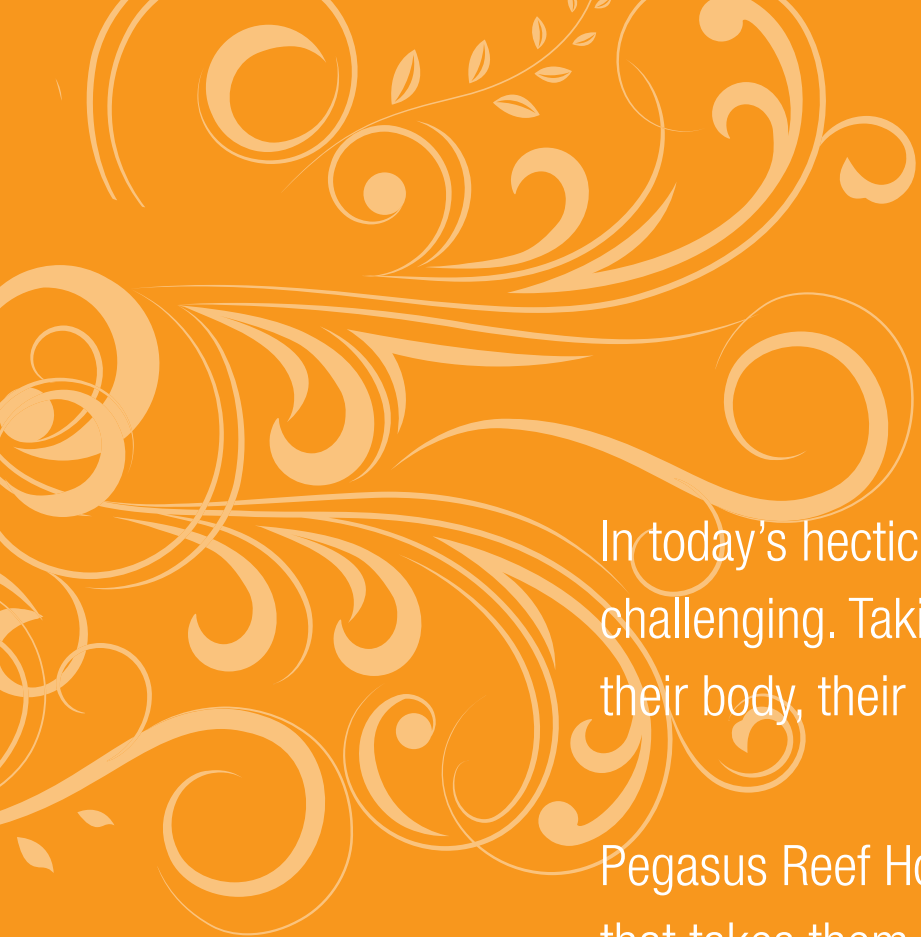




# Bliss

PEGASUS REEF | ANNUAL REPORT 2012/13



In today's hectic world, life has become increasingly stressful and challenging. Taking a break is often the best thing people can do, for their body, their mind...their very spirit.

Pegasus Reef Hotel offers guests a world of relaxation and calm that takes them far from the cares of everyday life, with luxurious accomodation, varied dining options, a gym and pool for the more active...all in a setting of tranquility overlooking the indian ocean. This is the place to rest weary limbs, gently slow down and discover the art of bliss.



DISCOVER THE ART OF

Bliss



PEGASUS REEF | ANNUAL REPORT 2012/13

## HIGHLIGHTS

### PEGASUS



Started as the first 5 star resort in Sri Lanka, Pegasus has weathered all challenges thrown at it including the tsunami of 2004 and since risen to its current splendour. Having gone through several changes of management including both international and local hotel managers, Pegasus is currently under owner management of Carsons Group. With its two pronged focus on inbound travellers and

MICE ( meetings, incentive, conferencing, exhibitions) clientele, Pegasus have now found the right recipe for success, capitalising on its geographical location.

### GIRITALE



Coming under the group fold in 2011, Giritala hotel complements Pegasus' mostly transit clientele with a cultural triangle connection. Giritala is the perfect hub with the ancient cities of Polonnaruwa and Anuradhapura being close-by, two wildlife sanctuaries virtually at the back yard and easy access to trunk roads leading to tourist hotspots of eastern Sri Lanka. Giritala offers cosy and homely comforts

augmented with typical Sri Lankan village hospitality, a perfect getaway for the discerning traveller.

### BLISS

We're in the business of selling exceptional guest experiences that are the result of years of experience in the leisure and hospitality industry of Sri Lanka. Our management expertise remains second to none and guarantees every guest the very finest in accommodation, cuisine and service. In short, we offer every guest an experience that is nothing short of BLISS.



Pegasus Hotels of Ceylon PLC engages in the ownership and operation of Pegasus Reef Hotel in Wattala, Sri Lanka.

The company was incorporated in 1966.

Pegasus Hotels of Ceylon PLC is a subsidiary of Carson Cumberbatch PLC.



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## CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to present before you the latest Annual Report of your Company for 2012/13 which has been a tough yet successful year. Despite the challenges that beset the world during the year, such as geopolitical tensions and financial and economic crises, the tourism industry worldwide proved its resilience and ability to overcome the impact of negative external factors. It is evident that travel and tourism was the chief contributor to global economic growth in 2012. Globally, tourism's direct contribution to GDP in 2012 was US\$2.1 trillion and the industry directly supported 101 million jobs. Longer-term prospects are even more positive with the annual growth forecast to be 4.4% per year over the 10 years to 2022. However, international travel is expected to grow moderately in 2013, driven by emerging markets.

### Inbound Tourism -

In Sri Lanka too, tourism was a key revenue driver, with earnings from tourism exceeding US\$1.03 billion in 2012/13, which marked an impressive growth of 25.1 per cent over the previous year. In order to achieve the 2.5 million tourist arrivals mark by 2016, the tourism product we offer needs to be improved on an urgent basis.

The rapid progress made in the development of road network within the island is definitely a step in the right direction to complement the tourism product whilst encouraging other tourism supplementary by-products to be proliferated using the road network as the centre. Expressways will make long travelling time shorter and comfortable and even remote locations which hitherto would have been off the tourism menu could now be offered making the available options sweeter. Also, efforts taken by the authorities to develop Colombo city and suburban infrastructure, beautification and ensuring cleanliness are to be lauded as tourism friendly initiatives which will further complement the tourism product.

In spite of the upside potential, reality is that the industry continues to face challenges such as the dearth of trained staff, price wars, lack of rooms, inconsistent service standards and inadequate marketing efforts in foreign markets. Though Sri Lanka has registered the arrival of one million tourists, the impact of same was not felt by the star class properties. It is therefore prudent to surmise that this influx of tourist have patronised the bungalows, guest houses and residences of relatives as their preferred abode as opposed to regular hotels. Whilst this casts doubt on the classification of "tourist", it certainly displays the lower spending potential of tourists which doesn't augur well for the industry as a whole. The ongoing

mass scale credit card promotions offering steep discounts for top class properties cries out the need for local filler clientele in facing the low realisation of expected foreign guests. All this points out that Sri Lanka is yet to become more adept at packaging and directing its tourism offering attractively.

### Consistent Performance in 2012/13

The hotel recorded improved profitability levels during the year under review. The Group ended the year with a net profit before tax of Rs. 158.1 mn, an increase of Rs.22.2 mn in comparison to the profit before tax of Rs. 135.9 mn recorded in the year 2011, which is a 16% increase. The consolidated revenue of the Company recorded a growth of 18% over the previous year, whereas the revenue of the Group recorded Rs. 493.2 mn compared to Rs. 426.0 mn, an increase of 16%.

The EU forms our largest tourist generating market but the lingering recession in the EU region persisted through the year, thereby causing a drop in tourists from EU countries, which impacted our profitability to a large extent. Despite our best marketing efforts with associates in EU countries, the recessions deterred travellers.

Moreover, the Company has invested heavily in its ongoing refurbishment efforts. A purpose built grand banquet hall to accommodate 700 plus pax will catapult the hotel into the big league for hosting large weddings and corporate events.

Your hotel is now going through a phase of consolidation with the bulk of the CAPEX costs behind us and we need to be ready to face the challenges ahead. Industry is now entering the off-season and the future ahead is yet uncertain. Taking all these factors into consideration, your board recommends a first and final dividend of Rs. 0.50 per share this year, too.

Our other leisure property, Giritale Hotel, continues to be a firm favourite for foreign and local tourists alike who find its strategic location ideal for exploring the many cultural and religious sites in the vicinity. The serene beauty of the property and its natural surroundings and the awe inspiring spectacle of the elephant gathering are facets which ensure Giritale Hotel sustains a high occupancy rate through the year as it did in 2012/13 period, although revenue fell slightly short of forecasted growth.

The increase in the price of fuel and consumables and the 15% surcharge of electricity tariff weighed down the Company's bottomline. The impending sharp increase in electricity tariff will pose additional burden on tourism operators which will prove to be a discouraging factor as it would make the already thin margins thinner and bring about the dreaded price wars because industry would soon get flooded with star class rooms which are already in the construction pipeline .

Future Outlook

As a city resort, Pegasus Reef occupies a unique niche that can be leveraged upon as tourism arrivals increase and greater business activity is generated in Colombo. Our property is ideally poised to cater for quick weekend getaways and MICE events. The recent upgrading of our rooms and lobby areas has lent a modern and exclusive air to our offering and further refurbishment will elevate Pegasus Reef to a more popular destination.

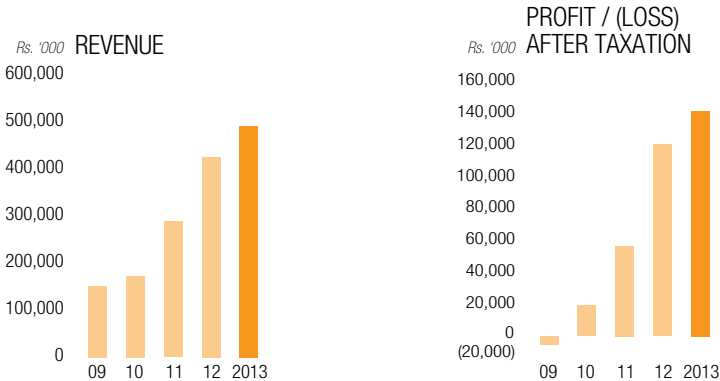
We are encouraged by the development of access roads leading up to the hotel and the beautification of the surrounding Dutch canal, which will also raise the profile of the hotel. As part of a regional group of companies, elements such as sustainability and high standards of excellence remain our guiding principles. Our tourism operations have a minimum impact on the surrounding communities and environment. Our close engagement with all stakeholders holds us in good stead.

However, a negative point to note is the slow progress made in the Dickowita fisheries harbour development to its planned potential. Though the hotel lost about 8 acres of prime land to this project, the management was encouraged by the masterplan for developing the harbour to a leisure boat marina in addition to its prime purpose of being a fisheries harbour. Though the infrastructure for the harbour facility has since come up the realisation of the full potential seems to be further away. The compensation process for land acquisition made is taking much longer than anticipated and the hotel has become the loser on all counts.

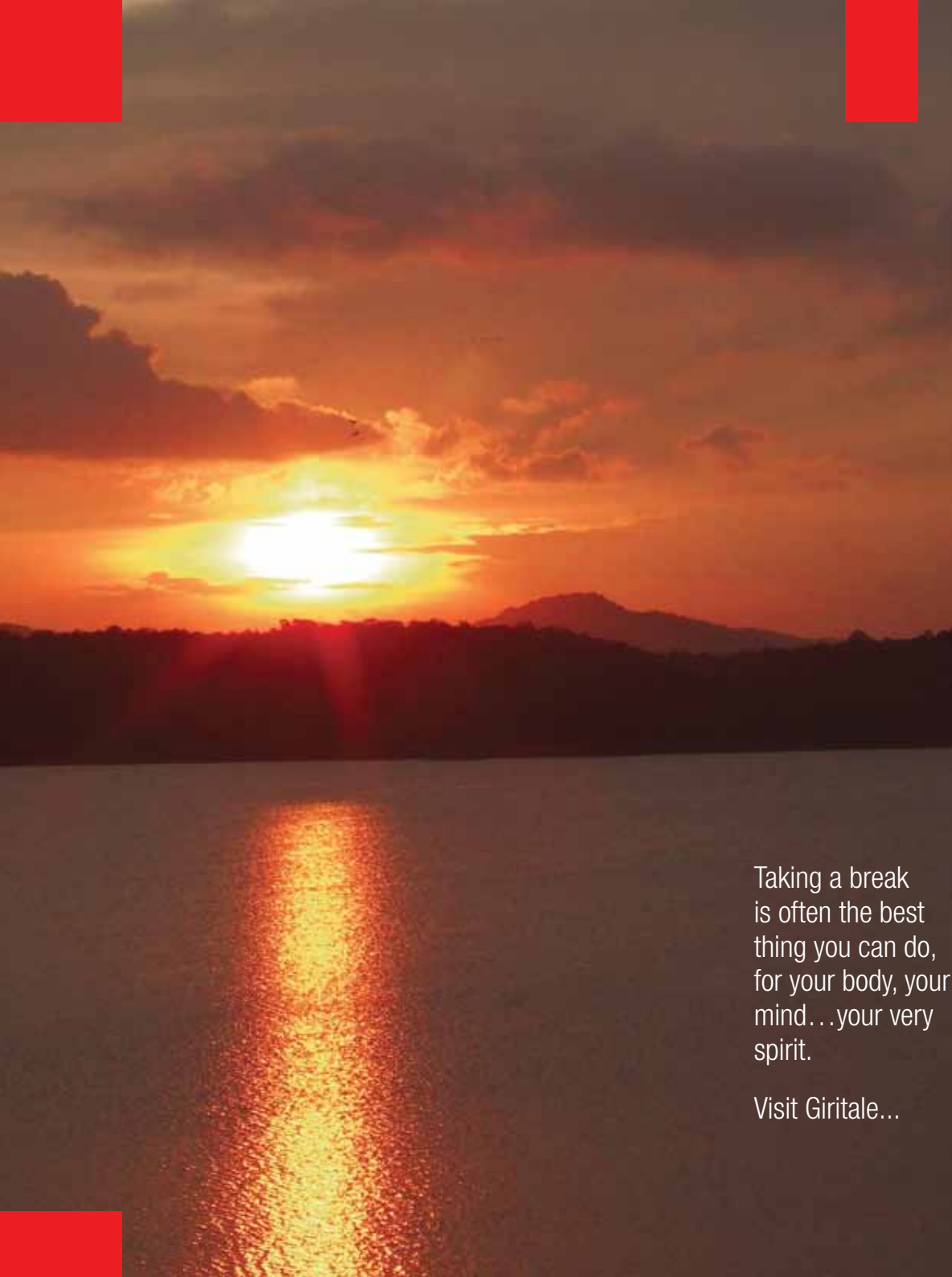
I wish to thank my colleagues on the Board, the members of the Audit Committee, Remuneration Committee, Nomination Committee and extend a pat on the back to the Director Operations of both properties and the respective teams for ensuring that our leisure business remains profitable in the face of general macro economic constraints. Our investments in refurbishing and strategic additions to our hospitality offering will reap rich rewards going ahead.

(Sgd.)  
**D.C.R. Gunawardena**  
*Chairman*

Colombo  
16th May 2013



Lush  
Serene  
Bliss  
Quiet  
Tranquil



Taking a break  
is often the best  
thing you can do,  
for your body, your  
mind...your very  
spirit.

Visit Giritale...



## FINANCIAL HIGHLIGHTS

(All figures in Sri Lankan Rupees thousands)

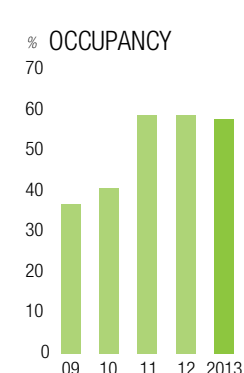
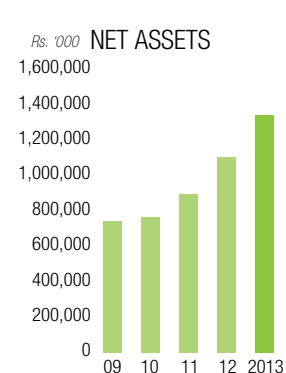
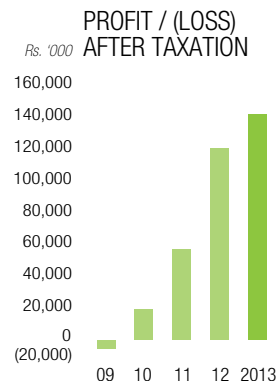
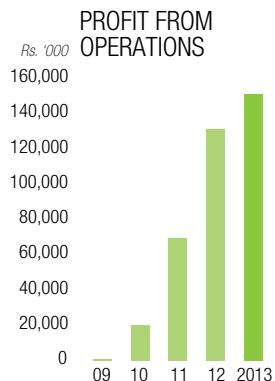
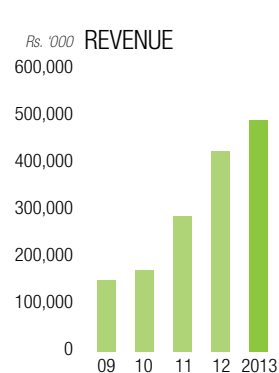
	2013	2012
Revenue	493,184	425,975
Gross profit	257,147	228,199
Profit from operations	151,487	131,205
Profit before taxation	158,174	135,964
Profit for the year	141,963	120,733
Earnings per share (Rs.)	4.68	4.39
Dividend per share (Rs.)	0.50	0.50
Total assets	1,505,500	1,432,984
Shareholders' Equity	1,342,639	1,104,943
Net assets per share (Rs.)	44.18	40.40
<b>Financial ratios</b>		
Gross Profit (%)	52.1	53.6
Net Profit (%)	28.8	28.3
Return on Equity (%)	10.6	10.9
Current ratio (times)	1.29	(1.85)
Debt to equity (%)	5.70	19.86
Market price per share (Rs.)	36.90	38.00
Occupancy (%)	58	59

PROFIT AFTER TAX  
142 mn

OCCUPANCY  
+58%

NET ASSETS  
1,342 mn

MARKET CAP  
1,121 mn



Figures for the financial years 2010 and 2011 have been adjusted to reflect the effect of unwinding of discount on compensation receivable.



Sumptuous  
Exclusive

Bliss

Lavish  
Luxurious



## REVIEW OF OPERATIONS

### Global Tourism Outlook

Growth in world travel and tourism was robust through 2012 despite many economic challenges. Globally, travel was impacted by severe weather, political conflicts, the depressed global economy and soaring energy prices. The World Travel Monitor Forum expects 2013 to be broadly similar, in that, consumers will continue to focus on personal financial situations, holiday prices and value for money offers, while the image and stability of destinations will also have a strong impact.

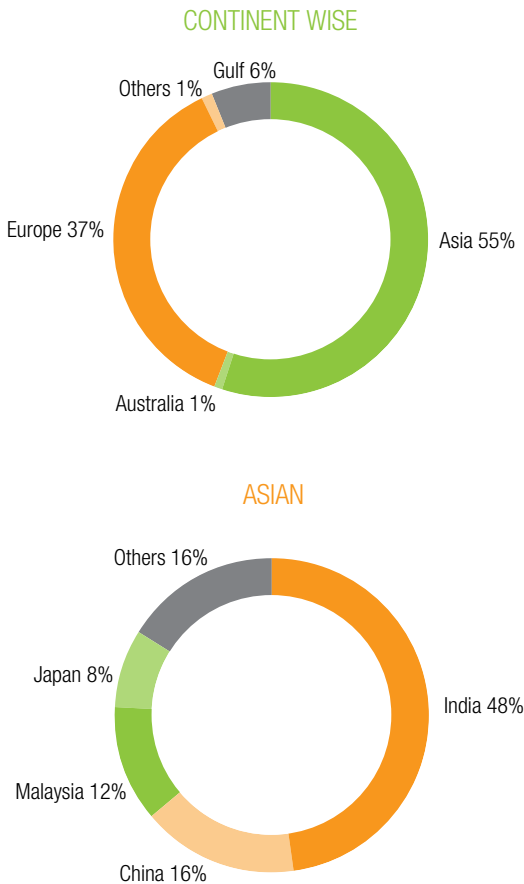
### Sri Lanka on the Rise

Sri Lanka scores high on the factors of image and stability. The end of the war has established an enduring peace and Sri Lanka can rightfully be considered as one of the safest destinations in the South Asian region today. Political stability and economic opportunity coupled with a diverse tourism product render Sri Lanka an unbeatable holiday destination. More importantly, the country is focusing on elevating tourism as its number one foreign exchange earner in the near future and has earmarked 2.5 million tourist arrivals by the year 2016.

Inching closer towards its ambitions of becoming a tourism hub, Sri Lanka's tourism offering was enhanced in several ways through the financial period under consideration. Construction of roads and highways went on apace, especially, the crucial Colombo-Katunayake airport link highway neared completion, which will cut down commuting time drastically for tourists entering the city from the Katunayake International Airport. New hotel projects were launched, Sri Lanka made its presence felt at international travel and tourism fairs and the construction of the new international airport at Mattala, Hambantota, further paved the way for more airlines to touch down in Sri Lanka. However, the pace of development needs to be accelerated and there should be greater inclusion of private sector travel and tourism operators in addressing the growth of the tourism industry.

### Operational Review

Positioned as a city beach resort, the Pegasus Reef Hotel straddles prime property between the Dutch Canal and the sea, offering a picturesque setting which belies its proximity to Colombo, Negombo and the international airport. Providing a haven from the hustle and bustle of urban life, Pegasus Reef has enhanced its facilities to reflect a modern and aesthetic ambience that is on par with other newly built resorts in the country.



The Pegasus Reef Hotel performed satisfactorily during the financial year under consideration in spite of the fact that certain areas of the hotel were undergoing extensive refurbishment through the year. We believe this proved to be a slight deterrence to a higher occupancy. Notwithstanding this, we succeeded in maintaining 58% occupancy levels through the year, which was satisfactory in itself since 30 rooms were closed for refurbishment. The increased fuel costs, electricity tariff brought about by 15% surcharge, general increase of food material and inevitable increase in staff costs to retain skilled personnel exerted pressure on operational costs. Needless to say, the company has as always taken effective measures to exercise better cost management controls on all discretionary costs. Capitalisation of refurbishment work-in-progress added additional depreciation burden on the bottom line which is unavoidable.

Meanwhile, revenue from Food and Beverage division experienced a tapering off towards the end of the financial year, due to the fact that the banquet hall being closed down for expansion and refurbishment since January 2013. Once complete, the hall will be capable of holding in excess of 700 guests. The banquet hall will be fully operational by end May in time for the peak wedding season for which satisfactory number of bookings have been already received in advance.

Our key patrons during the year were corporate MICE events, local and foreign tourists. The hotel experienced a downturn in the number of foreign guests due to lingering recession in source markets. However, our strong marketing push in the neighbouring Indian market has generated a steady stream of tourists from that country, who find Pegasus Reef a great value for money destination, simultaneously offering easy access to Colombo, the international airport and other tourist hotspots in the country.

The status of the land compensation claim for the portion of the hotel land acquired by the government to develop the Dickowita Fisheries Harbour still remains unresolved through legal complications posed by the prolonged ongoing land rights case filed by a co-claimant and we are awaiting the precise dates by when we would receive the determination of claim. Due to the long realisation period of the said claim, the newly adopted International Financial Reporting Standards necessitates a time period based discounting of the claim value. This is morefully disclosed in relevant notes in the financial reports.

#### Financial review

- **Operating Revenue**

The total operating revenue of the company increased by 18% from Rs. 335.6 mn to Rs. 397.3 mn whereas Room Revenue increased by 30% from Rs. 192.5 mn to Rs. 249.8 mn mainly due to the Average Room Rate (ARR) increasing by 26% and food and beverage revenue increasing by 3% for the correspondence period.

- **Operating Expenses**

The Operating expenses increased by 18% from Rs. 233.0 mn to Rs. 274.1 mn, out of above expenditure Rs. 64 mn were for Food and Beverage consumed, Rs. 66 mn were for Manpower cost, Rs.32.7 mn were for Administration cost, Power and energy cost were Rs. 42 mn and Rs. 69.4 mn were for others.

- **Earnings before Interest and Taxation – Profit from operation**

The Earnings before Interest and Taxation increased by 20% from Rs. 107.2 mn to Rs. 128.2 mn mainly due to the higher Revenue and better Average Room Rate.

Total comprehensive income for the year increased by 24% from 99.7 mn to 123.7 mn.

#### Successful Refurbishment

The most value-adding refurbishment at the hotel would be the banquet hall. From the time management has taken the strategic decision of positioning the hotel as a preferred MICE property in equal footing with its traditional transit room business segment for group traffic, banquet business has grown from strength to strength. Few refurbishments done on- the- run since then made the banquet halls more comfortable and appealing but the restriction of not being able to accommodate more than 400 guest in one hall, shifted such banquet events to Colombo five-stars. Hence, management took the bold decision of closing the 02 larger banquet halls for 5 months during off-peak to transform it to a dream venue for dream events. Once complete, the glass panelled banquet hall will offer stunning vistas of the sea and the surrounding greenery. It will be embellished with uniquely customised chandeliers and other modern trappings to transform

## REVIEW OF OPERATIONS

any event held there into a magical and memorable one. No expense has been spared to ensure the banquet hall will be one of the largest and finest in Sri Lanka. Pegasus Reef already attracts discerning honeymooners and the availability of such an exclusive banquet hall will enhance these numbers. We believe that the banquet hall will also serve as a magnet for corporates looking for a tasteful venue to hold their annual functions at a convenient location that is also accessible for all.

During the year, we successfully completed the refurbishment of further 90 rooms, which now reflect all the modern amenities and creature comforts any guest would desire, coupled with impeccable cleanliness and hygiene standards. Once the remaining 30 rooms are refurbished, the hotel will have 140 newly refurbished rooms to the highest standards and will find favour with discerning clients. The rooms are equipped with all modern facilities commensurate with a four-star property .

### Maximizing Potential

Pegasus Reef is one of the most strategically located transit hotels for business and leisure travellers, considering its mid-point location between Colombo and the international airport. However, the hotel now has the facilities and refreshing new look to compete as a unique city beach resort hotel and we will be focusing our marketing efforts to achieve longer stays by offering a fun-filled holiday experience packed with exciting activities for the entire family.

We are re-assessing every single area of the hotel to see how we can leverage on its unique selling points and create excitement and activity at the site. Over time, we will target the transformation of some of these potential-rich locations in the hotel's premises. Already, our scenic location has made the hotel a firm favourite for unforgettable wedding and honeymoon photographs.

The company keeps abreast of international tourism trends and the World Travel Monitor findings show that travellers are getting older. The number of travellers aged 55+ has increased to 23%, while 35% are in the 15-34 age category and 42% are aged between 35 and 54. At Pegasus Reef, we have a fine blend of high adrenalin sports and recreation for the adventurous and serene indoor entertainment and spa relaxation for more senior guests.

### Exemplary Culinary Experience

A common ground for guests of all ages is our delectable theme nights, which serve as a golden opportunity for our excellent chefs to showcase their culinary expertise in Dutch, Japanese, Chinese and Continental and Eastern cuisine. The theme nights are held under the stars on the beach side and are very popular as our chefs rise to the occasion, laying out a veritable culinary feast for the senses, ably supported by skilled barmen, who whip up some tempting cocktails. During the year, the theme nights were a star attraction for guests as well as local residents in the area, who enjoy the carnival ambience of our theme nights.

Our Saturday and Sunday buffets continue to draw clientele both from locality and from Colombo suburbs due to the acclaimed lavish spreads and the resort ambience it provides the working families a well deserved weekend getaway.

### Maintaining High Food Safety Standards

Pegasus Reef Hotel is proud of the high standards it maintains in food safety management systems in accordance with international food safety requirements. In addition to the ISO 22000: 2005 certification, the hotel also successfully passed stringent audits for HACCP (Hazard Analysis Critical Control Point) during the 2012/13 year. ISO 22000:2005 a global food safety management standard, specifies requirements for a food safety management system where an organization in the food chain needs to demonstrate its ability to control food safety hazards in order to ensure that food is safe for consumption.

### Talent Management

Passion and commitment of staff at Pegasus Reef are the two most outstanding qualities our guests find endearing. Our passion to offer the guest a consistently satisfying hospitality experience is driven from the top. Helmed by experienced hospitality professionals, they share their wealth of experience with all levels of the hotel staff, instilling in them the passion for exceeding guest expectations. The hotel offers its own training programme for fresh recruits, who are steeped in thorough training and brought on par with global hospitality professionals. During the 3 years that this programme has been existence more than 70 recruits from the locality have reaped rich harvests elevating them from nobody to a skilled hotel hand, a commodity in high demand both locally and abroad. The fact that we train our own staff rather than

rely on externally trained recruits has ensured our service staff reflects a high standard of service in the industry. Through the year under review, we sustained our focus on our staff and their welfare, encouraging them to ensure work-life balance, and are happy to report low attrition rates as a result of our close engagement with our employees. Cost management will form a core focus for us in the new year against the background of higher utility tariffs and we are motivating staff to take the lead in ensuring optimal usage of resources whilst trimming wasteful habits.

**Carsons Management Services (Private) Limited**  
Managers

16th May 2013



Offering our guests  
the true experience  
of BLISS is our  
goal...and we  
achieve that goal  
every day...

## PROFILES OF DIRECTORS

### CHANDIMA GUNAWARDENA

Chandima Gunawardena serves as a Non-Independent, Non-Executive Director of Carson Cumberbatch PLC and in most of the Carsons Group Companies in Sri Lanka and overseas. He is also a Director of Bukit Darah PLC. Since assuming Non-Executive status in the Group in 2011, he serves as an advisor to the Group's Strategic Planning and Management forums in Sri Lanka and serves on Board Committees including the Audit Committees of the Group in Sri Lanka and overseas covering all operating sectors of the Group.

He has over four decades of experience in varied fields of business and commercial activities and has held senior positions in 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, U.K.

### HARI SELVANATHAN

Hari Selvanathan is 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. 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) Ltd. 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 was a 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 was 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, Travelon Ltd and Travelon Management Services 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 Pakistan Business Council also Past President of the Sri Lanka - Benelux Business Council and Past President of the Chartered Management Institute-U.K, Sri Lanka Branch. 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.

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

### PUSHPAKUMARA M. WITHANA

Pushpakumara Withana is a Director of Equity Hotels Limited.

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

He is a Graduate of the Ceylon Hotel School.

## RISK MANAGEMENT

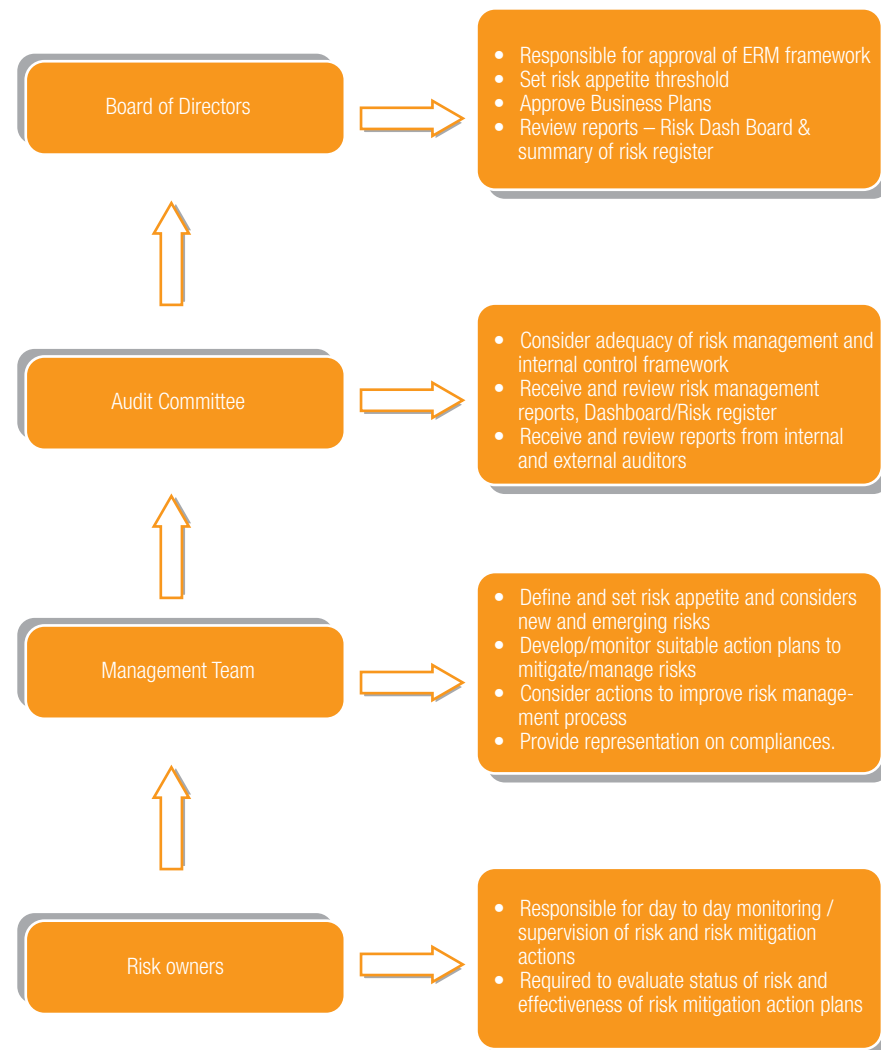
Encountering risk is inherent in any business. But an effective system of internal controls and risk management will ensure achievement of business objectives. Group-wide risk management practices provide reasonable assurance through the process of identification and management of events, situations, or circumstances which even if they occur would not adversely impact the achievement of objectives of the business. Risk management mechanism 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. Risks are managed until they are mitigated and re-assessed to be within company's risk appetite.

In implementing the business plan the company has embodied enterprise risk management to its business activities. This risk management process supports;

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

Risk management re-validates 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 includes a reporting framework within the organisation and to the Board of Directors thereby allowing Directors to assume their supervisory function for better Corporate Governance.



We are of the view that Risk Management is one of the driving factors of sustainability of operations and have identified the following risk profiles. The principal risks thus identified are considered and reviewed at various stages within our business process continuously.

Risk	Impact	Risk rating	Risk response & strategies
<b>Market risk</b>	Not being able to achieve business objectives.	Low	<p>The Hotel manages this risk by means of following actions and procedures</p> <ul style="list-style-type: none"> <li>• Diversity of revenue sources</li> <li>• Maintain and build relationships with tour operators</li> <li>• Participation in relevant trade and business promotions, locally and internationally</li> <li>• Maintaining value and standard of the hotel through regular refurbishments and training and development of employees</li> <li>• Develop and monitor comprehensive business plans</li> <li>• Diversification of revenue base</li> </ul>

Risk	Impact	Risk rating	Risk response & strategies
<b>Liquidity Risk</b>	Inability to raise funds or effect payments when required.	Moderate	<p>The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.</p> <p>The Company monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Company has access to short-term financing facilities extended from the parent company Carson Cumberbatch PLC.</p>

## RISK MANAGEMENT

Risk	Impact	Risk rating	Risk response & strategies
<b>Credit Risk</b>	The credit risk of the Company is mainly derived from the dues receivable from its customers. Company's objective is to seek continual revenue growth while minimizing losses incurred due to increased credit risk exposure.	Low	This sector implements following controls to mitigate this risk. <ul style="list-style-type: none"> <li>• Continuous and regular evaluation of creditworthiness of tour operators and other customers.</li> <li>• Ongoing monitoring and follow up of receivable balances.</li> </ul>
<b>Foreign Exchange Risk</b>	Foreign currency risk is the risk that the fair value or future value of a financial instrument will fluctuate due to changes in foreign exchange rates. Across the industry hotel rates targeting foreign tourists are quoted in US Dollar terms and contracted in advance with tour operators. This constitutes a significant volume of business to the group.	Low	The Company monitors fluctuations in foreign exchange rates and takes precautionary measures to revise its fee quotes on a regular basis, in an attempt to mitigate the exposure to currency risk.

Risk	Impact	Risk rating	Risk response & strategies
<b>Interest Rate Risk</b>	Interest rate risk is the risk arising due to the volatility of the interest rates in the markets affecting the future cash flows.	Low	The long-term bank borrowings of the Company has been obtained at a fixed concessionary interest rate, hence interest rate risk is not applicable. However other bank borrowings and amounts borrowed from related companies are exposed to interest rate risk. The financial strength of the parent company, Carson Cumberbatch PLC is used via group treasury in negotiating the rates with external financiers. (Refer the note 32 "Risk Management" in the financial statement for further details.)
<b>Systems and process risks</b>	The risk of direct or indirect losses due to inadequate or failed internal processes and systems.	Low	<ul style="list-style-type: none"> <li>• Maintain detail procedure manuals and provide training and guidelines for new recruits.</li> <li>• The internal audit function of the Group carry out regular review on internal control systems and processes and recommends process improvements, if short comings are noted.</li> </ul>

Risk	Impact	Risk rating	Risk response & strategies
<b>Human Resource Risk</b>	Attracting, developing and retaining talented employees are essential to deliver company's objectives. Failure to determine the appropriate mix of skills required to implement company strategies and failure to retain or develop the right number of appropriately qualified staff could affect the achievement of company's objectives.	Low	<p>The following initiatives have been implemented by the company.</p> <ul style="list-style-type: none"> <li>• Ensure recruitments are carried out to hire employees with required qualification, knowledge and experience.</li> <li>• Availability of detailed job descriptions and role profiles for each job.</li> <li>• HR policies are focused on encouraging continuous training and development and ensuring appropriate compensation as per market rates to retain and develop employees.</li> </ul>

Risk	Impact	Risk rating	Risk response & strategies
<b>Legal &amp; Regulatory Compliance</b>	Failure to comply with regulatory and legal framework applicable to the company.	Low	<p>The management together with the Carsons group legal division proactively identifies and set up appropriate systems and processes for legal and regulatory compliance in respect of Company's operations.</p> <ul style="list-style-type: none"> <li>• Arrange training programs and circulate updates for key employees on new / revise laws and regulations on need basis.</li> <li>• Provide comments on draft laws to government and regulatory authorities.</li> <li>• Obtain comments and interpretations from external legal consultants on areas that require clarity.</li> <li>• Obtain compliance certificates from management on quarterly basis on compliance with relevant laws and regulations.</li> </ul>

Risk arising from unforeseen events such as natural disasters is covered by obtaining appropriate and comprehensive insurance covers.





De-stress  
Indulge

# Bliss

Detox  
Relax

## 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 16th May 2013.

### 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 2013 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 to engage in hoteliering and leisure related activities.

There were no significant changes in the nature of 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 4 to 5 and 10 to 13 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 Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flow, Statement of Changes in Equity and Notes to the financial statements of the Company and the Group for the year ended 31st March 2013 are set out on pages 36 to 83. 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. 397.3mn and Rs. 493.2mn (2012 - Rs. 335.6mn and Rs. 426.0mn). 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:

(In Rupees thousands) For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
Profit for the year	141,963	120,733	123,759	99,773
Retained earnings/(accumulated losses) brought forward from previous year	25,427	(87,103)	5,808	(85,762)
Retained earnings before appropriations	167,390	33,630	129,567	14,011
Dividend paid	(15,196)	(8,203)	(15,196)	(8,203)
Retained earnings carried forward	152,194	25,427	114,371	5,808

#### 4.3 Significant accounting policies

The accounting policies adopted in the preparation of these financial statements are given on pages 41 to 51.

For all periods up to and including the year ended 31st March 2012, the Company and the Group prepared its financial statements in accordance with Sri Lanka Accounting Standards which were in effect up to that date. Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), all existing / new Sri Lanka Accounting Standards were prefixed as SLFRS and LKAS (referred to as "SLFRS" in these financial statements) to represent Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards and Sri Lanka Accounting Standards corresponding to International Accounting Standards (IASs), respectively. Accordingly, the Company and the Group adopted these new Sri Lanka Accounting Standards (which are commonly known as SLFRSs) applicable for financial periods commencing from 1st April 2012.

These are Company's and the Group's first financial statements prepared in accordance with LKAS/SLFRS and SLFRS 1 – First time adoption of Sri Lanka Accounting Standards has been applied.

The explanation how the transition to LKAS/SLFRS has affected the reported financial position, financial performance and cash flows of the Company and the Group is provided in Note 35.

#### 4.4 Property, plant and equipment

Details of property, plant and equipment are given in note 17 to the financial statements.

##### 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 Statement of Financial Position at revalued amounts in accordance with Sri Lanka Accounting Standard (LKAS 16) - 'Property, Plant and Equipment'.

During the financial year 2012, a revaluation gain was recognised on freehold land to the value of Rs. 111.5mn, 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) For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
Property, plant and equipment	97,709	78,234	94,333	70,609

#### 4.6 Reserves

As at 31st March 2013, the Group's total reserves stood at Rs. 827.5mn (2012 - Rs. 700.7mn) comprising capital reserves of Rs. 675.1mn (2012 - Rs. 675.1mn) and revenue reserves of Rs. 152.4mn (2012 - Rs. 25.6mn).

Total reserves of the Company as at 31st March 2013 stood at Rs. 789.6mn (2012 - Rs. 681.1mn) comprising capital reserves of Rs. 675.1mn (2012 - Rs. 675.1mn) and revenue reserves of Rs. 114.5mn (2012 - Rs. 6.0mn).

The movements are set out in the Statement of Changes in Equity and notes 25 and 26 to the financial statements.

### 5 INDEPENDENT AUDITORS' REPORT

The Independent Auditors' Report on the financial statements is given on page 35 of the Annual Report.

### 6 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.

The financial statements comprise of inter alia :

- a Statement of financial position, which presents a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year;
- a Statement of comprehensive income which presents a true and fair view of the profit and loss of the Company of the Company and the Group for the financial year.

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;
- reasonable and prudent judgments and estimates have been made; and
- provides the information required by and otherwise comply with the Listing Rules of the Colombo Stock Exchange.

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.

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

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 its operations 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.

## 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 relevant details as required by the Companies Act, No. 7 of 2007 have been entered in the Interests Register during the year under review.

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

### 7.1 Remuneration of Directors

Directors' remuneration for the financial year ended 31st March 2013 in respect of the Company and the Group is given in note 13.3 to the financial statements on page 53.

### 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 and the Group other than disclosed in note 33.

The following Directors of the Company did not have any interests in ordinary shares of the Company as at 1st April 2012 or as at 31st March 2013:

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. M. Selvanathan 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 INDEPENDENT AUDITORS

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

A sum of Rs. 220,225/- and Rs. 370,225/- (2012 - Rs. 191,500/- and Rs. 336,225/-) was paid to them by the Company and the Group respectively as audit fees for the year ended 31st March 2013. In addition to the above, the auditors were paid Rs. 75,000/- and Rs. 138,000/- (2012 - Rs. 45,000/- and Rs. 45,000/-) as professional fees for audit related services for the Company and the Group respectively. Further, an amount of Rs. 163,000/- and Rs. 244,000/- (2012 - Rs. 335,000/- and Rs. 335,000/-) was paid by the Company and the Group for non-audit services.

The retiring auditors have expressed their willingness to continue in office.

A resolution to re-appoint them as auditors of the Company and authorising 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 auditors.

### 9.1 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.

## 10 SIGNIFICANT EVENTS DURING THE YEAR

### 10.1 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) new ordinary share each for nine (9) existing ordinary shares held, at a price of Rs. 36/50 per share, with a view to raise a sum of Rs. 110.9mn.

The shareholders of the Company, at its Extraordinary General Meeting held on 20th March 2012 voted in favour of the above rights issue of shares. Accordingly, 3,039,153 ordinary shares of the Company were provisionally allotted among the existing shareholders of the Company and thereby the stated capital of the Company and the issued number of ordinary shares were increased up to Rs. 509,818,020/- and 30,391,538 shares with effect from 25th April 2012.

The funds raised through this rights issue were utilised 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.

### 11 RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS OF THE COMPANY

The Company carried out the following transaction 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 based on the audited Financial Statements as at 31st March 2012.

<b>Company</b>	Carson Cumberbatch PLC (CCPLC)
<b>Relationship</b>	Parent Company
<b>Transaction</b>	On 19th April 2012, Carson Cumberbatch PLC, the 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.

The details of amounts due to related companies are disclosed in note 33.5 to these financial statements.

## 12 CORPORATE GOVERNANCE

The Board has ensured that the Company has complied with the Corporate Governance Rules as per the Listing Rules of the Colombo Stock Exchange (CSE).

### 12.1 Board of Directors

The following Directors held office as at the reporting date and their brief profiles are given on pages 14 to 15 of the Annual Report.

<b>Names of the Directors</b>	<b>Executive/Non-Executive/Independent</b>
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)	

Each of the Non-Executive Directors of the Company has submitted a signed declaration on 'Independence/ Non-Independence' as per Rule 7.10.2.b of the Listing Rules of the Colombo Stock Exchange. The said declarations were tabled at the Board Meeting held on 16th May 2013, in order to enable the Board of Directors to determine the Independence/ Non-Independence of the Non-Executive Directors.

\* 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.

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

**12.2 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

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 and the Group is disclosed under note 13.3 on page 53 of this Annual Report.

**12.3 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.

Audit Committee members	Executive/Non-Executive/Independent
Mr. V.P. Malalasekera	Non-Executive/ Independent Director of CCPLC
Mr. D.C.R. Gunawardena	Non-Executive Director of CCPLC
Mr. F. Mohideen	Non-Executive/Independent Director of CCPLC

The Audit Committee Report is given on pages 30 to 31 of this Annual Report.

**12.4 Directors meeting attendance**

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

Directors	Meetings attended (out of 4)
Mr. D.C.R. Gunawardena	3
Mr. M. Selvanathan	3
Mr. H. Selvanathan	3
Mr. S. Nagendra	3
Mr. P.M. Withana	4
Mr. K.C.N. Fernando (Alternate Director to Mr. M. Selvanathan)	1

**13 NOMINATION COMMITTEE**

The Nomination committee of the Company 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 recommend the appointments of new Directors to the Board and the nomination of members to represent the Company in Group Companies / Investee Companies.

**14 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 to the respective Audit Committee. 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's 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 and the Group is given on pages 16 to 19.

## 15 HUMAN RESOURCES

The Company and the Group 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 and the Group.

The number of persons employed by the Company and the Group as at 31st March 2013 were 177 and 245 (2012 - 180 and 247) respectively.

## 16 EQUITABLE TREATMENT TO SHAREHOLDERS

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

## 17 ENVIRONMENTAL PROTECTION

The Company and the Group 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 subsidiary 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 2013 (2012- Rs. 0.50 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 2013 was Rs. 515,169,681/- consisting of 30,391,538 ordinary shares (2012 - Rs. 404,250,596/- consisting of 27,352,385 ordinary shares).

The movement in stated capital of the Company is given in note 24 to the financial statements.

### 22.2 Deemed capital contribution

The parent company, Carson Cumberbatch PLC, on behalf of the Company, has provided a corporate guarantee to Commercial Bank of Ceylon PLC, in securing bank borrowing facilities extended under the 'Tsunami funding scheme' at concessionary rates.

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

Sri Lanka Accounting Standards (LKAS 39) - "Finance Instruments-Measurement and Recognition" require 'Financial Guarantee contracts' of this nature to be recognized at their fair value in the financial statements and accordingly an amount of Rs. 5,351,660/- has been included in the "Stated Capital", being 'Deemed capital contribution' arising from the said transaction at each of the reporting dates.

## 23 EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen, which requires adjustments to or disclosures in the financial statements, except as disclosed in note 34 to the financial statements.

## 24 CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The contingent liabilities and capital commitments made on account of capital expenditure as at 31st March 2013 are given in note 31 to the financial statements.

## 25 CORPORATE DONATIONS

Details of donations granted by the Company and the Group during the year are given in note 13 to the financial statements.

## 26 SHARE INFORMATION

The details relating to earnings, net assets, market value per share and information on share trading is given on pages 84 and 86 to 87 of the Annual Report.

## 27 TWENTY MAJOR SHAREHOLDERS WITH COMPARATIVES

The Parent Company, Carson Cumberbatch PLC held 93.09 % of the total ordinary shares in issue of the Company as at 31st March 2013 (2012 – 92.75%).

### The twenty major shareholders with comparatives

As at 31st March Name of shareholders	2013		2012	
	No. of shares	%	No. of shares	%
Carson Cumberbatch PLC A/C No.2	28,290,958	93.09	25,369,210	92.75
Mrs. N.H. Abdul Husein	85,308	0.28	105,000	0.38
Dee Investments (Pvt) Ltd	83,800	0.28	83,800	0.31
Mr. H.C. Subasinghe	64,285	0.21	-	-
Mrs. I. Gwyn	55,000	0.18	46,766	0.17
Codegen International (Pvt) Ltd	50,100	0.16	-	-
Colombo Land & Development Company PLC	45,990	0.15	-	-
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. K. Kularatnam	31,620	0.10	99,216	0.36
Mr. A.J.M. Jinadasa	30,285	0.10	120	-
Mr. S.N.C.W.M.B.C. Kandegedara	30,000	0.10	30,000	0.11
Acuity Partners (Pvt) Limited / Mr. N.K.Punchihewa	30,000	0.10	-	-
Pan Asia Banking Corporation PLC / Mr. R.E. Rambukwelle	27,900	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	26,594	0.09	21,500	0.08
Merchant Bank of Sri Lanka Ltd A/C No 1	24,968	0.08	-	-
Mr. S.S. Jeyaselvan	22,273	0.07	-	-
Waldock Mackenzie Limited / Mr. L.P. Hapangama	21,500	0.07	21,500	0.08
Universe Capital (Private) Limited	21,400	0.07	-	-

## 28 ANNUAL REPORT

The Board of Directors on 16th May 2013 approved these consolidated financial statements together with the reviews which forms a part of the Annual Report.

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.

## 29 ANNUAL GENERAL MEETING

47th Annual General Meeting of the Company will be held on Monday, 17th day of June 2013 at 3.30 p.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala.

The notice of the Annual General Meeting is on page 88 of the Annual Report.

Signed on behalf of the Board,

(Sgd.)  
**D.C.R. Gunawardena**  
*Chairman*

(Sgd.)  
**M. Selvanathan**  
*Director*

(Sgd.)  
**K.D. De Silva (Mrs.)**  
*Director*  
 Carsons Management Services (Private) Limited  
 Secretaries

Colombo.  
 16th May 2013

## 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 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.

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

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.

CCPLC-Audit Committee held 05 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 five)	
Mr.Vijaya Malalasekera (Chairman)	05
Mr.Chandima Gunawardena	05
Mr.Faiz Mohideen	05

The Chief Executive Officer-Hotels Sector, Financial Controller-Carsons Management Services (Private) Limited-Managers, internal auditors and senior management staff members also attended the Audit Committee Meetings by invitation.

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 2012/2013, the Group Internal Audit (GIA) carried out six (06) 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.

For all periods up to and including the year ended 31st March 2012, the Company and the Group prepared their financial statements in accordance with the Sri Lanka Accounting Standards, which were in effect up to that date. Following the convergence of the Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), all existing /new Sri Lanka Accounting Standards were prefixed as SLFRS and LKAS (referred to as "SLFRS" in these financial statements) and with effect from the financial periods beginning on or after 1st January 2012, it was mandatory for the Company and the Group to comply with the requirements of the said new / revised Sri Lanka Accounting Standards (LKAS/SLFRS). The adoption of new/revised accounting framework required amendments to the basis of recognition, measurement and disclosure of transactions and balances in the financial statements of the Company and the Group, which are duly addressed in the financial statements for the year ended 31st March 2013. The transition and the resultant impact arising from the adoption of new/revised accounting standards on the financial statements of the Company and the Group were audited by Messrs.KPMG, Chartered Accountants, the Auditors, during the year end audit.

The draft financial statements of Pegasus Hotels of Ceylon PLC for the year ended 31st March 2013 were reviewed at a Meeting of the Audit Committee, together with the External Auditors, Messrs.KPMG, Chartered Accountants 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, Chartered Accountants, Auditors were independent on the basis that they did 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, Chartered Accountants, as Auditors for the financial year ending 31st March 2014, subject to the approval of the shareholders of Pegasus Hotels of Ceylon PLC at the Annual General Meeting.

(Sgd.)

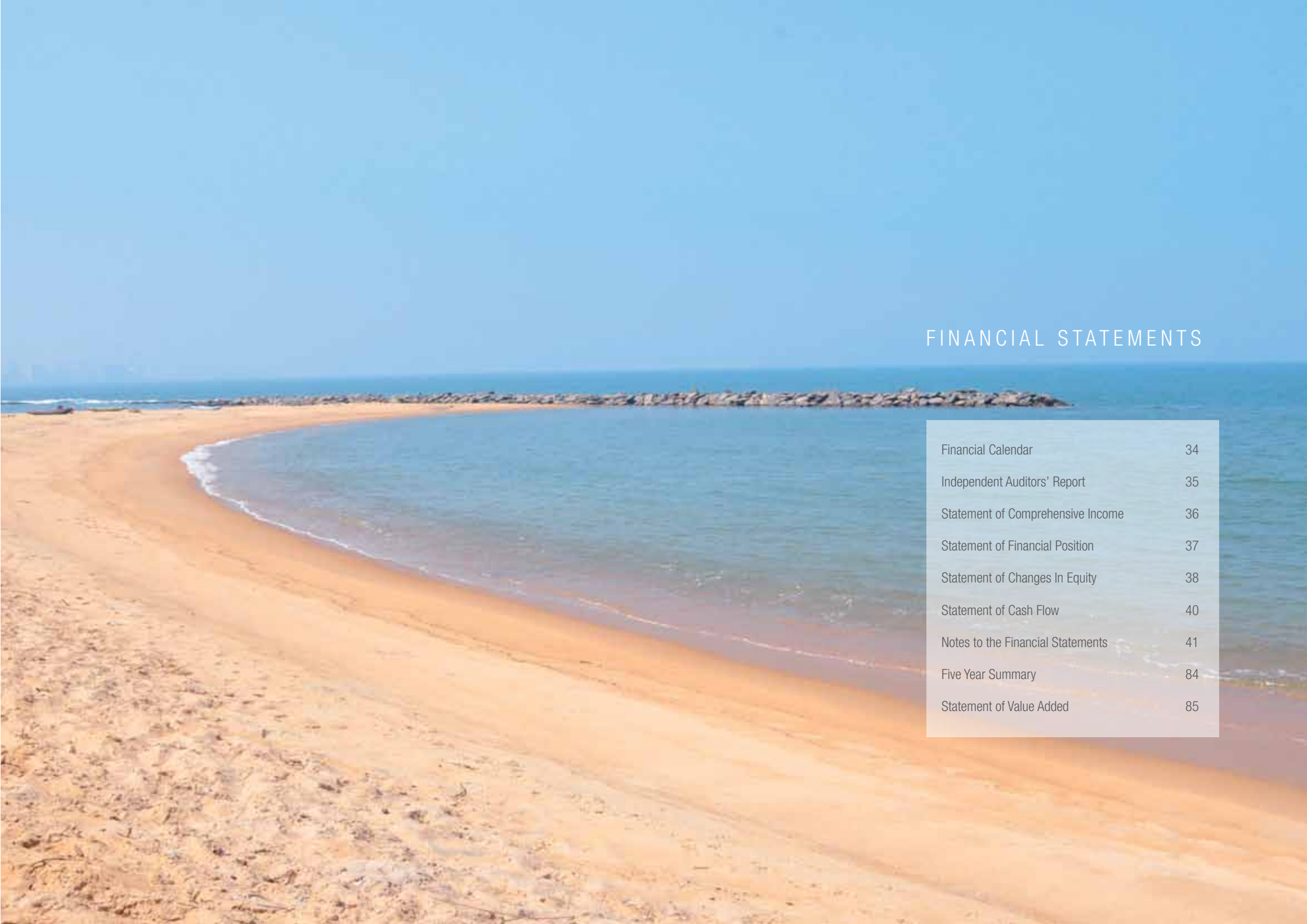
**V.P. Malalasekera**

*Chairman – Audit Committee*

Carson Cumberbatch PLC

16th May 2013





FINANCIAL STATEMENTS

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# INDEPENDENT AUDITORS' REPORT



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

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
+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 ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at March 31, 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 36 to 83 of the 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.

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.

## Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2013 and the financial statements give a true and fair view of the financial position of the Company as at March 31, 2013 and of its financial performance and its 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 financial position of the Company and its subsidiaries dealt with thereby as at March 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## 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. 98,440,548 has been recognized in the financial statements under Non Current Assets. As at the reporting 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 the reporting 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 Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

Chartered Accountants

16th May 2013  
Colombo

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne ACA	S.T.D.L. Perera FCA
G.A.U. Karunaratne ACA	R.M.D.B. Rajapakse ACA	Ms. B.K.D.T.N. Rodrigo ACA

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

## STATEMENT OF COMPREHENSIVE INCOME

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Notes	Group		Company	
		2013	2012	2013	2012
Revenue	11	493,184	425,975	397,322	335,605
Direct costs		(236,037)	(197,776)	(187,590)	(157,242)
<b>Gross profit</b>		257,147	228,199	209,732	178,363
Other income	12	6,668	5,594	5,012	4,652
Selling and promotional expenses		(8,997)	(10,913)	(6,313)	(8,693)
Administrative expenses		(103,331)	(91,675)	(80,220)	(67,103)
<b>Profit from operations</b>	13	151,487	131,205	128,211	107,219
Finance income	14	18,629	14,390	18,438	13,763
Finance costs	14	(11,942)	(9,631)	(10,354)	(8,081)
<b>Net finance income</b>	14	6,687	4,759	8,084	5,682
<b>Profit before taxation</b>		158,174	135,964	136,295	112,901
Current taxation	15	(9,574)	(8,631)	(6,887)	(7,840)
Deferred taxation	15	(6,637)	(6,600)	(5,649)	(5,288)
<b>Profit for the year</b>		141,963	120,733	123,759	99,773
<b>Other comprehensive income</b>					
Revaluation of land and buildings	17	-	111,531	-	111,531
Deferred tax effect on revaluation of land and buildings	28	-	(13,385)	-	(13,385)
<b>Other comprehensive income for the year</b>		-	98,146	-	98,146
<b>Total comprehensive income for the year</b>		141,963	218,879	123,759	197,919
<b>Earnings per share (Rs.)</b>	16	4.68	4.39	4.08	3.63
<b>Dividend per share (Rs.)*</b>		0.50	0.50	0.50	0.50

The notes from pages 41 to 83 form an integral part of these financial statements.

Figures in brackets indicate deductions

\* Based on proposed dividend

# STATEMENT OF FINANCIAL POSITION

(All figures in Sri Lankan Rupees thousands)

		Group			Company		
As at 31st March	Notes	2013	2012	1st April 2011	2013	2012	1st April 2011
<b>ASSETS</b>							
<b>Non-current assets</b>							
Property, plant and equipment	17	1,147,402	1,079,292	907,467	1,116,409	1,048,278	882,890
Intangible assets	18	115,287	115,287	115,287	-	-	-
Investment in subsidiary	19	-	-	-	110,223	110,223	110,223
Compensation receivable	20	98,441	88,264	79,139	98,441	88,264	79,139
Deferred tax asset	28	-	-	2,304	-	-	1,222
<b>Total non-current assets</b>		<b>1,361,130</b>	<b>1,282,843</b>	<b>1,104,197</b>	<b>1,325,073</b>	<b>1,246,765</b>	<b>1,073,474</b>
<b>Current assets</b>							
Inventories	21	14,981	13,479	13,320	11,618	10,508	10,757
Trade and other receivables	22	56,008	56,916	40,356	41,820	43,912	30,932
Cash and cash equivalents	23	73,381	79,746	50,074	70,856	62,463	49,049
<b>Total current assets</b>		<b>144,370</b>	<b>150,141</b>	<b>103,750</b>	<b>124,294</b>	<b>116,883</b>	<b>90,738</b>
<b>Total assets</b>		<b>1,505,500</b>	<b>1,432,984</b>	<b>1,207,947</b>	<b>1,449,367</b>	<b>1,363,648</b>	<b>1,164,212</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Stated capital	24	515,170	404,241	404,241	515,170	404,241	404,241
Capital reserves	25	675,099	675,099	576,953	675,099	675,099	576,953
Revenue reserves	26	152,370	25,603	(86,927)	114,547	5,984	(85,586)
<b>Total equity</b>		<b>1,342,639</b>	<b>1,104,943</b>	<b>894,267</b>	<b>1,304,816</b>	<b>1,085,324</b>	<b>895,608</b>
<b>Non-current liabilities</b>							
Loans and borrowings	27	16,446	25,014	34,182	16,446	25,014	33,582
Deferred tax liability	28	24,318	17,681	-	23,100	17,451	-
Employee benefits	29	10,465	8,280	5,910	6,986	4,657	3,133
<b>Total non-current liabilities</b>		<b>51,229</b>	<b>50,975</b>	<b>40,092</b>	<b>46,532</b>	<b>47,122</b>	<b>36,715</b>
<b>Current liabilities</b>							
Loans and borrowings	27	8,568	8,568	9,468	8,568	8,568	8,568
Trade and other payables	30	98,200	262,731	258,634	85,786	217,154	219,239
Current tax liabilities		4,864	5,767	5,486	3,665	5,480	4,082
<b>Total current liabilities</b>		<b>111,632</b>	<b>277,066</b>	<b>273,588</b>	<b>98,019</b>	<b>231,202</b>	<b>231,889</b>
<b>Total liabilities</b>		<b>162,861</b>	<b>328,041</b>	<b>313,680</b>	<b>144,551</b>	<b>278,324</b>	<b>268,604</b>
<b>Total equity and liabilities</b>		<b>1,505,500</b>	<b>1,432,984</b>	<b>1,207,947</b>	<b>1,449,367</b>	<b>1,363,648</b>	<b>1,164,212</b>
<b>Net assets per share (Rs.)</b>		<b>44.18</b>	<b>40.40</b>	<b>32.69</b>	<b>42.93</b>	<b>39.68</b>	<b>32.74</b>

The Notes from pages 41 to 83 form an integral part of these financial statements.

I certify that these financial statements are in compliance with the requirements of 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. These financial statements were approved by the Board on 16th May 2013.

Approved and signed on behalf of the Managers,

Approved and signed on behalf of the Board,

(Sgd.)

**A.P. Weeraratunge**

Director

Carsons Management Services (Private) Limited

Colombo

16th May 2013

(Sgd.)

**D.C.R. Gunawardena**

Chairman

(Sgd.)

**M. Selvanathan**

Director

## STATEMENT OF CHANGES IN EQUITY

(All figures 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	Retained earnings/ (accumulated losses)	
Balance as at 1st April 2011	404,241	561,809	15,144	176	(87,103)	894,267
Profit for the year	-	-	-	-	120,733	120,733
Other comprehensive income for the year	-	98,146	-	-	-	98,146
Total comprehensive income for the year	-	98,146	-	-	120,733	218,879
Dividend paid	-	-	-	-	(8,203)	(8,203)
Balance as at 31st March 2012	404,241	659,955	15,144	176	25,427	1,104,943
Balance as at 1st April 2012	404,241	659,955	15,144	176	25,427	1,104,943
Profit for the year	-	-	-	-	141,963	141,963
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	141,963	141,963
Rights issue of shares (note 24)	110,929	-	-	-	-	110,929
Dividend paid	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2013	515,170	659,955	15,144	176	152,194	1,342,639

The notes from pages 41 to 83 form an integral part of these financial statements.

Figures in brackets indicate deductions

(All figures in Sri Lankan Rupees thousands)

Company

	Stated capital	Capital reserves		Revenue reserves		Total equity
		Revaluation reserve	Capital accretion reserve	General reserve	Retained earnings/ (accumulated losses)	
Balance as at 1st April 2011	404,241	561,809	15,144	176	(85,762)	895,608
Profit for the year	-	-	-	-	99,773	99,773
Other comprehensive income for the year	-	98,146	-	-	-	98,146
Total comprehensive income for the year	-	98,146	-	-	99,773	197,919
Dividend paid	-	-	-	-	(8,203)	(8,203)
Balance as at 31st March 2012	404,241	659,955	15,144	176	5,808	1,085,324
Balance as at 1st April 2012	404,241	659,955	15,144	176	5,808	1,085,324
Profit for the year	-	-	-	-	123,759	-
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	123,759	123,759
Rights issue of shares (note 24)	110,929	-	-	-	-	110,929
Dividend paid	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2013	515,170	659,955	15,144	176	114,371	1,304,816

The notes from pages 41 to 83 form an integral part of these financial statements.

Figures in brackets indicate deductions

## STATEMENT OF CASH FLOW

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	Group		Company	
		2013	2012	2013	2012
<b>Cash flows from operating activities</b>					
Profit before taxation		158,174	135,964	136,295	112,901
<b>Adjustments for:</b>					
Loss on disposal / write-off of property, plant and equipment	13	1,661	825	1,661	825
Interest income on placements with banks and government securities	14	(7,828)	(4,587)	(6,244)	(4,099)
Dividend income	14	-	-	(1,481)	-
Unwinding of discount on compensation receivable	14	(10,177)	(9,125)	(10,177)	(9,125)
Interest expenses on bank borrowings	14	2,684	3,595	2,680	3,451
Interest expenses on related party borrowings	14	8,679	5,286	7,095	3,880
Corporate guarantee charges	14	579	750	579	750
Depreciation on property, plant and equipment	17	26,540	16,618	23,199	14,154
Transfer / adjustment on property, plant and equipment	17	-	(178)	-	-
Provision for employee benefits	29	6,030	2,370	2,572	1,524
Reversal of provision for impairment of trade receivables		(2,704)	(23)	(2,704)	(23)
<b>Profit before working capital changes</b>		183,638	151,495	153,475	124,238
(Increase) / decrease in inventories		(1,502)	(159)	(1,110)	249
(Increase) / decrease in trade and other receivables		3,033	(17,287)	4,217	(13,707)
Increase / (decrease) in trade and other payables		(9,273)	13,771	(5,874)	9,271
<b>Cash generated from operations</b>		175,896	147,820	150,708	120,051
Gratuity paid	29	(3,845)	-	(243)	-
Income tax paid		(10,477)	(8,350)	(8,702)	(6,442)
<b>Net cash generated from operating activities</b>		161,574	139,470	141,763	113,609
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	17	(97,709)	(78,234)	(94,333)	(70,609)
Proceeds from disposal of property, plant and equipment		1,398	675	1,342	1,773
Interest received		7,828	4,587	6,244	4,099
Dividend received		-	-	1,481	-
<b>Net cash used in investing activities</b>		(88,483)	(72,972)	(85,266)	(64,737)
<b>Cash flows from financing activities</b>					
Proceeds from rights issue of shares	24	110,929	-	110,929	-
Dividend paid		(15,113)	(8,143)	(15,113)	(8,143)
Loans and borrowings repaid during the year	27	(8,568)	(10,068)	(8,568)	(8,568)
Net amounts settled to related companies		(164,020)	(15,020)	(132,672)	(15,296)
Interest paid on bank borrowings		(2,684)	(3,595)	(2,680)	(3,451)
<b>Net cash generated used in financing activities</b>		(79,456)	(36,826)	(48,104)	(35,458)
Net increase / (decrease) in cash and cash equivalents		(6,365)	29,672	8,393	13,414
Cash and cash equivalents at the beginning of the year		79,746	50,074	62,463	49,049
<b>Cash and cash equivalents at the end of the year</b>	23	73,381	79,746	70,856	62,463

The notes from pages 41 to 83 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 Company domiciled in Sri Lanka.. The shares of the Company have a primary listing on the Colombo Stock Exchange.

The address of the Company's registered office is No. 61, Janadhipathi Mawatha, Colombo 1. The principle place of business of the Company is Santa Maria Mawatha, Hendala, Wattala..

The consolidated financial statements of the Company as at and for the year ended 31st March 2013 comprise the financial information of the Company and its subsidiary; Equity Hotels Limited (together referred to as the 'Group' and individually as 'Group entities').

The principle 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 Group had 245 (2012 - 247) employees at the end of the financial year. The Company had 177 (2012 - 180) employees as at the reporting date.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

The financial statements of the Company and the Group comprise the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flows together with the notes to the financial statements.

The consolidated financial statements have been prepared in accordance with Sri Lanka Accounting Standards (LKAS/SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and the requirements of Companies Act No. 7 of 2007.

For all periods up to and including the year ended 31st March 2012, the Company and the Group prepared their financial statements in accordance with Sri Lanka Accounting Standards which were in effect up to that date. Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), all existing/ new Sri Lanka Accounting Standards were prefixed as SLFRS and LKAS (referred to as "SLFRS" in these financial statements) to represent Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards and Sri Lanka Accounting Standards corresponding to International Accounting Standards (IASs), respectively. Accordingly, the Group and the Company adopted these new Sri Lanka Accounting Standards (which are commonly known as SLFRSs) applicable for financial periods commencing from 1st April 2012.

These are the Company's and the Group's first consolidated financial statements prepared in accordance with LKAS/SLFRS and SLFRS1 First time adoption of Sri Lanka Accounting Standard has been applied.

The explanation how the transition to LKAS/ SLFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 35.

These consolidated financial statements were authorised for issue by the Board of Directors on 16th May 2013.

#### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the financial statements, except for the following material items in the statement of financial position:

- land and buildings are measured at revalued amounts
- defined benefit obligations are measured at its present value, based on an actuarial valuation as explained in note 29
- Compensation receivable measured at amortised cost as explained in note 20

These financial statements have been prepared on the basis that the Company and the Group would continue as a going concern for the foreseeable future.

#### (c) 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 entities operate ('the functional currency'). The consolidated financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency.

#### (d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with LKAS/SLFRS requires management to make judgements, 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 estimates are revised and in any future periods affected.

## Notes to the Financial Statements

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- **Assessment of Impairment - Key assumptions used in discounted cash flow projections**

The Company and the Group assesses at each reporting date whether there is objective evidence that an asset or portfolio of assets is impaired. The recoverable amount of an asset is 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. The carrying value of goodwill is reviewed at each reporting date and is written down to the extent that it is no longer supported by probable future benefits. Goodwill is allocated to CGU for the purpose of impairment testing.

- **Deferred taxation - utilization of tax losses**

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

- **Defined benefit plans**

The assessment of the liability of defined benefit obligations involves a significant element of assumptions; including 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.

- **Current taxation**

Current tax liabilities arise to the Company and the Group in various jurisdictions. These liabilities are provided for in the financial statements applying the relevant tax statutes and regulations which the management believes reflect the actual liability. There can be instances where the stand taken by the Company and 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 the liability is confirmed on any Group entity.

### (e) Materiality and aggregation

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies set out below have been applied consistently to all periods presented in the financial statements of the Company and the Group in preparing the opening SLFRS Statement of Financial Position at 1st April 2011 for the purposes of the transition to SLFRSs, unless otherwise indicated.

#### (a) Basis of consolidation

##### (i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transactions costs that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

#### (ii) Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

#### (iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Adjustments required to the accounting policies of subsidiaries have been changed where ever necessary to align them with the policies adopted by the Group.

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

The consolidated financial statements are prepared to a common financial year end of 31st March.

#### (iv) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary then such interest is measured at fair value at the date that control is lost.

Subsequently, that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

#### (v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### (b) Foreign currency

#### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

### (c) Financial instruments

#### (i) Non-derivative financial assets

The Company and the Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. However, as at each reporting date, the Company and the Group holds only the financial assets categorized as 'loans and receivables'.

The Company and the Group initially recognises such loans and receivables on the date they are originated.

The Company and the Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company and the Group is recognised as a separate asset or liability.

## Notes to the Financial Statements

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company and the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, compensation receivable, and trade and other receivables.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances, placements with banking institutions and placements in government securities with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company and the Group in the management of its short-term commitments.

#### (ii) Non-derivative financial liabilities

The Company and the Group initially recognises liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company and the Group becomes a party to the contractual provisions of the instrument.

The Company and the Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company and the Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, trade and other payables and bank overdrafts.

Bank overdrafts that are repayable on demand and form an integral part of the Company's and the bank the Group's cash management are included as a component of cash and cash equivalents for the statement of cash flows.

#### (iii) Stated capital

### Ordinary shares

Ordinary shares are classified as equity. Costs attributable to the issue of ordinary shares are recognised as an expense

### (d) Property, plant and equipment

#### (i) Recognition and measurement

All items of property, plant and equipment are initially recorded at cost. Where items of property, plant and 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 reporting date.

Subsequent to the initial recognition of the asset at cost, the revalued property, plant and equipment are carried at revalued amounts less accumulated depreciation thereon and accumulated impairment losses. The Company and the Group applies revaluation model to freehold properties and cost model to the remaining assets under property, plant and equipment which are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Company and the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

#### (ii) Revaluation of Freehold Properties

The freehold properties of the Company are carried at revalued amounts. Revaluation of these assets are carried out at least once in three (3) years in order to ensure the book value reflect the realizable value of such assets, and are depreciated over the remaining useful lives of such assets, wherever applicable.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognized as an expense. In these circumstances the increase is recognized as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset is transferred directly to accumulated profits on retirement or disposal of the asset.

#### (iii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company and the Group. Ongoing repairs and maintenance are expensed as incurred.

#### (iv) Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

	No of years
Buildings - Freehold	3-75
Plant and machinery	5-27
Motor vehicles	4-5
Office equipment	5-16
Furniture, fittings	5-16
Computer equipments	3-5
Cutlery, Crockery and glassware	5

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 derecognized.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### (v) 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 recognized in net within 'Other Income' in the Statement of Comprehensive Income. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

#### (vi) 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.

### (e) Intangible assets and goodwill

#### (i) Goodwill

Goodwill that arises on the acquisition of the subsidiary is presented with intangible assets, in the statement of financial position.

#### Subsequent measurement

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

## Notes to the Financial Statements

### (ii) Software

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

### (iii) Other intangible assets

Other intangible assets that are acquired by the Company and the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, if any.

### (iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

### (v) Amortisation

Except for goodwill, intangible assets are amortised on a straight-line basis in to profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative years are as follows:

	No of years
Software licenses	3-10

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (vi) Impairment

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually or more frequently if events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable.

### (f) Inventories

Inventories are recognized at cost and net realizable value whichever is lower after making due allowance for obsolete and slow moving items..

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

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

### (g) Impairment

#### (i) Non-derivative financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company and the Group on terms that the Company and the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

#### Financial assets measured at amortised cost

The Company and the Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at specific asset level. All individually significant assets are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## (ii) Non-financial assets

The carrying amounts of the Company and the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset or CGU is 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 their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## (h) Employee benefits

### (i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company and the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### (ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

### (iii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Company and the Group are liable to pay retirement benefits under the Payment of Gratuity Act, No. 12 of 1983. The liability recognised in the financial statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by Sri Lanka Accounting Standard (LKAS 19) - 'Employee Benefits'. Such actuarial valuations will be carried out once in every year. The liability is not externally funded. All Actuarial gains or losses are recognised immediately in profit or loss applying the faster recognition approach.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

### (iv) Termination benefits

Termination benefits are recognised as an expense when the Company and the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company and the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

## (i) Provisions

A provision is recognised if, as a result of a past event, the Company and the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of discounts is recognised as finance cost.

## Notes to the Financial Statements

### (j) Contingent liabilities and contingent assets

A contingent liability is a possible obligation 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 or a present obligation that is not recognized 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 recognize 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.

### (k) Leases

#### (i) Operating Lease

Lease of assets under which all the risks and benefits of ownership are retained by the lesser are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Assets held under operating leases are not recognised in the Group's statement of financial position.

#### (ii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company and the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or on reassessment of the arrangement, the Company and the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

### (l) Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to 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.

The following specific criteria are used for the purpose of recognition of revenue:

#### (i) Room revenue

Rooms revenue is recognised based on the number of rooms occupied

#### (ii) Food and beverage revenue

Revenue from food and beverage is recognised at the time of the sale.

#### (iii) Other income

Other income, including laundry and games are recognized on an accrual basis

#### (iv) Gains / (losses) on disposal of property, plant and equipment

Gains and losses of a revenue nature resulting from the disposal of property, plant and equipment are accounted on net basis.

### (m) Expenditure Recognition

#### (i) Operating Expenses

All expenses incurred in day-to-day operations of the business and in maintaining the property, plant and 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 and equipment.

#### (ii) Finance income and finance costs

Finance income comprises interest income on funds invested and unwinding of discount on compensation receivable. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and corporate guarantee charges.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

#### **(n) Sales tax**

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales taxes incurred in a purchase of assets services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amounts of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of financial position.

#### **(o) Income tax expense**

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

##### **(i) Current tax**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

##### **(ii) Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries, to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company and the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised, based on the level of future taxable profit forecasts and tax planning strategies.

##### **(iii) Tax exposures**

In determining the amount of current and deferred tax, the Company and the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company and the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

##### **(iv) 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.

#### **(p) Cash flow**

Interest paid and dividend paid is classified as financing cash flows, interest received and dividend received are classified as investing cash flows, for the purpose of presentation of Statement of Cash Flow which has been prepared using the "Indirect Method".

## Notes to the Financial Statements

### 4. EARNINGS PER SHARE

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 outstanding during the period of the Company.

### 5. RELATED PARTY TRANSACTIONS

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

### 6. EVENTS AFTER THE REPORTING PERIOD

All material and important events which occur after the reporting period have been considered and disclosed in Note 34.

### 7. DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognized 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.

### 8. PRESENTATION

Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

Where appropriate, the significant accounting policies are disclosed in the succeeding notes.

#### (a) Offsetting Income and Expenses

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

#### (b) Offsetting Assets and Liabilities

Assets and liabilities are offset and the net amount reported in the Statement of financial position only where there is:

- a current enforceable legal right to offset the asset and the liability; and
- an intention to settle the liability simultaneously

### 9. 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.

### 10. DETERMINATION OF FAIR VALUES

A number of the Company's and the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which property could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

#### (b) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

#### (c) Trade and other receivables / compensation receivable

The fair values of trade and other receivables / compensation receivable, excluding construction work in progress, are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each reporting date.

**(d) Other non-derivative financial liabilities**

Other non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

**(e) Contingent consideration**

The fair value of contingent consideration arising in a business combination is calculated using the income approach based on the expected payment amounts and their associated probabilities. When appropriate, it is discounted to present value.

## Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>11 REVENUE</b>				
<b>Revenue analysis (net)</b>				
Room revenue	311,856	249,849	249,858	192,582
Food and beverage revenue	168,796	164,573	137,474	133,339
Other revenue	12,532	11,553	9,990	9,684
	493,184	425,975	397,322	335,605

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>12 OTHER INCOME</b>				
Rent income	3,148	827	1,654	814
Club membership income	1,510	1,433	1,510	1,433
Sundry income	2,010	3,334	1,848	2,405
	6,668	5,594	5,012	4,652

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>13 PROFIT FROM OPERATIONS</b>				
<b>Operating profit is stated after charging all expenses including the following:</b>				
Auditors' remuneration				
- Audit services	370	336	220	191
- Audit related services	138	45	75	45
- Non-audit services	244	335	163	335
Depreciation (note 13.1)	26,540	16,618	23,199	14,154
Loss on disposal / write-off of property, plant and equipment	1,661	825	1,661	825
Reversal of provision for impairment of trade receivable	2,704	23	2,704	23
Donations	108	211	108	73
Professional service costs (note 13.2)	2,566	957	2,413	792
Directors' emoluments	-	7,492	-	7,492
Nomination committee fees	50	-	50	-
Personnel costs (note 13.3)	92,837	77,388	66,074	56,259
Management fees	6,387	6,274	5,126	5,102

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>13.1 Depreciation</b>				
Depreciation included in the Statement of Comprehensive Income under the following headings:				
Direct costs	22,831	14,917	20,144	13,103
Administrative expenses	3,709	1,701	3,055	1,051
	26,540	16,618	23,199	14,154
For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>13.2 Professional Service costs</b>				
Legal services	672	719	537	571
Valuation services	187	73	169	56
Consultation fees	337	-	337	-
Other services	1,370	165	1,370	165
	2,566	957	2,413	792
For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>13.3 Personnel costs</b>				
Salaries, wages and other related expenses	79,273	68,412	57,794	49,694
Defined benefit plan cost - Gratuity (note 29)	6,030	2,370	2,572	1,524
Defined contribution plan cost - EPF and ETF	7,534	6,606	5,708	5,041
	92,837	77,388	66,074	56,259
The above include:				
Directors fees	-	-	-	-
Directors' emoluments	9,992	7,704	7,844	6,257
	9,992	7,704	7,844	6,257

## Notes to the Financial Statements

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>14 NET FINANCE INCOME</b>				
<b>14.1 Finance income</b>				
Interest income on placements with banks and government securities	7,828	4,587	6,244	4,099
Dividend income	-	-	1,481	-
Unwinding of discount on compensation receivable (note 14.3)	10,177	9,125	10,177	9,125
Gain on foreign exchange transactions	624	678	536	539
	18,629	14,390	18,438	13,763
<b>14.2 Finance cost</b>				
Interest expenses on loans and borrowings				
- On bank borrowings	2,684	3,595	2,680	3,451
- On related party borrowings	8,679	5,286	7,095	3,880
Corporate guarantee charges	579	750	579	750
	11,942	9,631	10,354	8,081
<b>Net finance income</b>	6,687	4,759	8,084	5,682

**14.3 Unwinding of discounting on compensation receivable**

Unwinding of discounting on compensation receivable recognized under 'finance income' represents the year on year building-up effect of compensation receivable shown at its amortised cost, based on the assumptions which are morefully described in note 32.1.1.a as required by the LKAS 39.

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>15 INCOME TAX EXPENSES</b>				
<b>15.1 Current taxation</b>				
Current tax expenses (note 15.3)	11,746	9,650	9,388	7,840
(Over)/under provision for previous years	(2,172)	(1,019)	(2,501)	-
	9,574	8,631	6,887	7,840
<b>15.2 Deferred taxation</b>				
On origination / (reversal) of temporary differences (note 28)	6,637	6,600	5,649	5,288
	6,637	6,600	5,649	5,288
	16,211	15,231	12,536	13,128

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>15.3 Reconciliation between the accounting profit and the profit for tax purposes</b>				
Accounting profit before taxation	158,174	135,964	136,295	112,901
Aggregate disallowable expenses	43,101	33,163	31,854	24,216
Aggregate allowable claim	(41,080)	(32,518)	(36,710)	(28,230)
Notional adjustments arising on application of LKAS/SLFRS	(9,609)	(8,242)	(9,596)	(8,375)
Profits exempt from income tax	(1,481)	-	(1,481)	-
Adjustment due to consolidation	1,481	-	-	-
Interest income	(7,828)	(4,775)	(6,244)	(4,287)
Adjusted profit from operations for tax purposes	142,758	123,592	114,118	96,225
Interest income	7,828	4,775	6,244	4,287
Total Statutory Income	150,586	128,367	120,362	100,512
Utilization of tax losses (note 15.4)	(52,705)	(44,905)	(42,127)	(35,179)
Taxable income	97,881	83,462	78,235	65,333
<b>Taxation thereon (note 15.5 a)</b>	11,746	9,650	9,388	7,840
As at 31st March	Group		Company	
	2013	2012	2013	2012
<b>15.4 Analysis of tax losses</b>				
Tax losses brought forward	305,087	349,992	291,613	326,792
Adjustment on finalization of tax liability	9,157	-	5,694	-
Utilization of tax losses during the year (note 15.5 b)	(52,705)	(44,905)	(42,127)	(35,179)
<b>Tax losses carried forward</b>	261,539	305,087	255,180	291,613

## Notes to the Financial Statements

### 15.5 Income tax provisions applicable

- (a) In terms of the provisions of the Inland Revenue Act, No. 10 of 2006 and amendment thereto, the taxable profit of the Company and its subsidiary are liable to income tax at 12%. The taxable profit of the subsidiary was liable to income tax at a reduced rate of 10% for the year of assessment 2011/12, being an undertaking engaged in the provision of services of which the annual turnover is less than Rs. 300mn. The said concessionary tax rate was withdrawn effective from year of assessment 2012/13, waiving off such tax concessions, in the context of Group of companies.
- (b) The utilization of tax losses brought forward is restricted to 35% of current year's "Statutory Income". Unabsorbed tax losses can be carried forward indefinitely.
- (c) Deferred tax has been computed using a current tax rate of 12% (2012 - 12%) for the Company and the Group respectively.

### 16 EARNINGS PER SHARE

The Company's and the Group's 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 outstanding, as required by Sri Lanka Accounting Standard (LKAS 33) - "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	
	2013	2012	2013	2012
<b>Amount used as the numerator</b>				
Profit attributable to the ordinary equity holders of the parent company	141,963	120,733	123,759	99,773
<b>Amount used as the denominator</b>				
Weighted average number of ordinary shares outstanding at the beginning of the year (In thousands)	27,352	27,352	27,352	27,352
Increase in weighted average number of ordinary shares outstanding due to the rights issue of shares (In thousands)	2,960	143	2,960	143
Adjusted weighted average number of ordinary shares outstanding for earnings per share calculation (In thousands)	30,312	27,495	30,312	27,495
<b>Earnings per share (Rs.)</b>	<b>4.68</b>	<b>4.39</b>	<b>4.08</b>	<b>3.63</b>

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipments	Motor Vehicle	Cutlery crockery and glassware	Capital work-in- progress	Total as at 31st March 2013	Total as at 31st March 2012	Total as at 1st April 2011
<b>17 PROPERTY, PLANT AND EQUIPMENT</b>												
<b>17.1 Group</b>												
<b>Cost/valuation</b>												
Balance as at the beginning 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	816,350
On consolidation	-	-	-	-	-	-	-	-	-	-	-	53,406
Revaluation	-	-	-	-	-	-	-	-	-	-	111,531	136,166
Transferred to revaluation	-	-	-	-	-	-	-	-	-	-	(29,769)	-
Transferred from capital working progress	-	2,748	-	-	-	391	-	-	(3,139)	-	-	-
Additions during the year	-	30,037	2,097	21,413	507	5,967	4,569	172	32,947	97,709	78,234	20,581
Disposals / write off during the year	-	(117)	-	(5,458)	(59)	(1,350)	-	(696)	-	(7,680)	(3,159)	(61)
Transfers / adjustments	-	-	-	-	-	-	-	-	-	-	(5,744)	-
<b>Balance as at the end of the year</b>	<b>504,332</b>	<b>503,454</b>	<b>104,615</b>	<b>73,772</b>	<b>8,959</b>	<b>30,891</b>	<b>4,569</b>	<b>4,025</b>	<b>32,947</b>	<b>1,267,564</b>	<b>1,177,535</b>	<b>1,026,442</b>
<b>Depreciation</b>												
Balance as at the beginning of the year	-	6,763	49,929	19,000	6,110	15,229	-	1,212	-	98,243	118,975	74,566
On consolidation	-	-	-	-	-	-	-	-	-	-	-	29,352
Charge for the year	-	8,275	5,716	6,939	1,014	2,694	952	950	-	26,540	16,618	15,057
Transferred to revaluation	-	-	-	-	-	-	-	-	-	-	(29,769)	-
On disposals / write-off during the year	-	(1)	-	(2,950)	(59)	(1,349)	-	(262)	-	(4,621)	(1,659)	-
Transfers / adjustments	-	-	-	-	-	-	-	-	-	-	(5,922)	-
<b>Balance as at the end of the year</b>	<b>-</b>	<b>15,037</b>	<b>55,645</b>	<b>22,989</b>	<b>7,065</b>	<b>16,574</b>	<b>952</b>	<b>1,900</b>	<b>-</b>	<b>120,162</b>	<b>98,243</b>	<b>118,975</b>
<b>Net book value as at the end of the year</b>	<b>504,332</b>	<b>488,417</b>	<b>48,970</b>	<b>50,783</b>	<b>1,894</b>	<b>14,317</b>	<b>3,617</b>	<b>2,125</b>	<b>32,947</b>	<b>1,147,402</b>	<b>1,079,292</b>	<b>907,467</b>

## Notes to the Financial Statements

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipments	Motor Vehicle	Cutlery crockery and glassware	Capital work-in- progress	Total as at 31st March 2013	Total as at 31st March 2012	Total as at 1st April 2011
<b>17.2 Company</b>												
<b>Cost/valuation</b>												
Balance as at the beginning of the year	504,332	445,806	90,932	45,509	8,187	17,261	-	3,687	3,107	1,118,821	971,313	815,698
Revaluation	-	-	-	-	-	-	-	-	-	-	111,531	136,166
Transferred to revaluation	-	-	-	-	-	-	-	-	-	-	(29,769)	-
Transferred from capital working progress	-	2,848	-	-	-	259	-	-	(3,107)	-	-	-
Additions during the year	-	29,856	379	20,632	507	5,393	4,569	75	32,922	94,333	70,609	19,449
Disposals / write off during the year	-	(117)	-	(5,458)	(59)	(1,350)	-	(604)	-	(7,588)	(4,863)	-
<b>Balance as at the end of the year</b>	<b>504,332</b>	<b>478,393</b>	<b>91,311</b>	<b>60,683</b>	<b>8,635</b>	<b>21,563</b>	<b>4,569</b>	<b>3,158</b>	<b>32,922</b>	<b>1,205,566</b>	<b>1,118,821</b>	<b>971,313</b>
<b>Depreciation</b>												
Balance as at the beginning of the year	-	-	41,471	11,976	6,110	10,028	-	958	-	70,543	88,423	74,566
Charge for the year	-	7,046	5,281	6,161	1,014	2,040	952	705	-	23,199	14,154	13,857
Transferred to revaluation	-	-	-	-	-	-	-	-	-	-	(29,769)	-
On disposals / write off during the year	-	(1)	-	(2,950)	(59)	(1,350)	-	(225)	-	(4,585)	(2,265)	-
<b>Balance as at the end of the year</b>	<b>-</b>	<b>7,045</b>	<b>46,752</b>	<b>15,187</b>	<b>7,065</b>	<b>10,718</b>	<b>952</b>	<b>1,438</b>	<b>-</b>	<b>89,157</b>	<b>70,543</b>	<b>88,423</b>
<b>Net book value as at the end of the year</b>	<b>504,332</b>	<b>471,348</b>	<b>44,559</b>	<b>45,496</b>	<b>1,570</b>	<b>10,845</b>	<b>3,617</b>	<b>1,720</b>	<b>32,922</b>	<b>1,116,409</b>	<b>1,048,278</b>	<b>882,890</b>

**17.3** Freehold land and freehold building of the Company were last revalued by Mr. K. Arthur Perera, A.M.I.V (Sri Lanka), an independent professional valuer as at 31st March 2012. The details of carrying values of revalued assets and the carrying value, if such assets were carried at historical cost less depreciation are as follows;

Property and location	Asset category	Method of valuation	Carrying value of revalued assets if carried at historical cost	Carrying value of revalued assets 2013	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	504,332
	Building	Market approach	263,527	471,348	445,806	314,823

As at 31st March	Group			Company		
	2013	2012	1st April 2011	2013	2012	1st April 2011
<b>17.4 Analysis of Capital work-in-progress</b>						
Freehold Building	11,379	2,748	529	11,739	2,848	-
Equipments	21,568	391	-	21,183	259	-
	32,947	3,139	529	32,922	3,107	-

**17.5** The deferred tax effect on revaluation surplus, arising from the revaluation of freehold building during the financial year 2011/12 amounting to Rs. 13.39mn has been adjusted in 'Other comprehensive income'.

**17.6** 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.

**17.7 Analysis of fully depreciated assets in property, plant and equipment - Cost**

As at 31st March	Group			Company		
	2013	2012	1st April 2011	2013	2012	1st April 2011
Plant and Machinery	25,335	25,153	25,153	17,876	17,876	17,876
Office Equipment, Furniture and Fittings	16,740	17,145	17,525	10,613	11,260	11,260
Computers	5,310	5,432	5,432	5,293	5,432	5,432
	47,385	47,730	48,110	33,782	34,568	34,568

**17.8 Capitalization of borrowing costs in to property, plant and equipment**

No borrowing costs were capitalized during the year for property, plant and equipment (2012 - Nil) for the Company and the Group.

**17.9 Restrictions on title of property, plant and equipment**

There were 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.

## Notes to the Financial Statements

### 17.10 Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as security for liabilities as at the reporting 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 for the construction of a fisheries harbour, out of which 353.89 perches of land was subject to 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 Statement of financial position 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, to be reserved as a green belt between the hotel and the harbour.

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. If this request is granted by the Supreme Court Company is expected to regain title to the balance 273.89 perches and make an additional claim for compensation for the said 80 perches. Until determination of the aforesaid legal steps, the entire land extent in question (353.89 perches) will continue to be accounted in the Statement of financial position of the Company under property, plant and equipment at the market value.

Accordingly the market value of the said land amounting to Rs. 52,950,000/- (2012 - Rs. 52,950,000/-) as at the reporting date has not been removed from the property, plant and equipment.

## 18 INTANGIBLE ASSETS

As at 31st March	Group		
	2013	2012	1st April 2011
<b>18.1 Goodwill on consolidation</b>			
Balance as at the beginning of the year	115,287	115,287	115,287
Balance as at the end of the year	115,287	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.

As at 31st March				Company		
				2013	2012	1st April 2011
<b>19 INVESTMENT SUBSIDIARY</b>						
Investment in subsidiary (note 19.1)				110,223	110,223	110,223
				110,223	110,223	110,223
<b>19.1</b>						
	No. of shares	Cost as at 31st March 2013	No. of shares	Cost as at 31st March 2012	No. of shares	Cost as at 1st April 2011
Equity Hotels Limited	685,469	110,223	685,469	110,223	685,469	110,223
<b>Total investment in subsidiary</b>		110,223		110,223		110,223

Group				Company		
As at 31st March						
	2013	2012	1st April 2011	2013	2012	1st April 2011
<b>20 COMPENSATION RECEIVABLE</b>						
Compensation receivable	98,441	88,264	79,139	98,441	88,264	79,139
	98,441	88,264	79,139	98,441	88,264	79,139

- 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 as Rs. 189.5mn in the financial statements based only on the market value at the time of acquisition and related costs, supported by a professional valuation dated 4th April 2009 conducted Mr. K Arthur Perera, A.M.I.V.(Sri Lanka), Valuer and 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 is valued at Rs.250.4mn.

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 reporting date, Company has not received any confirmation from the Divisional secretary on the value determination of the said claim.

The amounts recognised in the financial statements represents the amortised cost of the said receivable as at the respective reporting dates, based on the assumptions which are morefully described in note 32.1.1.a. An amount of Rs. 10.2 mn (2012 - Rs. 9.1 mn) has been recognized in the statement of comprehensive income on account of unwinding of discount on compensation receivable.

## Notes to the Financial Statements

As at 31st March	Group			Company		
	2013	2012	1st April 2011	2013	2012	1st April 2011
<b>21 INVENTORIES</b>						
Food	2,091	2,011	2,892	1,313	1,265	2,249
Beverage	1,478	1,334	1,343	847	735	808
Engineering spares	2,276	2,325	1,855	1,858	1,878	1,367
Linen	4,946	4,635	2,828	3,964	4,009	2,486
Others	4,190	3,174	4,402	3,636	2,622	3,847
	14,981	13,479	13,320	11,618	10,508	10,757
As at 31st March	Group			Company		
	2013	2012	1st April 2011	2013	2012	1st April 2011
<b>22 TRADE AND OTHER RECEIVABLES</b>						
<b>Financial</b>						
Trade receivables (note 22.1)	49,262	52,786	34,978	37,451	40,503	26,336
Other receivables	2,372	752	925	463	437	494
Loans given to company officers (note 22.2)	243	200	105	188	158	94
	51,877	53,738	36,008	38,102	41,098	26,924
<b>Non-financial</b>						
Advances and prepaid expenses	3,422	1,889	2,309	3,009	1,525	1,969
Fair valuation of corporate guarantees	709	1,289	2,039	709	1,289	2,039
	4,131	3,178	4,348	3,718	2,814	4,008
	56,008	56,916	40,356	41,820	43,912	30,932
<b>22.1 Trade receivables</b>						
Trade debtors	49,354	57,399	39,951	37,451	45,088	31,231
Less: Provision for bad debtors	(92)	(4,613)	(4,973)	-	(4,585)	(4,895)
	49,262	52,786	34,978	37,451	40,503	26,336

As at 31st March	2013	Group		2013	Company	
		2012	1st April 2011		2012	1st April 2011
<b>22.2 Loans given to company officers</b>						
Balance as at the beginning of the year	200	105	104	158	94	104
On consolidation	-	-	43	-	-	-
Loans granted during the year	1,273	665	371	760	289	366
Amount recovered during the year	(1,230)	(570)	(413)	(730)	(225)	(376)
Balance as at the end of the year	243	200	105	188	158	94

As at 31st March	2013	Group		2013	Company	
		2012	1st April 2011		2012	1st April 2011
<b>23 CASH AND CASH EQUIVALENTS</b>						
Cash at bank and in hand	31,837	29,378	28,797	29,312	26,561	28,361
Placements with banking institutions	-	14,466	589	-	-	-
Placements in government securities	41,544	35,902	20,688	41,544	35,902	20,688
	73,381	79,746	50,074	70,856	62,463	49,049

As at 31st March	2013	Group		2013	Company	
		2012	1st April 2011		2012	1st April 2011
<b>24 STATED CAPITAL</b>						
<b>Issued and fully paid</b>						
As at the beginning of the year - 27,352,385 shares	404,241	404,241	404,241	404,241	404,241	404,241
Rights issue of shares (note 24.1)	110,929	-	-	110,929	-	-
<b>As at the end of the year - 30,391,538 shares</b>						
<b>(27,352,385 for the year ended 31st March 2011 and 2012)</b>	515,170	404,241	404,241	515,170	404,241	404,241

#### 24.1 Rights issue of shares

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. Accordingly, the stated capital of the Company and the issued number of shares were increased up to Rs. 515,169,681/- and 30,391,538 shares respectively with effect from 25th April 2012. The funds raised were utilised to settle the borrowings executed to acquire 685,469 shares, representing 99.98% of the issued shares of Equity Hotels Limited, the company which owns and manages a 40-room hotel, located in Giritale, Polonnaruwa. Shareholders of the Company approved the said rights issue at its Extra-ordinary General Meeting dated 20th March 2012.

#### 24.2 Deemed capital contribution

In March 2008, the parent company, Carson Cumberbatch PLC, on behalf of the Company, has provided a corporate guarantee to Commercial Bank of Ceylon PLC, in securing bank borrowing facilities extended under the 'Tsunami funding scheme' at concessionary rates, for a period of 8 years, being the tenure of such facility.

Sri Lanka Accounting Standards (LKAS 39) - "Financial Instruments-Measurement and Recognition" require 'Financial Guarantee' of this nature to be fair valued and accordingly an amount of Rs. 5.4 mn has been included in the "Stated Capital" being 'Deemed capital contribution' arising from the said transaction at each of the reporting dates. However, the aforesaid transaction has not resulted in an increase in the number of shares in issue.

An amount of Rs. 0.58mn (2012 – Rs. 0.75mn) was recognized in the statement of comprehensive income of the Company, under 'finance costs' being the amortization of the said benefit granted from the parent company.

## Notes to the Financial Statements

As at 31st March	2013	Group		2013	Company	
		2012	1st April 2011		2012	1st April 2011
<b>25 CAPITAL RESERVES</b>						
Revaluation reserve (note 25.1)	659,955	659,955	561,809	659,955	659,955	561,809
Capital accretion reserve (note 25.2)	15,144	15,144	15,144	15,144	15,144	15,144
	675,099	675,099	576,953	675,099	675,099	576,953

**25.1 Revaluation reserve**

The revaluation reserve represents the surplus arising from the revaluation of freehold land and building of the Company. 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income.

**25.2 Capital accretion reserve**

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

As at 31st March	2013	Group		2013	Company	
		2012	1st April 2011		2012	1st April 2011
<b>26 REVENUE RESERVES</b>						
General reserve (note 26.1)	176	176	176	176	176	176
Retained earnings	152,194	25,427	(87,103)	114,371	5,808	(85,762)
	152,370	25,603	(86,927)	114,547	5,984	(85,586)

**26.1 General reserves**

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

As at 31st March	2013	Group		2013	Company	
		2012	1st April 2011		2012	1st April 2011
<b>27 LOANS AND BORROWINGS</b>						
<b>27.1 Non-current liabilities</b>						
Secured bank loans	16,446	25,014	34,182	16,446	25,014	33,582
	16,446	25,014	34,182	16,446	25,014	33,582
<b>27.2 Current liabilities</b>						
Current portion of secured bank loans	8,568	8,568	9,468	8,568	8,568	8,568
	8,568	8,568	9,468	8,568	8,568	8,568
	25,014	33,582	43,650	25,014	33,582	42,150

	Currency	Nominal interest rate	Year of maturity	2013 Face value	2013 Carrying amount	2012 Face value	2012 Carrying amount	1st April 2011 Face value	1st April 2011 Carrying amount
<b>27.3 Details of loans and borrowings - Group</b>									
<b>Pegasus Hotels of Ceylon PLC</b>									
Commercial Bank	LKR	9%	2016	25,014	25,014	33,582	33,582	42,150	42,150
<b>Equity Hotels Limited</b>									
Commercial Bank	LKR	AWPLR +1%	2011/12	-	-	-	-	1,500	1,500
				25,014	25,014	33,582	33,582	43,650	43,650

**27.3.1** The long-term borrowings of the Company have been obtained from Commercial Bank of Ceylon PLC at concessionary rates of interest, under a scheme of funding provided to "Tsunami" affected hotels.

**27.3.2** Carson Cumberbatch PLC, the parent company, has provided corporate guarantees to Commercial bank of Ceylon PLC, in securing these borrowing facilities, as disclosed in note 24.2.

As at 31st March	Group			Company		
	2013	2012	1st April 2011	2013	2012	1st April 2011
<b>28 DEFERRED TAX (ASSET) / LIABILITY</b>						
Balance as at the beginning of the year	17,681	(2,304)	(4,295)	17,451	(1,222)	(4,295)
On consolidation	-	-	(974)	-	-	-
Effect of changes in tax rates (Note 28.4)	-	-	2,768	-	-	2,768
Charge during the year	6,637	6,600	197	5,649	5,288	305
Deferred tax attributable to revaluation surplus (note 17.4)	-	13,385	-	-	13,385	-
Movement in deferred tax (asset) / liability during the year (note 28.1)	6,637	19,985	2,965	5,649	18,673	3,073
<b>Balance as at the end of year</b>	<b>24,318</b>	<b>17,681</b>	<b>(2,304)</b>	<b>23,100</b>	<b>17,451</b>	<b>(1,222)</b>
<b>28.1 Deferred tax movement in (assets) / liability during the year</b>						
<b>Arising from;</b>						
Property, plant and equipment	1,135	15,029	(9,414)	1,007	14,791	(9,177)
Employee benefits	(262)	(285)	(166)	(279)	(183)	(72)
Provisions	542	43	(596)	550	37	(587)
Tax losses brought forward	5,222	5,198	13,141	4,371	4,028	12,909
	6,637	19,985	2,965	5,649	18,673	3,073
<b>28.2 Deferred tax asset</b>						
Tax effect on employee benefits	1,256	994	709	838	559	376
Tax effect on provisions	11	553	596	-	550	587
Tax effect on tax losses	31,385	36,607	41,805	30,622	34,993	39,021
<b>Total deferred tax asset</b>	<b>32,652</b>	<b>38,154</b>	<b>43,110</b>	<b>31,460</b>	<b>36,102</b>	<b>39,984</b>
<b>28.3 Deferred tax liability</b>						
Tax effect on property, plant and equipments	56,970	55,835	40,806	54,560	53,553	38,762
<b>Total deferred tax liability</b>	<b>56,970</b>	<b>55,835</b>	<b>40,806</b>	<b>54,560</b>	<b>53,553</b>	<b>38,762</b>
<b>Net deferred tax (asset) / liability</b>	<b>24,318</b>	<b>17,681</b>	<b>(2,304)</b>	<b>23,100</b>	<b>17,451</b>	<b>(1,222)</b>

## Notes to the Financial Statements

### 28.4 Impact due to corporate income tax rate change

As provided for in Sri Lanka Accounting Standard (LKAS 12) - "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 reporting date.

As per the amendments 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.

As at 31st March	Group			Company		
	2013	2012	1st April 2011	2013	2012	1st April 2011
<b>29 EMPLOYEE BENEFITS</b>						
<b>29.1 The movement in the liabilities recognised in the statement of financial position is as follows;</b>						
Balance as at the beginning of the year	8,280	5,910	2,024	4,657	3,133	2,024
On consolidation	-	-	1,995	-	-	-
Provision for the year (note 29.2)	6,030	2,370	2,092	2,572	1,524	1,288
Payments made during the year	(3,845)	-	(201)	(243)	-	(179)
Balance as at the end of the year	10,465	8,280	5,910	6,986	4,657	3,133
<b>29.2 The amount recognized in the statement of comprehensive income are as follows;</b>						
Current service cost	1,248	932	696	949	656	529
Interest cost	828	591	480	466	313	243
Actuarial losses	3,954	847	916	1,157	555	516
Provision for the year	6,030	2,370	2,092	2,572	1,524	1,288

The gratuity liability as at 31st March 2013 amounting to Rs 6,985,842/- and Rs 10,465,306/- (2012 – Rs. 4,656,949/- and Rs. 8,280,177/-) for the Company and the Group respectively are made based on an actuarial valuation carried out by Mr. M. Poopalanathan (A.I.A) of Messrs. Actuarial and Management Consultants (Pvt) Ltd. As recommended by the Sri Lanka Accounting Standards (LKAS 19) - "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% -12% 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.

### 29.3 The employee benefit obligation has not been externally funded

As at 31st March	2013	Group		2013	Company	
		2012	1st April 2011		2012	1st April 2011
<b>30 TRADE AND OTHER PAYABLES</b>						
<b>Financial</b>						
Trade payables	17,179	16,027	15,392	9,364	11,752	12,096
Other payables	13,783	21,683	16,212	11,286	13,106	9,928
Amounts due to related companies (note33.5)	51,516	206,857	216,591	51,516	177,093	188,509
	82,478	244,567	248,195	72,166	201,951	210,533
<b>Non financial</b>						
Deposits and advances	3,039	4,397	3,779	1,933	4,029	3,411
Provisions and accrued expenses	12,683	13,767	6,660	11,687	11,174	5,295
	15,722	18,164	10,439	13,620	15,203	8,706
	98,200	262,731	258,634	85,786	217,154	219,239

### 31 COMMITMENTS AND CONTINGENCIES

As at 31st March	2013	Group		2013	Company	
		2012	1st April 2011		2012	1st April 2011
<b>31.1 Capital commitments</b>						
Approved and contracted for	7,077	-	-	7,077	-	-

#### 31.2 Financial commitments

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

#### 31.3 Contingent liabilities

A case has been filed against the Company by an individual in the District Court of Negombo seeking a declaratory title 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 the 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.

There were no contingent liabilities as at the reporting date, other than those disclosed above.

## Notes to the Financial Statements

### 32 FINANCIAL INSTRUMENTS

#### Financial risk management - overview

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's supervision, policies and processes for measuring and managing risk, and the Group's management of capital.

#### Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has delegated this function to the Carsons Management Services (Private) Limited, the management company, which is responsible for developing and monitoring the Group's risk management policies and reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee of Carson Cumberbatch PLC, the parent company, oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its supervision role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

#### 32.1 Credit risk

Credit risk is the risk of financial loss to the Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, placements with banking institutions and in government securities.

### 32.1.1 Exposure to credit risk

The carrying amount of financial assets represent the maximum credit exposure, which, at the end of the reporting period was as follows.

As at 31st March	Group		
	2013	2012	1st April 2011
Compensation receivable (note 20)	98,441	88,264	79,139
Trade and other receivables (note 22)	51,877	53,738	36,008
Cash and cash equivalents (note 23)	73,381	79,746	50,074
	223,699	221,748	165,221

a) Compensation receivable

As disclosed in detail through note 20.1, the Company has accounted for a value of Rs. 189.5 mn as compensation receivable from the Government of Sri Lanka, on account of the land acquisition referred to therein, which is based on the market value of the property and related costs as at the date of acquisition, based on a professional valuation dated 4th April 2009 conducted by Mr. K Arthur Perera, A.M.I.V.(Sri Lanka), Valuer and Consultant.

A certain individual has filed a land action case in District court of Negombo (as disclosed in note 31.3) in 2006, which is still under hearing. Even if a ruling is made at District court, a further two appeal options are available for both parties at High courts of Provinces and to the Supreme Court.

Under these circumstances, even if a valuation is determined by the government, such value will not be disclosed till the court case has come to a finality.

Based on possible outcomes of the said determination, connected developments that may arise thereafter and considering the pattern in which similar proceedings / events have been resolved, the Company is of the view that it may take up to 8-10 years from the date of acquisition to bring this matter to a conclusion.

Accordingly, the Company has recognized the said compensation receivable at its amortised cost; the underlying assumptions used in such assessment is detailed below.

- Expected timing of cash flows      Year 2018
- Discount rate used                      The weighted average deposit rate (WADR) at the date of acquisition (11.5%).

This treatment is required as per the provisions of LKAS 39 - Financial Instruments: Recognition and presentation, which came to effect from 1st January 2012.

b) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry in which customers operate, as these factors may have an influence on credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness, before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring specific approval; these limits are reviewed annually.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a corporate customers, tour operators or individuals and existence of previous financial difficulties. Trade receivables relate mainly to the corporate and tour operator segments. Customers that are graded as 'high risk' are placed on a restricted customer list, monitored and future sales are made on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables being a specific loss component that relates to individually significant exposures.

## Notes to the Financial Statements

The maximum exposure to credit risk for trade receivables at the end of the reporting period by customer segment was as follows.

As at 31st March	2013	Group	
		2012	1st April 2011
Corporate customers	7,727	7,494	3,523
Tour operators	39,209	42,519	29,938
Others	2,326	2,773	1,517
	49,262	52,786	34,978

### Impairment of receivables

The aging of trade receivables at the end of the reporting period that were not impaired was as follows:

As at 31st March	2013	Group	
		2012	1st April 2011
<b>Neither past due nor impaired</b>			
1–30 days	26,229	28,813	19,422
31–90 days	19,754	22,038	14,067
91–120 days	1,503	925	1,345
121 above	1,776	1,010	144
	49,262	52,786	34,978

Allowance for impairment of Rs. 0.1mn (2012 - Rs. 4.6mn) has been made in respect of trade and other receivables, as at the year end.

The Group believes that unimpaired amounts which are past due by more than 90 days are still collectible in full, based on historic payment behavior and extensive analysis of individual customers.

### c) Cash and cash equivalents

The Group held cash and cash equivalents of Rs. 73.4mn as at 31st March 2013 (2012: Rs.79.8Mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AAA(Ika) to AA–(Ika), based on Fitch Ratings.

Placements in government securities primarily comprises of treasury bills and short-term repo investments, extending to a period less than 3 months.

### 32.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

#### 32.2.1 The following are the remaining contractual maturities at the end of the reporting period of financial liabilities.

31st March 2013

	Carrying amount	Contractual cash flows					
		Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Loans and borrowings	33,582	33,582	1,428	7,140	8,568	16,446	-
Trade payables	16,027	16,027	16,027	-	-	-	-
Other payables	21,683	21,683	21,683	-	-	-	-
Amount due to related companies (note 33.5)	206,857	206,857	206,857	-	-	-	-
	278,149	278,149	245,995	7,140	8,568	16,446	-

31st March 2012

	Carrying amount	Contractual cash flows					
		Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Loans and borrowings	33,582	33,582	1,428	7,140	8,568	16,446	-
Trade payables	16,027	16,027	16,027	-	-	-	-
Other payables	21,683	21,683	21,683	-	-	-	-
Amount due to related companies (note 33.5)	206,857	206,857	206,857	-	-	-	-
	278,149	278,149	245,995	7,140	8,568	16,446	-

1st April 2011

	Carrying amount	Contractual cash flows					
		Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Loans and borrowings	43,650	43,650	1,428	7,140	8,568	26,514	-
Trade payables	15,392	15,392	15,392	-	-	-	-
Other payables	16,212	16,212	16,212	-	-	-	-
Amount due to related companies (note 33.5)	216,591	216,591	216,591	-	-	-	-
	291,845	291,845	249,623	7,140	8,568	26,514	-

The gross inflows/(outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to non-derivative financial liabilities and which are usually not closed out before contractual maturity.

## Notes to the Financial Statements

### 32.2 Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group maintains a portion of its assets in highly liquid form; demand deposits and placements in government securities in order to meet its contractual obligations during the normal course of its operations. As at the reporting date, the Group maintains cash and cash equivalents amounting to Rs. 73.4 mn (2012 - Rs. 79.8mn).

The Group monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Group has approved and unused overdraft facilities amounting to Rs. 2.5 mn as at 31st March 2013.

In addition, the Group has access to short-term financing facilities extended from the parent company, Carson Cumberbatch PLC if required.

### 32.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates affecting the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### 32.3.1 Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument fluctuating, due to changes in foreign exchange rates. The Group, as at the reporting date, do not hold 'Financial instruments' denominated in currencies other than its functional / reporting currency, hence do not get exposed to currency risk arising from translation of such balances in to the functional / reporting currency, which is Sri Lankan Rupees.

However, the Group engages in transactions associated with foreign currencies in its ordinary course of operations.

Across the industry, the hotel rates targeting the foreign tourists are quoted in US Dollar terms and contracted in advance with the tour operators; which constitute a significant volume of business to the Group (note 32.1.1). A fluctuation in the exchange rates will have an impact over the amounts realized in the local currency. Operations concerned with the local counterparties (Corporate and others) do not carry a currency risk exposure, on the basis that those are transacted in Sri Lanka Rupee terms.

The Company monitors fluctuations in foreign exchange rates and takes precautionary measures to revise its fee quotes on a regular basis, in an attempt to mitigate the exposure to currency risk arising from its transactions with tour operator segment.

### 32.3.2 Interest rate risk

The Groups interest bearing financial assets / liabilities are factored on variable rates of interest, hence the Group's exposure to interest rate risk is material.

#### Profile

At the end of the reporting period, the interest rate profile of the Group's interest bearing financial instruments was as follows.

As at 31st March	Group		
	2013	2012	1st April 2011
<b>Variable rate instruments</b>			
Financial assets	73,381	79,746	50,074
Financial liabilities	51,516	97,219	108,453
	21,865	(17,473)	(58,379)
<b>Fixed rate instruments</b>			
Financial liabilities	25,014	33,582	42,150
	(25,014)	(33,582)	(42,150)

#### Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at the end of the reporting period would have increased / (decreased) profit or loss of the Group by the amounts shown below. This analysis assumes that all other variables remain constant.

Group	Profit / (loss)	
	1% Increase	1% Decrease
31st March 2013		
Variable rate instruments	219	(219)
31st March 2012		
Variable rate instruments	(175)	175
1st April 2011		
Variable rate instruments	(584)	584

### 32.4 Accounting classifications and fair values

The Group do not designate any of its financial assets / liabilities at fair value, hence a classification between fair value hierarchy do not apply.

## Notes to the Financial Statements

## 32.5 Fair values vs carrying amounts

31st March 2013	Trading	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	-	98,441	-	-	98,441	98,441
Trade and other receivables	-	-	51,877	-	-	51,877	51,877
Cash and cash equivalents	-	-	73,381	-	-	73,381	73,381
	-	-	223,699	-	-	223,699	223,699
Loans and borrowings	-	-	-	-	25,014	25,014	25,014
Trade and other payables	-	-	-	-	82,478	82,478	82,478
	-	-	-	-	107,492	107,492	107,492
31st March 2012	Trading	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	-	88,264	-	-	88,264	88,264
Trade and other receivables	-	-	53,738	-	-	53,738	53,738
Cash and cash equivalents	-	-	79,746	-	-	79,746	79,746
	-	-	221,748	-	-	221,748	221,748
Loans and borrowings	-	-	-	-	33,582	33,582	33,582
Trade and other payables	-	-	-	-	244,567	244,567	244,567
	-	-	-	-	278,149	278,149	278,149
1st April 2011	Trading	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	-	79,139	-	-	79,139	79,139
Trade and other receivables	-	-	36,008	-	-	36,008	36,008
Cash and cash equivalents	-	-	50,074	-	-	50,074	50,074
	-	-	165,221	-	-	165,221	165,221
Loans and borrowings	-	-	-	-	43,650	43,650	43,650
Trade and other payables	-	-	-	-	248,195	248,195	248,195
	-	-	-	-	291,845	291,845	291,845

### 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 (LKAS 24) - "Related Party Disclosures", the details of which are reported below.

#### 33.1 Parent and ultimate controlling party

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

#### 33.2 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard (LKAS 24) - "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.

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
<b>33.2.1 Key management personnel compensation</b>				
Short-term employee benefits	9,717	7,492	7,630	6,095
Post-employment benefits	275	212	214	162
Termination benefits	-	-	-	-
Non-cash benefits	-	-	-	-
Other long-term benefits	-	-	-	-
	9,992	7,704	7,844	6,257

No other transactions have taken place during the year, except as disclosed above, between the Company / Group and its KMP.

#### 33.3 Group entities

Name of the subsidiary	% equity interest		
	2013	2012	1st April 2011
Equity Hotels Limited	99.9%	99.9%	99.9%

## Notes to the Financial Statements

## 33.4 Transactions with Related Companies

Name and nature of the relationship	Name/s of the common Director/s	Nature of transactions	Value of the transaction			
			Group		Company	
			2013	2012	2013	2012
<b>Parent company</b>						
Carson Cumberbatch PLC	H. Selvanathan	Settlement of amounts payable on the				
	M. Selvanathan	acquisition of Equity Hotels Limited	109,638	-	109,638	-
	D.C.R. Gunawardena	Short-term advances obtained	86,703	-	68,053	-
		Interest on short-term advances obtained	4,188	-	3,463	-
		Settlements made on short-term advances provided	39,375	-	20,000	-
		Proceeds from rights issue of share	106,644	-	106,644	-
<b>Subsidiary</b>						
Equity Hotels Limited	D.C.R. Gunawardena	Reimbursement of expenses received	-	-	3,624	4,690
	P.M. Withana	Disposal of property, plant and equipment	-	-	671	1,099
		Dividend received	-	-	1,481	-
<b>Fellow subsidiaries</b>						
Carsons Management	D.C.R. Gunawardena	Interest on short-term advances obtained	4,827	5,286	3,632	3,880
Services (Private) Limited (CMSL)	H. Selvanathan	Settlements made on short-term advances provided	102,046	24,860	71,087	23,860
	M. Selvanathan	Computer charges	150	150	150	150
	D.C.R. Gunawardena	Secretarial fees	360	360	300	300
	(Resigned with effect from 15th April 2011)	Management fees	6,367	6,251	5,126	5,102
	K.C.N. Fernando (Alternate for M. Selvanathan)	Internal audit services	2,520	2,220	2,520	2,220

Further to the above, Carson Cumberbatch PLC has provided corporate guarantees to the Company and its subsidiary, as detailed below.

Company	Purpose	Outstanding balance	
		2013	2012
Pegasus Hotels of Ceylon PLC	Term loan facility from Commercial Bank of Ceylon PLC	25,014	33,582
Equity Hotels Limited	Overdraft facility from Commercial Bank of Ceylon PLC	-	-

As at 31st March	Group			Company		
	2013	2012	1st April 2011	2013	2012	1st April 2011
<b>33.5 Amounts due to related companies</b>						
Carson Cumberbatch PLC	51,516	109,638	109,638	51,516	109,638	109,638
Carsons Management Services (Private) Limited	-	97,219	106,953	-	67,455	78,871
	<b>51,516</b>	<b>206,857</b>	<b>216,591</b>	<b>51,516</b>	<b>177,093</b>	<b>188,509</b>

### 34 EVENTS AFTER THE REPORTING DATE

After satisfying the solvency test in accordance with section 57 of the Company's Act, No. 7 of 2007, the Directors have recommended the payment of a first and final dividend of Rs. 0.50 per ordinary share for the year ended 31st March 2013 amounting to Rs. 15,195,769/- (2012 - Rs. 15,195,769/-) which is to be approved at the forthcoming Annual General Meeting. In accordance with Sri Lanka Accounting Standard (LKAS 10) - "Events after the reporting period" this proposed first and final dividend has not been recognised as a liability as at 31st March 2013.

Subsequent to the reporting period, no circumstances have arisen which would require adjustments to or disclosure in the financial statements, other than the above.

## Notes to the Financial Statements

## 35 TRANSITION TO LKAS/SLFRS

## 35.1 Reconciliation of Statement of Comprehensive Income

		For the year ended 31st March 2012					
		Group		Company			
		As per SLAS	Effect of transition to LKAS / SLFRS	As per LKAS / SLFRS	As per SLAS	Effect of transition to LKAS / SLFRS	As per LKAS / SLFRS
Revenue		425,975	-	425,975	335,605	-	335,605
Direct costs	35.3.1	(197,643)	(133)	(197,776)	(157,242)	-	(157,242)
<b>Gross profit</b>		228,332	(133)	228,199	178,363	-	178,363
Other income	35.3.2	10,859	(5,265)	5,594	9,290	(4,638)	4,652
Selling and promotional expenses		(10,913)	-	(10,913)	(8,693)	-	(8,693)
Administrative expenses		(91,675)	-	(91,675)	(67,103)	-	(67,103)
<b>Profit from operations</b>		136,603	(5,398)	131,205	111,857	(4,638)	107,219
Finance income	35.3.2 / 35.3.3	-	14,390	14,390	-	13,763	13,763
Finance costs	35.3.4	(8,881)	(750)	(9,631)	(7,331)	(750)	(8,081)
<b>Net finance income / (cost)</b>		(8,881)	13,640	4,759	(7,331)	13,013	5,682
<b>Profit before taxation</b>		127,722	8,242	135,964	104,526	8,375	112,901
Current taxation		(8,631)	-	(8,631)	(7,840)	-	(7,840)
Deferred taxation		(6,600)	-	(6,600)	(5,288)	-	(5,288)
<b>Profit for the year</b>		112,491	8,242	120,733	91,398	8,375	99,773
<b>Other comprehensive income</b>							
Revaluation of land and buildings		111,531	-	111,531	111,531	-	111,531
Deferred tax effect of revaluation of land and buildings		(13,385)	-	(13,385)	(13,385)	-	(13,385)
<b>Other comprehensive income for the year</b>		98,146	-	98,146	98,146	-	98,146
<b>Total comprehensive income for the year</b>		210,637	8,242	218,879	189,544	8,375	197,919
<b>Earnings per share (Rs.)</b>		4.09	0.30	4.39	3.32	0.31	3.63

## 35.2.1 Reconciliation of equity - Group

		As at 31st March 2012			As at 1st April 2011		
		As per SLAS	Effect of transition to LKAS / SLFRS	As per LKAS / SLFRS	As per SLAS	Effect of transition to LKAS / SLFRS	As per LKAS / SLFRS
<b>ASSETS</b>							
<b>Non-current assets</b>							
Property, plant and equipment		1,079,292	-	1,079,292	907,467	-	907,467
Intangible assets		115,287	-	115,287	115,287	-	115,287
Compensation receivable	35.3.3	189,463	(101,199)	88,264	189,463	(110,324)	79,139
Deferred tax asset		-	-	-	2,304	-	2,304
<b>Total non-current assets</b>		<b>1,384,042</b>	<b>(101,199)</b>	<b>1,282,843</b>	<b>1,214,521</b>	<b>(110,324)</b>	<b>1,104,197</b>
<b>Current assets</b>							
Inventories		13,479	-	13,479	13,320	-	13,320
Trade and other receivables	35.3.3 / 35.3.4	56,223	693	56,916	38,372	1,984	40,356
Cash and cash equivalents	35.3.4	79,150	596	79,746	50,019	55	50,074
<b>Total current assets</b>		<b>148,852</b>	<b>1,289</b>	<b>150,141</b>	<b>101,711</b>	<b>2,039</b>	<b>103,750</b>
<b>Total assets</b>		<b>1,532,894</b>	<b>(99,910)</b>	<b>1,432,984</b>	<b>1,316,232</b>	<b>(108,285)</b>	<b>1,207,947</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Stated capital	35.3.4	398,889	5,352	404,241	398,889	5,352	404,241
Capital reserves		675,099	-	675,099	576,953	-	576,953
Revenue reserves		134,887	(109,284)	25,603	30,599	(117,526)	(86,927)
<b>Total equity</b>	35.3.6	<b>1,208,875</b>	<b>(103,932)</b>	<b>1,104,943</b>	<b>1,006,441</b>	<b>(112,174)</b>	<b>894,267</b>
<b>Non-current liabilities</b>							
Loans and borrowings		25,014	-	25,014	34,182	-	34,182
Deferred tax liability		17,681	-	17,681	-	-	-
Employee benefits		8,280	-	8,280	5,910	-	5,910
Amounts due to related companies	35.3.5	97,219	(97,219)	-	216,591	(216,591)	-
<b>Total non-current liabilities</b>		<b>148,194</b>	<b>(97,219)</b>	<b>50,975</b>	<b>256,683</b>	<b>(216,591)</b>	<b>40,092</b>
<b>Current liabilities</b>							
Loans and borrowings		8,568	-	8,568	9,468	-	9,468
Trade and other payables	35.3.1/35.3.5	51,852	210,879	262,731	38,154	220,480	258,634
Amounts due to related companies	35.3.5	109,638	(109,638)	-	-	-	-
Current tax liabilities		5,767	-	5,767	5,486	-	5,486
<b>Total current liabilities</b>		<b>175,825</b>	<b>101,241</b>	<b>277,066</b>	<b>53,108</b>	<b>220,480</b>	<b>273,588</b>
<b>Total liabilities</b>		<b>324,019</b>	<b>4,022</b>	<b>328,041</b>	<b>309,791</b>	<b>3,889</b>	<b>313,680</b>
<b>Total equity and liabilities</b>		<b>1,532,894</b>	<b>(99,910)</b>	<b>1,432,984</b>	<b>1,316,232</b>	<b>(108,285)</b>	<b>1,207,947</b>

## Notes to the Financial Statements

## 35.2.2 Reconciliation of equity - Company

		As at 31st March 2012			As at 1st April 2011		
		As per SLAS	Effect of transition to LKAS / SLFRS	As per LKAS / SLFRS	As per SLAS	Effect of transition to LKAS / SLFRS	As per LKAS / SLFRS
<b>ASSETS</b>							
<b>Non-current assets</b>							
Property, plant and equipment		1,048,278	-	1,048,278	882,890	-	882,890
Investment in subsidiary		110,223	-	110,223	110,223	-	110,223
Compensation receivable	35.3.3	189,463	(101,199)	88,264	189,463	(110,324)	79,139
Deferred tax asset		-	-	-	1,222	-	1,222
<b>Total non-current assets</b>		<b>1,347,964</b>	<b>(101,199)</b>	<b>1,246,765</b>	<b>1,183,798</b>	<b>(110,324)</b>	<b>1,073,474</b>
<b>Current assets</b>							
Inventories		10,508	-	10,508	10,757	-	10,757
Trade and other receivables	35.3.3 / 35.3.4	43,219	693	43,912	28,948	1,984	30,932
Cash and cash equivalents	35.3.3	61,867	596	62,463	48,994	55	49,049
<b>Total current assets</b>		<b>115,594</b>	<b>1,289</b>	<b>116,883</b>	<b>88,699</b>	<b>2,039</b>	<b>90,738</b>
<b>Total assets</b>		<b>1,463,558</b>	<b>(99,910)</b>	<b>1,363,648</b>	<b>1,272,497</b>	<b>(108,285)</b>	<b>1,164,212</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Stated capital	35.3.4	398,889	5,352	404,241	398,889	5,352	404,241
Capital reserves		675,099	-	675,099	576,953	-	576,953
Revenue reserves		111,246	(105,262)	5,984	28,051	(113,637)	(85,586)
<b>Total equity</b>	35.3.6	<b>1,185,234</b>	<b>(99,910)</b>	<b>1,085,324</b>	<b>1,003,893</b>	<b>(108,285)</b>	<b>895,608</b>
<b>Non-current liabilities</b>							
Loans and borrowings		25,014	-	25,014	33,582	-	33,582
Deferred tax liability		17,451	-	17,451	-	-	-
Employee benefits		4,657	-	4,657	3,133	-	3,133
Amounts due to related companies	35.3.5	67,455	(67,455)	-	188,509	(188,509)	-
<b>Total non-current liabilities</b>		<b>114,577</b>	<b>(67,455)</b>	<b>47,122</b>	<b>225,224</b>	<b>(188,509)</b>	<b>36,715</b>
<b>Current liabilities</b>							
Loans and borrowings		8,568	-	8,568	8,568	-	8,568
Trade and other payables	35.3.1/35.3.5	40,061	177,093	217,154	30,730	188,509	219,239
Amounts due to related companies	35.3.5	109,638	(109,638)	-	-	-	-
Current tax liabilities		5,480	-	5,480	4,082	-	4,082
<b>Total current liabilities</b>		<b>163,747</b>	<b>67,455</b>	<b>231,202</b>	<b>43,380</b>	<b>188,509</b>	<b>231,889</b>
<b>Total liabilities</b>		<b>278,324</b>	<b>-</b>	<b>278,324</b>	<b>268,604</b>	<b>-</b>	<b>268,604</b>
<b>Total equity and liabilities</b>		<b>1,463,558</b>	<b>(99,910)</b>	<b>1,363,648</b>	<b>1,272,497</b>	<b>(108,285)</b>	<b>1,164,212</b>

## Notes to the Financial Statements

### 35.3 Notes to the reconciliations

#### 35.3.1 Expenditure recognition on lease agreements

Equity Hotels Limited, the subsidiary, owns and manages the Giritale Hotel, Polonnaruwa, which is situated on a property on an operating lease, over which the Company has entered in to a contractual lease agreement with the Sri Lanka Tourism Authority. Such lease agreement is embedded with progressive rate escalation clauses due at each five (5) year intervals, resulting in increased rental costs across the term of the lease.

Under SLAS, the actual lease rental relating to the accounting period were recognized based on the contractual terms prevailing and applicable to the period of recognition. However, as per LKAS/SLFRS, the total lease obligation shall be recognized on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which the use benefit derived from the leased asset is diminished.

The impact arising from the above is summarized as follows:

			For the year ended 31st March 2012	
Statement of comprehensive income			Group	Company
Direct costs			133	-
Net effect on earnings			133	-
			As at 31st March 2012	
Statement of financial position			Group	Company
			As at 1st April 2011	
			Group	Company
Trade and other payables			4,022	-
Net effect on retained earnings			4,022	-

#### 35.3.2 Reclassification of financial income

The Company and the Group classified interest income and gain/(loss) on foreign exchange in to "finance income", which was previously classified in to "other income".

The impact arising from the above is summarized as follows:

Statement of comprehensive income	For the year ended 31st March 2012	
	Group	Company
Other income	(5,265)	(4,638)
Finance income	5,265	4,638
Net effect on earnings	-	-

**35.3.3 Recognition of 'Loans and receivables - Financial assets' at amortised cost**

Under SLAS, the Company and the Group recognized its receivables, categorised in to compensation receivable, trade receivables and other receivables at cost, subject to provision for impairment losses.

Under the revised standards, the Company and the Group has designated such balances as 'Loans and receivables - Financial assets' which should be carried at their amortized cost, subject to impairment losses.

The impact arising from the above is summarized as follows:

Statement of comprehensive income	For the year ended 31st March 2012			
	Group		Company	
Finance Income			9,125	9,125
Net effect on earnings			9,125	9,125

Statement of financial position	As at 31st March 2012		As at 1st April 2011	
	Group	Company	Group	Company
Compensation receivable	(101,199)	(101,199)	(110,324)	(110,324)
Trade and other receivables	(596)	(596)	(55)	(55)
Cash and cash equivalents	596	596	55	55
Net effect on retained earnings	(101,199)	(101,199)	(110,324)	(110,324)

**35.3.4 Fair valuation of corporate guarantees**

Due to the application of LKAS 32 and 39, the corporate guarantees provided by the parent company, Carson Cumberbatch PLC, in securing bank borrowing facilities have been recognized at fair value, with the resultant cost being amortized to the income statement, across the tenure of the loan. The fair value of the guarantee provided as at the date of the original transaction has been accounted for as a 'deemed capital contribution' by the parent company and accounted for under 'Shareholders equity'.

The impact arising from the change is summarized as follows:

Statement of comprehensive income	For the year ended 31st March 2012			
	Group		Company	
Finance costs			(750)	(750)
			(750)	(750)

Statement of financial position	As at 31st March 2012		As at 1st April 2011	
	Group	Company	Group	Company
Trade and other receivables	1,289	1,289	2,039	2,039
Stated capital	5,352	5,352	5,352	5,352
Net effect on retained earnings	6,641	6,641	7,391	7,391

## Notes to the Financial Statements

### 35.3.5 Reclassification of non-derivative financial liabilities

#### Amounts due to related companies

Under previous GAAP, the Company and the Group classified a significant portion of 'amounts due to related companies' as non-current liabilities on a more prudent basis, given the intention to settle had been remote.

However, with the transition to LKAS/SLFRS, on the basis that the contractual arrangements entered by the Companies do not facilitate an unconditional right to defer settlement of the liability, the Company and the Group have classified such balances in to current liabilities.

Further, the 'amounts due to related companies' which were previously presented separately, were re-classified in to 'Trade and other payables'.

The impact arising from the above is summarized as follows:

Statement of financial position	As at 31st March 2012		As at 1st April 2011	
	Group	Company	Group	Company
Amounts due to related companies - non-current	(97,219)	(67,455)	(216,591)	(188,509)
Amounts due to related companies - current	(109,638)	(109,638)	-	-
Trade and other payables	206,857	177,093	216,591	188,509
	-	-	-	-

### 35.3.6 Impact on earnings / retained earnings

The above changes increased / (decreased) the earnings for the year as follows:

Statement of comprehensive income	For the year ended 31st March 2012	
	Group	Company
Direct cost - Expenditure recognition on lease agreements	(133)	-
Finance cost - Recognition of 'Loans and receivables - Financial assets' at amortised cost	9,125	9,125
Finance costs - Fair valuation of corporate guarantees	(750)	(750)
Net effect on earnings for the year	8,242	8,375

The above changes increased / (decreased) the shareholders equity for the periods as follows:

Statement of financial position	As at 31st March 2012		As at 1st April 2011	
	Group	Company	Group	Company
Compensation receivable - Recognition of 'Loans and receivables - Financial assets' at amortised cost	(101,199)	(101,199)	(110,324)	(110,324)
Trade and other receivables - Fair valuation of corporate guarantees	1,289	1,289	2,039	2,039
Trade and other payables - Expenditure recognition on lease agreements	(4,022)	-	(3,889)	-
Net effect on retained earnings at the end of the period	(103,932)	(99,910)	(112,174)	(108,285)

### 35.4 Cash flow statement

No material impact to the Statement of Cash Flow of the Company and the Group arises from the transition from SLAS to SLFRS/LKAS.

## FIVE YEAR SUMMARY

For the year ended 31st March	2013 Group	2012 Group	2011 Group	2010	2009
<b>Trading Results</b>					
Turnover (net)	493,184	425,975	289,104	173,852	152,283
<b>Profit from operations</b>	151,487	131,205	69,475	19,900	1,134
Net finance income / (cost)	6,687	4,759	(10,359)	(9,859)	(6,658)
<b>Profit / (loss) from operations after finance cost</b>	158,174	135,964	59,116	10,041	(5,524)
Income taxation	(16,211)	(15,231)	(10,266)	2,057	(15)
<b>Profit / (loss) after taxation</b>	141,963	120,733	48,850	12,098	(5,539)
<b>Shareholders' Funds</b>					
Stated Capital	515,170	404,241	398,889	398,889	398,889
Reserves	827,469	700,702	607,552	422,536	410,438
<b>Shareholders' funds</b>	1,342,639	1,104,943	1,006,441	821,425	809,327
<b>Assets Employed</b>					
Property, plant and equipment	1,147,402	1,079,292	907,467	741,132	748,535
Intangible assets	115,287	115,287	115,287	-	-
Deferred tax assets	-	-	2,304	4,295	-
Compensation receivable	98,441	88,264	189,463	189,463	189,463
<b>Non Current assets</b>	1,361,130	1,282,843	1,214,521	934,890	937,998
Current assets	144,370	150,141	101,711	50,605	33,169
Current liabilities	(111,632)	(277,066)	(269,699)	(114,679)	(108,856)
Working capital	32,738	(126,925)	(167,988)	(64,074)	(75,687)
<b>Assets employed</b>	1,393,868	1,155,918	1,046,533	870,816	862,311
<b>Non-current liabilities</b>					
Loans and borrowings	(16,446)	(25,014)	(34,182)	(47,367)	(51,339)
Employee benefits	(24,318)	(17,681)	(5,910)	(2,024)	(1,645)
Deferred liability	(10,465)	(8,280)	-	-	-
<b>Net assets</b>	1,342,639	1,104,943	1,006,441	821,425	809,327
<b>Profitability</b>					
Profit margin (%)	29%	28%	17%	7%	-4%
Return on shareholders' funds (%) <sup>2</sup>	11%	11%	5%	1%	-1%
<b>Liquidity</b>					
Current ratio (times)	1.29	(1.85)	(2.66)	(2.27)	(3.28)
Debt equity (%)	5.70	19.86	25.77	16.79	16.77
<b>Investor Ratios</b>					
Earnings/(loss) per share (Rs.) <sup>1</sup>	4.68	4.39	1.78	0.44	(0.20)
Net assets per share (Rs.)	44.18	40.40	36.80	30.03	29.59
Market price per share (Rs.)	36.90	38.00	71.00	43.00	13.75
Dividend payout	11.00	15.00	18.00	-	-
<b>Hotel Operations</b>					
Occupancy (%)	58	59	59	41	37

**Notes**

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

2- Profit attributable to stakeholders divided by the stated capital.

3- Financial information for the periods 2009 - 2011 were not adjusted to reflect the transition to new/revised Sri Lanka Accounting Standards (LKAS/SLFRS) applicable for financial periods beginning on or after 1st January 2012.

## STATEMENT OF VALUE ADDED

For the year ended 31st March	2013	2012	
Turnover	493,184	425,975	
Other income	6,668	5,594	
Cost of materials and services bought from outside	(210,359)	(191,968)	
	289,493	239,601	
<b>Distributed as follows;</b>		<b>%</b>	<b>%</b>
<b>To employees</b>			
as remuneration	92,837	33	77,388 32
<b>To government</b>			
as taxation*	9,574	3	8,631 4
<b>To providers of capital</b>			
as dividend	15,196	5	8,203 3
as interest and other charges	11,942	4	9,631 4
<b>Retained in the business</b>			
as deferred taxation	6,637	2	6,600 3
as depreciation	26,540	9	16,618 7
as profit for the year	126,767	44	112,530 47
	289,493	100	239,601 100

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	
	2013	2012
Number of shareholders	2,196	1,940

#### 2.2 Distribution & composition of shareholders

The number of shares held by non-resident shareholders as at 31st March 2013 was 133,383 (2012 - Rs. 124,228) which amounts to 0.44% (2012 - 0.45%) of the issued shares.

Distribution of Shares	Residents			Non-Residents			Total		
	No of Shareholders	No. of Shares	%	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
1 ~ 1,000	1,905	330,094	1.09	19	6,003	0.02	1,924	336,097	1.11
1001 ~ 10,000	228	708,224	2.33	3	12,201	0.04	231	720,425	2.37
10,001 ~ 100,000	37	928,879	3.05	3	115,179	0.38	40	1,044,058	3.43
100,001 ~ 1,000,000	-	-	-	-	-	-	-	-	-
Above 1,000,000	1	28,290,958	93.09	-	-	-	1	28,290,958	93.09
Total	2,171	30,258,155	99.56	25	133,383	0.44	2,196	30,391,538	100.00

Categories of shareholders	No. of shareholders	No. of shares	%
Individuals	2124	1,637,261	5.39
Institutions	72	28,754,277	94.61
Total	2196	30,391,538	100.00

### 3 MARKET PERFORMANCE - ORDINARY SHARES

For the year	2013	2012
At 31st March (Rs.)	36.90	38.00
Highest (Rs.)	54.50	83.00
Lowest (Rs.)	29.00	35.00
Value of shares traded (Rs.)	66,911,676	50,098,131
No. of shares traded	1,602,348	767,787
Volume of transactions (Nos.)	2,224	1,339

### 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 1,121,447,752/- as at 31st March 2013 (2012 - Rs. 1,039,390,630/-).

### 5 PUBLIC HOLDING

The percentage of ordinary shares held by public as at 31st March 2013 was 6.90% (2012 - 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 2013 (2012 - Rs. 0.50 per share).

### 7 VALUE OF PROPERTY - LAND AND BUILDING

Location	Extent (in hectares)	Market value 2013 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 177 and 245 (2012 - 180 and 247) for the Company and the Group respectively.

## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the FORTY SEVENTH Annual General Meeting of PEGASUS HOTELS OF CEYLON PLC will be held on Monday the 17th day of June 2013 at 3.30 p.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala, for the following purposes :

1. To receive and adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2013, together with the Independent Auditors' Report thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr. M. Selvanathan who retires in terms of Articles 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 73 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 authorise the Directors to determine their remuneration.

By Order of the Board

(Sgd.)

**K.D. De Silva (Mrs.)**

*Director*

Carsons Management Services (Private) Limited

Secretaries

Colombo,

16th May 2013

### 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, Sri Lanka not later than 3.30 p.m. on 15th day of June 2013.
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 47th Annual General Meeting of the Company to be held on Monday the 17th day of June 2013 at 3.30 p.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2013, together with the Independent Auditors' Report 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 2013, as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. M. Selvanathan 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 authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of ..... Two Thousand and Thirteen.

.....  
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 to attend on the same occasion.
- Instructions are noted on the reverse hereof.

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 :
    - (a) in the case of an individual shall be signed by the appointor or by his attorney; and
    - (b) in the case of a corporation shall be either under its common seal or signed by its attorney or by an authorised 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 authorised 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 3.30 p.m. on 15th June 2013.

Please fill in the following details

Name : .....

Address : .....  
.....

Jointly with : .....

Share folio no. : .....



