability is not possible due to the tax status, sums paid are written-off to the Income Statement.
- (e) Deferred tax has been computed using a current tax rate of 12% for the Company and the Group respectively (note 27.4) (2011 - 12%). The reduced tax rate applicable to the subsidiary at the rate of 10% was withdrawn due to waive off of such concessionary tax rates applicable for Group's of companies. Accordingly the taxable profits of the subsidiary is subject to tax at the normal rate of 12% from the Year of assessment 2012/13 onwards.

16 Basic earnings per share

The Company's and the Group's basic earnings per share is calculated on the profit attributable to the shareholders of Pegasus Hotels of Ceylon PLC over the weighted average number of ordinary shares in issue during the year, as required by Sri Lanka Accounting Standard 34 (Revised 2005) - "Earnings per share".

The following reflects the earnings and share data used for the computation of "Basic earnings per share".

For the year ended 31st March	Group		Company	
	2012	2011	2012	2011
Amount used as the numerator				
Profit attributable to ordinary shareholders of the Company (Rs '000)	112,491	48,850	91,398	46,302
Amount used as the denominator				
Weighted average number of ordinary shares in issue during the year (In thousands)	27,352	27,352	27,352	27,352
Increase in weighted average number of ordinary shares due to the rights issue subsequent to the year end (In thousands)	109	109	109	109
Adjusted weighted average number of ordinary shares during the year used as the denominator (In thousands) for Basic earnings per share	27,461	27,461	27,461	27,461
Basic earnings per share (Rs).	4.10	1.78	3.33	1.69

The Basic earnings per share of the Company and the Group for the year 2010/11 have been adjusted for the effect of right issue of shares which concluded on 25th April 2012.

17 Property, plant & equipment

17.1 Group

	Freehold land	Freehold building	Plant & machinery	Furniture & fittings	Computer equipment	Equipment	Cutlery crockery & glassware	Capital work-in-progress	Total as at 31st March 2012	Total as at 31st March 2011
Cost/valuation										
Balance as at the beginning of the year	504,332	361,979	77,875	42,264	6,019	28,457	4,987	529	1,026,442	816,350
On consolidation	-	-	-	-	-	-	-	-	-	53,406
Revaluation	-	111,531	-	-	-	-	-	-	111,531	136,166
Transferred to revaluation	-	(29,769)	-	-	-	-	-	-	(29,769)	-
Additions during the year	-	24,881	21,731	15,671	2,631	4,954	422	7,944	78,234	20,581
Disposals/write-off	-	-	(8)	(1,797)	(139)	(355)	(860)	-	(3,159)	(61)
Transfers/adjustments	-	2,164	2,920	1,679	-	(7,173)	-	(5,334)	(5,744)	-
Balance as at the end of the year	504,332	470,786	102,518	57,817	8,511	25,883	4,549	3,139	1,177,535	1,026,442
Depreciation										
Balance as at the beginning of the year	-	29,984	42,832	18,430	5,564	21,712	453	-	118,975	74,566
On consolidation	-	-	-	-	-	-	-	-	-	29,352
Charge for the year	-	6,548	4,209	2,816	685	1,416	944	-	16,618	15,057
Transferred to revaluation	-	(29,769)	-	-	(139)	(355)	(185)	-	(29,769)	-
Disposals/write-off	-	-	(8)	(972)	(139)	(7,544)	(185)	-	(1,659)	-
Transfers/adjustments	-	-	2,896	(1,274)	-	-	-	-	(5,922)	-
Balance as at the end of the year	-	6,763	49,929	19,000	6,110	15,229	1,212	-	98,243	118,975
Net book value as at 31st March 2012	504,332	464,023	52,589	38,817	2,401	10,654	3,337	3,139	1,079,292	907,467
31st March 2011	504,332	331,995	35,043	23,834	455	6,745	4,534	529		907,467

17.2 Company

	Freehold land	Freehold building	Plant & machinery	Furniture & fittings	Computer equipment	Equipment	Cutlery crockery & glassware	Capital work-in-progress	Total as at 31st March 2012	Total as at 31st March 2011
Cost/valuation										
Balance as at the beginning of the year	504,332	339,189	71,356	33,440	5,695	13,108	4,193	-	971,313	815,698
Revaluation	-	111,531	-	-	-	-	-	-	111,531	136,166
Transferred to revaluation	-	(29,769)	-	-	-	-	-	-	(29,769)	-
Additions during the year	-	24,855	19,576	15,679	2,631	4,508	253	3,107	70,609	19,449
Disposals/write-off	-	-	-	(3,610)	(139)	(355)	(759)	-	(4,863)	-
Balance as at the end of the year	504,332	445,806	90,932	45,509	8,187	17,261	3,687	3,107	1,118,821	971,313
Depreciation										
Balance as at the beginning of the year	-	24,366	37,479	11,198	5,564	9,522	294	-	88,423	74,566
Charge for the year	-	5,403	3,992	2,364	685	861	849	-	14,154	13,857
Transferred to revaluation	-	(29,769)	-	-	-	-	-	-	(29,769)	-
Disposals/write-off	-	-	-	(1,586)	(139)	(355)	(185)	-	(2,265)	-
Balance as at the end of the year	-	-	41,471	11,976	6,110	10,028	958	-	70,543	88,423
Net book value as at 31st March 2012	504,332	445,806	49,461	33,533	2,077	7,233	2,729	3,107	1,048,278	882,890
31st March 2011	504,332	314,823	33,877	22,242	131	3,586	3,899	-		882,890

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(All figures are in Sri Lankan Rupees Thousands)

17.3 The deferred tax effect on revaluation surplus, arising from the revaluation of freehold building during the year amounting to Rs. 13.39mn has been adjusted against the revaluation reserve in the Statement of Changes in Equity.

17.4 Freehold land and freehold building of the Company are stated based on a valuation performed by Mr. K. Arthur perera, A.M.I.V (Sri Lanka), an independent professional valuer as at 31st March 2012, the details of which are as follows;

Property & location	Asset category	Method of valuation	Carrying value of revalued assets if carried at historical cost	Carrying value of revalued assets 2012	Carrying value of revalued assets 2011
Pegasus Reef Hotel, Wattala.	Freehold land	Market approach	5,250	504,332	504,332
	Building	Market approach	234,947	445,806	314,823

17.5 The land where the Equity Hotels Limited, Polonnaruwa is located, is on a 30 year lease from 01st January 1997 to 31st December 2026, with an option to extend for a further period of 30 years. During the lease period, the Company has the right to use the land to construct and operate a tourist hotel, approved and categorized by the Sri Lanka Tourist Board.

17.6 Cutlery, crockery and glassware items which carries a useful life time of over a year were classified under property, plant and equipment

17.7 Property, plant & equipment includes fully depreciated assets having a gross carrying amount of Rs. 42,746,438/- and Rs. 55,256,674/- (2011 - Rs. 37,766,128/- and Rs. 51,276,328/-) for the Company and the Group respectively.

17.8 No borrowing costs were capitalized during the year for property, plant and equipment (2011 - Nil) for the Company and the Group respectively.

17.9 Restrictions on title of property, plant and equipment

There are no restrictions on title of the property, plant and equipment held by the Company and the Group, except for as disclosed in note 17.11.

17.10 Property, plant and equipment pledged as security for liabilities

There are no items of property, plant and equipment pledged as security for liabilities as at the balance sheet date, for the Company and the Group.

17.11 Acquisition of land by the government of Sri Lanka

During the financial year 2008/09, the government acquired approximately 1,605 perches of the land owned by the Company, out of which 353.89 perches of land was subject Supreme Court order as explained below. The market value of the said net land extent (1,251 perches) as at the date of acquisition amounting to Rs. 187,800,000/- has been removed from the value of the freehold land classified under the property, plant, and equipment in the balance sheet of the Company. The removal of the said land has been accounted for as a disposal of an asset in the financial statements.

The Company has filed a fundamental rights application in the Supreme Court regarding the acquisition of approximately 353.89 perches of land (described as mangrove) owned by the Company. As per the Supreme Court ruling dated 20th November 2008, the said land is to be returned to the Company on the completion of the construction work of the fisheries harbour project.

On 15th March 2011, the Sri Lanka Navy has approached the Fisheries Harbour Corporation through which they have requested for a portion of 80 perches from and out of the said 353.89 perches in order to establish a coast guard unit. The Company is expected to regain title to the balance 273.89 perches and make an additional claim for compensation for the said 80 perches, after referring the said request to the Supreme Court. Until determination of the aforesaid legal steps, the entire land extent in question will continue to be accounted in the Balance Sheet of the Company under property, plant & equipment at the market value.

Accordingly the market value of the said land amounting to Rs. 52,950,000/- (2011 - Rs. 52,950,000/-) as at the balance sheet date has not been removed from the property, plant and equipment.

As at 31st March		Group	
		2012	2011
18 Intangible asset			
18.1 Goodwill on consolidation			
Balance as at the beginning of the year		115,287	115,287
Balance as at the end of the year		115,287	115,287

- 18.2** Goodwill is allocated to cash generating units (CGU) operative within the Group. When testing for impairment on goodwill, the recoverable amount of a cash generating unit is determined on the basis of fair value less cost to sell and value-in-use, whichever is higher.

The fair value less cost to sell is computed based on earnings multiples of comparable companies (listed), adjusted to reflect the liquidity. Value-in-use calculations are cash flow projections based on financial budgets, which are approved by management, typically covering a five-year period. The cash flows were discounted at an appropriate discount rate.

		Company	
		2012	2011
19 Investment in subsidiary			
Investment in subsidiary (note 19.1)		110,223	110,223
		110,223	110,223

19.1	Directors valuation as at 31st March 2012			Directors valuation as at 31st March 2011		
	No. of shares	Cost as at 31st March 2012	Directors valuation as at 31st March 2012	No. of shares	Cost as at 31st March 2011	Directors valuation as at 31st March 2011
Equity Hotels Limited	685,469	110,223	110,223	685,469	110,223	110,223
Total investment in subsidiary		110,223	110,223		110,223	110,223

The Directors valuation of the investment in subsidiary is based on the cost of acquisition.

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As at 31st March	Group		Company	
	2012	2011	2012	2011
20 Compensation receivable				
Compensation receivable	189,463	189,463	189,463	189,463
	189,463	189,463	189,463	189,463

20.1 The government of Sri Lanka acquired approximately 1,251 perches of land owned by the Company under Section 38 proviso (a) of the Land Acquisition Act, No.28 of 1964 by gazette notification dated 14th May 2008 for the public purpose of a fisheries harbour project. The Divisional Secretary called for claim of compensation in response to which Company submitted a claim of compensation for the compulsory acquisition of the said land on 16th July 2008. The final claim stands at Rs.563 mn taking into account the market value of the property, potential economic value lost for hotel expansion and the nuisance value that will be created for hotel operation by the said project. However, as a matter of prudence the Company has accounted for the compensation receivable of Rs. 189.5mn in the financial statements based only on the market value and related costs supported by a professional valuation dated 4th April 2009 conducted Mr. K Arthur Perera, A.M.I.V.(Sri Lanka), Valuer & Consultant.

A valuation was carried out by Mr. K. Arthur Perera as at 31st March 2012 and according to the said valuation, the said acquired property was valued at Rs.250.4mn (2011 - Rs. 250.4mn), on market value basis.

No adjustment has been made to the compensation receivable on a prudent basis, however, this will further justify the Company's compensation claim on the property. As at the balance sheet date, Company has not received any confirmation from the Divisional Secretary on the value determination of the said claim.

	Group		Company	
	2012	2011	2012	2011
21 Inventories				
Food	2,011	2,892	1,265	2,249
Beverage	1,334	1,343	734	808
Engineering spares	2,325	1,855	1,878	1,367
Linen	4,635	2,828	4,009	2,486
Others	3,174	4,402	2,622	3,847
	13,479	13,320	10,508	10,757

	Group		Company	
	2012	2011	2012	2011
22 Trade and other receivables				
Trade receivables (note 22.1)	52,786	34,978	40,503	26,336
Advances, prepayments and other receivables	3,237	3,289	2,558	2,518
Loans given to Company officers (note 22.2)	200	105	158	94
	56,223	38,372	43,219	28,948
22.1 Trade receivables				
Trade debtors	57,399	39,951	45,088	31,231
Less: Provision for bad debtors	(4,613)	(4,973)	(4,585)	(4,895)
	52,786	34,978	40,503	26,336

As at 31st March	Group		Company	
	2012	2011	2012	2011
22.2 Loans given to Company officers				
Balance as at the beginning of the year	105	104	94	104
On consolidation	-	43	-	-
Loans granted during the year	665	371	289	366
Loans settled during the year	(570)	(413)	(225)	(376)
Balance as at the end of the year	200	105	158	94

	Group		Company	
	2012	2011	2012	2011
23 Stated capital				
Issued and fully paid				
At the beginning of the year (27,352,385 shares)	398,889	398,889	398,889	398,889
At the end of the year (27,352,385 shares)	398,889	398,889	398,889	398,889

The Company declared a rights issue of shares in the proportion of 1 ordinary share each for every 9 shares held as at 20th March 2012, at value of Rs. 36/50 per share, which was subscribed in full (note 32.1). Accordingly, the stated capital of the Company and the issued number of shares were increased up to Rs. 509,818,020/- and 3,039,153 shares respectively with effect from 25th April 2012.

	Group		Company	
	2012	2011	2012	2011
24 Capital reserves				
Balance as at the beginning of the year	576,953	440,787	576,953	440,787
Movement during the year (net)	98,146	136,166	98,146	136,166
Balance as at the end of the year	675,099	576,953	675,099	576,953
24.1 Represented by:				
Revaluation reserve	659,955	561,809	659,955	561,809
Capital accretion reserve	15,144	15,144	15,144	15,144
	675,099	576,953	675,099	576,953

24.2 Revaluation reserve

The revaluation reserve represents the surplus arising from the revaluation of freehold land and building of the Company and the Group. A subsequent decline in the carrying amount of the asset will be offset against a previous increase for the same asset which was credited to the revaluation surplus. A further decline is recognized as an expense in the Income Statement. An increase on revaluation relating to a previous decrease in carrying amount recognized as an expense, is credited to income, to the extent it offsets the previously recorded expense in the Income Statement.

24.3 Capital accretion reserve

Capital accretion reserve represents the amounts set aside by the Directors to meet any contingencies.

	Group		Company	
	2012	2011	2012	2011
25 Revenue reserves				
Balance as at the beginning of the year	30,599	(18,251)	28,051	(18,251)
Movement during the year (net)	104,288	48,850	83,195	46,302
Balance as at the end of the year	134,887	30,599	111,246	28,051

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(All figures are in Sri Lankan Rupees Thousands)

As at 31st March	Group		Company	
	2012	2011	2012	2011
25.1 Represented by:				
General reserve	176	176	176	176
Retained earnings	134,711	30,423	111,070	27,875
	134,887	30,599	111,246	28,051

25.2 General reserves

General reserves represents the amounts set aside by the directors to meet any contingencies.

	Group		Company	
	2012	2011	2012	2011
26 Long-term borrowings				
Bank borrowings				
Balance as at the beginning of the year	43,650	59,650	42,150	59,650
On consolidation	-	1,725	-	-
Payments made during the year	(10,068)	(17,725)	(8,568)	(17,500)
Balance as at the end of the year	33,582	43,650	33,582	42,150
Less: Installments falling due within one year	(8,568)	(9,468)	(8,568)	(8,568)
Installments falling due after one year	25,014	34,182	25,014	33,582

26.1 Details of long-term borrowings

Company and facilities obtained	Lender	Rate of interest (p.a.)	Balance as at 31st March 2012	Balance as at 31st March 2011	Repayment terms	Security
a) Pegasus Hotels of Ceylon PLC						
a) Term loan (Tsunami funding)	Commercial Bank	9%	33,582	42,150	To be repaid with 58 equal monthly installments of Rs. 714,000/- and the final installment amounting to Rs. 738,000/-.	Corporate guarantee issued by the parent Company - Carson Cumberbatch PLC.
b) Equity Hotels Limited						
a) Term loan	Commercial Bank	AWPLR +1%	-	1,500	To be repaid within 3 years after a grace period of 1 year, commencing from December 2009.	Corporate guarantee issued by the ultimate parent Company - Carson Cumberbatch PLC.

	Group		Company	
	2012	2011	2012	2011
27 Deferred tax (asset)/liability				
Balance as at the beginning of the year	(2,304)	(4,295)	(1,222)	(4,295)
On consolidation	-	(974)	-	-
Effect of changes in tax rates (note 27.4)	-	2,768	-	2,768
Charge during the year	6,600	197	5,288	305
Deferred tax on revaluation surplus (note 17.3)	13,385	-	13,385	-
Balance as at the end of year	17,681	(2,304)	17,451	(1,222)

As at 31st March	Group		Company	
	2012	2011	2012	2011
27.1 Deferred tax (charge)/reversal for the year				
Property, plant & equipment	(15,029)	9,414	(14,791)	9,177
Employee benefits	285	166	183	72
Provisions	(43)	596	(37)	587
Tax losses	(5,198)	(13,141)	(4,028)	(12,909)
Net deferred tax (charged)/reversed for the year	(19,985)	(2,965)	(18,673)	(3,073)
27.2 Deferred tax asset				
Tax effect on employee benefits	994	709	559	376
Tax effect on provisions	553	596	550	587
Tax effect on tax losses	36,607	41,805	34,993	39,021
Total deferred tax assets	38,154	43,110	36,102	39,984
27.3 Deferred tax liability				
Tax effect on property, plant & equipments	55,835	40,806	53,553	38,762
Total deferred tax liabilities	55,835	40,806	53,553	38,762
Net deferred tax (asset)/liability	17,681	(2,304)	17,451	(1,222)

27.4 Impact due to corporate income tax rate change

As provided for in Sri Lanka Accounting Standard 14 (Revised 2005) - "Income Taxes", deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

As per the amendments made to the Inland Revenue Act, No.10 of 2006 by the amendment Act, No.22 of 2011, corporate income tax rate applicable to business undertakings engaged in hoteliering was reduced to 12% with effect from 1st April 2011, hence such rates were used in the computation of deferred tax for the succeeding periods.

	Group		Company	
	2012	2011	2012	2011
28 Employee benefits				
28.1 The movement in the liabilities recognised in the balance sheet is as follows				
Balance as at the beginning of the year	5,910	2,024	3,133	2,024
On consolidation	-	1,995	-	-
Provision for the year (note 28.2)	2,370	2,092	1,524	1,288
Payments made during the year	-	(201)	-	(179)
Balance as at the end of the year	8,280	5,910	4,657	3,133

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As at 31st March	Group		Company	
	2012	2011	2012	2011
28.2 The amount recognized in the Income Statement are as follows				
Current service cost	932	696	656	529
Interest cost	591	480	313	243
Actuarial losses	847	916	555	516
Provision for the year	2,370	2,092	1,524	1,288

The gratuity liability as at 31st March 2012 amounting to Rs. 4,656,949/- and Rs.8,280,177/- (2011 - Rs. 3,132,809/- and Rs. 5,909,983/-) for the Company and the Group respectively have been based on an actuarial valuation carried out by Mr. M. Poopalanathan (AIA), of Messrs Actuarial and Management Consultants (Pvt) Ltd. As recommended by the Sri Lanka Accounting Standards No. 16 (Revised 2006) - "Employee benefits", the "Projected Unit Credit " (PUC) method has been used in this valuation.

The principal assumptions used are:

- Rate of discount 10% p.a.
- Rate of pay increase 10% p.a.
- Retirement age 55 years
- Mortality A 67/70 mortality table, issued by the Institute of Actuaries, London was used.
- Withdrawal rate 5% for age up to 49 and zero thereafter.
- The company is a going concern.

28.3 The employee benefit obligation has not been externally funded

	Group		Company	
	2012	2011	2012	2011
29 Amounts due to related companies				
Non-current				
Carson Cumberbatch PLC	-	109,638	-	109,638
Carsons Management Services (Private) Limited	97,219	106,953	67,455	78,871
	97,219	216,591	67,455	188,509
Current				
Carson Cumberbatch PLC	109,638	-	109,638	-
	109,638	-	109,638	-
	206,857	216,591	177,093	188,509

29.1 No interest is charged for the amounts borrowed from the parent company, Carson Cumberbatch PLC. This amount is settled in full, subsequent to the balance sheet date, utilising the proceeds from the rights issue of shares.

29.2 Carsons Management Services (Private) Limited charged interest at the rate of 5% per annum on the amounts borrowed.

	Group		Company	
	2012	2011	2012	2011
30 Trade and other payables				
Trade creditors	16,609	17,885	12,334	14,589
Other creditors	19,007	12,158	14,893	10,846
Provisions and accruals	16,236	8,111	12,834	5,295
	51,852	38,154	40,061	30,730

31 Commitments and contingencies

31.1 Capital commitments

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

31.2 Financial commitments

The Company and the Group does not have any significant financial commitments as at the balance sheet date.

31.3 Contingent liabilities

- a) A case has been filed against the Company by an individual in the District Court of Negombo seeking a declaratory title from court stating that he is co-owner of 127.5 perches of the land that belonged to Pegasus Hotels of Ceylon PLC. The outcome of the matter is still pending. However, the Company is confident that it can establish title to the said land. In any case, the claimed land extent falls within the 1,251 perches of land acquired by the government for the fisheries harbour project and detailed under note 17.11.
- b) An employee had filed action in the Labour Tribunal against the termination of his services on disciplinary grounds and was awarded damages of Rs. 392,000/- against the Company. The Company had appealed against the decision to the High Court of the Western Province (Gampaha) and the court held in favour of the Company, against which order the employee has proffered an appeal to the Supreme Court. This is to be taken up in the Supreme Court on 11th June 2012.

There were no contingent liabilities other than those disclosed above as at the balance sheet date.

32 Events after the balance sheet date

32.1 Rights issue of shares

On 10th February 2012, the Board of Directors of the Company, recommended a rights issue of shares at a ratio of one (1) share for each nine (9) shares held at a price of Rs. 36/50 per share, with a view to raise a sum of Rs. 110.9mn. The funds raised through this rights issue were to be utilized to settle the amounts borrowed for the acquisition of Equity Hotels Limited in full and the remaining balance to part settle the amount due to related company, Carsons Management Services (Private) Limited.

The shareholders of the Company, at its extra-ordinary general meeting held on 20th March 2012 voted in favour of the above rights issue of shares. Subsequent to the balance sheet date, the rights issue was subscribed in full and 3,039,153 ordinary shares were allotted.

Accordingly the stated capital of the Company and the issued number of shares were increased up to Rs. 509,818,020/- and 30,391,538 shares with effect from 25th April 2012.

However, the effect of the rights issue has been considered in the computation of basic earning per share, as disclosed in note 16.

32.2 Dividends on ordinary shares

After satisfying the solvency test, in accordance with Section 57 of the Companies Act, No. 7 of 2007, the Directors have recommended a first and final dividend of Rs. 0.50 per share, for the year ended 31st March 2012, amounting to Rs. 15,195,769/-, which is to be approved at the forthcoming Annual General Meeting.

In accordance with Sri Lanka Accounting Standard No. 12 (Revised 2005) - "Events after the balance sheet date" this proposed dividend has not been recognised as a liability as at 31st March 2012.

Subsequent to the balance sheet date, no circumstances have arisen, which would require adjustments to or disclosures in the financial statements, other than those disclosed above.

33 Related party transactions

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard 30 (Revised 2005) - "Related party disclosures", the details of which are reported below.

33.1 Parent company

In the opinion of the Directors, Carson Cumberbatch PLC is the parent company of Pegasus Hotels of Ceylon PLC.

NOTES TO THE FINANCIAL STATEMENTS

(All figures are in Sri Lankan Rupees Thousands)

33.2 Transactions with related companies

33.2.1 Pegasus Hotel of Ceylon PLC

Name of the related company	Nature of the relationship	Name/s of the common Director/s	Nature of transactions	Value of the transaction	
				2012	2011
Carson Cumberbatch PLC	Parent	H. Selvanathan M. Selvanathan D.C.R. Gunawardena	Amounts payable on the acquisition of Equity Hotels Limited Carson Cumberbatch PLC has provided a corporate guarantee on the term loan of Rs. 60 mn (Outstanding balance as at the balance sheet date - Rs. 33,582,000/-) obtained by the Company from Commercial Bank of Ceylon PLC.	-	109,668
Equity Hotels Limited	Subsidiary	D.C.R. Gunawardena P.M. Withana	Reimbursement of expenses received Disposal of property, plant and equipment	4,690 1,099	2,331 -
Carsons Management Services (Private) Limited	Affiliate	H. Selvanathan M. Selvanathan D.C.R. Gunawardena (Resigned from CMSL with effect from 15th April 2011) K.C.N. Fernando (Alternate for M. Selvanathan)	Computer charges Secretarial fees Management fees Internal audit services Interest on amounts advanced Settlements made on amounts advanced	153 306 5,102 2,220 3,880 23,860	1,989 1,134 5,000 2,204 5,682 18,342
Good Hope PLC	Affiliate	H. Selvanathan M. Selvanathan D.C.R. Gunawardena	Amounts paid on the acquisition of Equity Hotels Limited	-	16
Shalimar (Malay) PLC	Affiliate	H. Selvanathan M. Selvanathan D.C.R. Gunawardena K.C.N. Fernando (Alternate for M. Selvanathan)	Amounts paid on the acquisition of Equity Hotels Limited	-	16
Guardian Capital Partners PLC	Affiliate	D.C.R. Gunawardena	Amounts paid on the acquisition of Equity Hotels Limited	-	2
Mylands Investments Limited	Affiliate	D.C.R. Gunawardena	Amounts paid on the acquisition of Equity Hotels Limited	-	2
Weniwella Investments Limited	Affiliate		Amounts paid on the acquisition of Equity Hotels Limited	-	2

33.2 Transactions with related companies

33.2.2 Equity Hotels Limited

Name of the related company	Nature of the relationship	Name/s of the common Director/s	Nature of transactions	Value of the transaction	
				2012	2011
Carson Cumberbatch PLC	Ultimate parent	D.C.R. Gunawardena	Carson Cumberbatch PLC has provided corporate guarantees for the medium term loan and the bank overdraft facility of Rs. 5.7 mn and Rs. 2.5 mn respectively from Commercial Bank of Ceylon PLC. The term loan was paid in full during the year.		
Pegasus Hotels of Ceylon PLC	Parent	D.C.R. Gunawardena P.M. Withana	Reimbursement of expenses paid Purchase of property, plant and equipment	4,690 1,099	2,331 -
Carsons Management Services (Private) Limited	Affiliate	D.C.R. Gunawardena (Resigned from CMSL with effect from 15th April 2011)	Secretarial fees Management fees Accounting fees Reimbursement of expenses paid Interest on amounts advanced Settlements made on amounts advanced	60 1,149 180 117 1,406 1,000	60 - 160 306 - 1,000

There were no material related party transactions other than those disclosed above. The balances outstanding as at the balance sheet date are disclosed in Note 29 to the financial statements

33.3 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard 30 (Revised 2006) - "Related party disclosures", Key Management personnel (KMP) are those having authority and responsibility for planning and controlling the activities of the entity. Accordingly, the Directors of the Company and its parent company (including executive and non-executive directors) and their immediate family members have been classified as Key Management Personnel of the Company.

Compensation for Key Management Personnel (Board of Directors) incurred over the period are as follows.

	Group		Company	
	2012	2011	2012	2011
Short-term benefits	7,029	4,202	7,029	4,202
Post employment benefits	463	373	463	373
	7,492	4,575	7,492	4,575

FIVE YEAR SUMMARY

(All figures are in Sri Lankan Rupees Thousands)

For the year ended 31st March	2012 Group	2011 Group	2010	2009	2008
Income Statement					
Turnover (net)	425,975	289,104	173,852	152,283	130,987
Profit/(loss) from operations	136,603	69,475	19,900	1,134	(12,181)
Finance cost	(8,881)	(10,359)	(9,859)	(6,658)	(12,888)
Profit/(loss) from operations after finance cost	127,722	59,116	10,041	(5,524)	(25,069)
Income tax expenses	(15,231)	(10,266)	2,057	(15)	-
Profit/(loss) for the year	112,491	48,850	12,098	(5,539)	(25,069)
Balance Sheet					
Shareholders' Funds					
Stated Capital	398,889	398,889	398,889	398,889	398,889
Reserves	809,986	607,552	422,536	410,438	108,267
Shareholders' funds	1,208,875	1,006,441	821,425	809,327	507,156
Assets Employed					
Property, plant & equipment	1,079,292	907,467	741,132	748,535	639,367
Intangible asset	115,287	115,287	-	-	1,210
Deferred tax asset	-	2,304	4,295	-	-
Compensation Receivable	189,463	189,463	189,463	189,463	-
Non Current assets	1,384,042	1,214,521	934,890	937,998	640,577
Current assets	148,852	101,711	50,605	33,169	35,936
Current liabilities	(175,825)	(53,108)	(36,393)	(37,036)	(36,527)
Working capital	(26,973)	48,603	14,212	(3,867)	(591)
Assets employed	1,357,069	1,263,124	949,102	934,131	639,986
Long-term borrowings	(25,014)	(34,182)	(47,367)	(51,339)	(60,000)
Employee benefits	(8,280)	(5,910)	(2,024)	(1,645)	(1,231)
Deferred tax liability	(17,681)	-	-	-	-
Amounts due to related companies	(97,219)	(216,591)	(78,286)	(71,760)	(71,599)
Net assets	1,208,875	1,006,441	821,425	809,387	507,156
Profitability					
Profit margin (%)	26%	17%	7%	(4%)	(19%)
Return on shareholders' funds (%)*	9%	5%	1%	(1%)	(5%)
Liquidity					
Current ratio (times)	(1.18)	1.91	1.39	0.90	0.98
Debt equity (%)	19.86	25.77	16.79	16.77	27.65
Investor Ratios					
Earnings/(loss) per share (Rs.)	4.10	1.78	0.44	(0.20)	(0.92)
Net assets per share (Rs.)	44.20	36.80	30.03	29.59	18.54
Market price per share (Rs.)	38.00	71.00	43.00	13.75	21.00
Dividend payout ratio (%)	15	18	-	-	-
Hotel Operations					
Occupancy (%)	59	59	41	37	38

Notes

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

** Profit attributable to shareholders divided by the stated capital.

STATEMENT OF VALUE ADDED

(All figures are in Sri Lankan Rupees Thousands)

For the year ended 31st March	2012		2011	
Turnover	425,975		289,104	
Other income	10,859		6,015	
Cost of materials and services bought from outside	(206,741)		(161,732)	
	230,093		133,387	
Distributed as follows:		%		%
To employees				
as remuneration	76,872	33	48,855	37
To government				
as taxation*	8,631	4	7,301	5
To providers of capital				
as dividend	8,203	4	-	-
as interest	8,881	4	10,359	8
Retained in the business				
as deferred taxation	6,600	3	2,965	2
as depreciation	16,618	7	15,057	11
as profit for the year	104,288	45	48,850	37
	230,093	100	133,387	100

The Statement of value added shows the quantum of wealth generated by the activities of the Group and its applications.

* Excluding Value Added Tax

INFORMATION TO SHAREHOLDERS AND INVESTORS

1 Stock Exchange Listing

Pegasus Hotels of Ceylon PLC, is a public quoted company, the ordinary shares of which are listed on the main board of the Colombo Stock Exchange of Sri Lanka.

Stock Exchange code for Pegasus Hotels of Ceylon PLC shares is “PEG”.

2 Ordinary Shareholders

2.1 Number of shareholders

	As at 31st March	
	2012	2011
Number of shareholders	1,940	1769

2.2 Distribution & composition of shareholders

The number of shares held by non-resident shareholders as at 31st March 2012 was 124,228 which amounts to 0.45% of the issued share capital.

Distribution of shares	Residents			Non-residents			Total		
	No. of share-holders	No. of shares	%	No. of share-holders	No. of shares	%	No. of share-holders	No. of shares	%
1-1,000	1,690	340,908	1.25	20	5,879	0.02	1,710	346,787	1.27
1,001-10,000	202	616,443	2.25	3	11,404	0.04	205	627,847	2.30
10,001-100,000	18	509,896	1.86	3	106,945	0.39	21	616,841	2.26
100,001-1,000,000	3	391,700	1.43	-	-	-	3	391,700	1.43
Above 1,000,000	1	25,369,210	92.75	-	-	-	1	25,369,210	92.75
Total	1,914	27,228,157	99.55	26	124,228	0.45	1,940	27,352,385	100.00

Categories of shareholders	No. of share-holders	No. of shares	%
Individuals	1871	1,416,106	5.18
Institutions	69	25,936,279	94.82
Total	1940	27,352,385	100.00

3 Market performance - Ordinary shares

For the year ended 31st March	2012	2011
At 31st March (Rs.)	38.00	71.00
Highest (Rs.)	83.00	97.90
Lowest (Rs.)	35.00	38.60
Value of shares traded (Rs.)	50,098,131	243,330,195
No. of shares traded	767,787	3,664,400
Volume of transactions (Nos.)	1,339	4,379

4 Market capitalisation

Market capitalisation of the Company which is the number of ordinary shares in issue multiplied by the market value of an ordinary share was Rs. 1,039,390,630/- as at 31st March, 2012 (2011 - Rs. 1,942,019,335/-).

5 Public holding

The percentage of ordinary shares held by public as at 31st March 2012 was 7.24% (2011 - 7.24%).

6 Dividend

The Directors have recommended a first and final dividend of Rs. 0.50 per share for the year ended 31st March 2012 (2011 - Rs. 0.30 per share).

7 Value of Property - Land

	Location Extent (in hectares)	Market value 2012 Rs. '000	Date of professional valuation
Pegasus Reef Hotel, Wattala	5.46	504,332	31st March 2012

8 Number of employees

The number of employees at the end of the year was 180 and 247 (2011 - 156 and 228) for the Company and the Group respectively.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the FORTY SIXTH Annual General Meeting of PEGASUS HOTELS OF CEYLON PLC will be held on Monday 18th day of June 2012 at 11.30 a.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala, for the following purposes :

1. To receive and adopt the Report of the Board of Directors and the Financial Statements for the year ended 31st March 2012, together with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr. D.C.R. Gunawardena, who retires in terms of Article 72, 73 and 74 of the Articles of Association of the Company.
4. To re-appoint Mr. S. Nagendra as a Director of the Company who is over Seventy years of age and to consider and if deemed fit to pass the following resolution :

"IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act No. 7 of 2007 shall not be applicable to Mr. S. Nagendra who is 72 years of age and that he be re-appointed a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year."

5. To re-appoint M/s KPMG Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act No. 7 of 2007 and to authorize the Directors to determine their remuneration.

By Order of the Board

CARSONS MANAGEMENT SERVICES (PRIVATE) LIMITED

Secretaries

Colombo,

2nd May 2012

Notes

1. A member is entitled to appoint a proxy to attend and vote instead of him/her. 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 11.30 a.m. on 16th day of June 2012.
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. The transfer books of the Company will remain open.
5. Security Check

We shall be obliged if the shareholders/proxies attending the Annual General Meeting, produce their National Identity Card to the security personnel stationed at the entrance lobby.

FORM OF PROXY

* I/We.....
of.....
being *a Member/Members of PEGASUS HOTELS OF CEYLON PLC
hereby appoint
of
bearing NIC No./Passport No..... or failing him/her.

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

As *my/our proxy to attend at the 46th Annual General Meeting of the Company to be held on Monday the 18th day of June 2012 at 11.30 a.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala and any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To adopt the Report of the Board of Directors and the Financial Statements for the year ended 31st March 2012, together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a dividend of Rs. 0.50 per share as a first and final dividend for the financial year ended 31st March 2012, as recommended by the Directors	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. D.C.R. Gunawardena who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint Mr. S. Nagendra who is over Seventy years of age as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint M/s KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act No. 7 of 2007 and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day ofTwo Thousand and Twelve.

Signature/s

Notes

- * Please delete the inappropriate words.
- A shareholder entitled to attend and vote at a General Meeting of the Company, is entitled to appoint a proxy to attend and vote instead of him/her and the proxy need not be a shareholder of the Company. A proxy so appointed shall have the right to vote on a show of hands or on a poll and to speak at the General Meeting of the shareholders
- A shareholder is not entitled to appoint more than one proxy on the same occasion.
- 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. If you wish to appoint a person other than the Directors as your proxy, please insert the relevant details in the space provided overleaf.
3. In terms of Article 54 of the Articles of Association of the Company:
 - (1) Any Shareholder entitled to attend and vote at a meeting shall be entitled to appoint another person (whether a Shareholder or not) as his proxy to attend and vote instead of him. A proxy so appointed shall have the same right as the Shareholder to vote on a show of hands or on a poll and to speak at the meeting.
 - (2) An instrument appointing a proxy shall be in writing and :
 - (i) in the case of an individual shall be signed by the appointor or by his attorney; and
 - (ii) in the case of a corporation shall be either under its common seal or signed by its attorney or by an officer on behalf of the corporation.The Directors may, but shall not be bound to, require evidence of the authority of any such attorney or officer.
4. In terms of Article 50 of the Articles of Association of the Company :

Where there are joint registered holders of any Share any one (01) of such persons may vote and be reckoned in a quorum at any meeting either personally or by proxy as if he were solely entitled thereto and if more than one (01) of such joint holders be so present at any meeting one (01) of such persons so present whose name stands first in the Register in respect of such Share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased Shareholder in whose name any Share stands shall for the purpose of this Article be deemed joint holders thereof.
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 11.30 a.m. on 16th June 2012.

Please fill in the following details

Name :

Address :

Jointly with :

Share folio no. :

CORPORATE INFORMATION

Name of the Company	Pegasus Hotels of Ceylon PLC (A Carson Cumberbatch Company)
Company Registration No.	PQ 40
Legal Form	A Public Quoted Company with Limited Liability Incorporated in Sri Lanka in 1966
Parent Company	Carson Cumberbatch PLC
Directors	D. Chandima R. Gunawardena (Chairman) Mano Selvanathan Hari Selvanathan Sega Nagendra P.M. Withana
Alternate Director	K.C.N. Fernando (for M. Selvanathan)
Place of Business	Santha Maria Mawatha, Wattala.
Bankers	Commercial Bank of Ceylon PLC Standard Chartered Bank Sampath Bank PLC Deutsche Bank A.G.
Auditors	Messrs. KPMG Chartered Accountants, No. 32A, Sir Mohamed Macan Marker Mawatha, Colombo 03, Sri Lanka.
Managers & Secretaries	Carsons Management Services (Private) Limited No. 61, Janadhipathi Mawatha, Colombo 01. Telephone No: +94-11-4739200 Fax No: +94-11-4739300
Registered Office	No. 61, Janadhipathi Mawatha, Colombo 01, Sri Lanka. Telephone No: +94-11-4739200 Fax No: +94-11-4739300
Committee of Management	P.M. Withana N. Naganathan K. Gunathilaka R. Jayawickrama M. Munasinghe N. Perera M. Ahmad V. Gangadaran
Hotel Website	www.pegasusreefhotel.com
Corporate Website	www.carsoncumberbatch.com

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