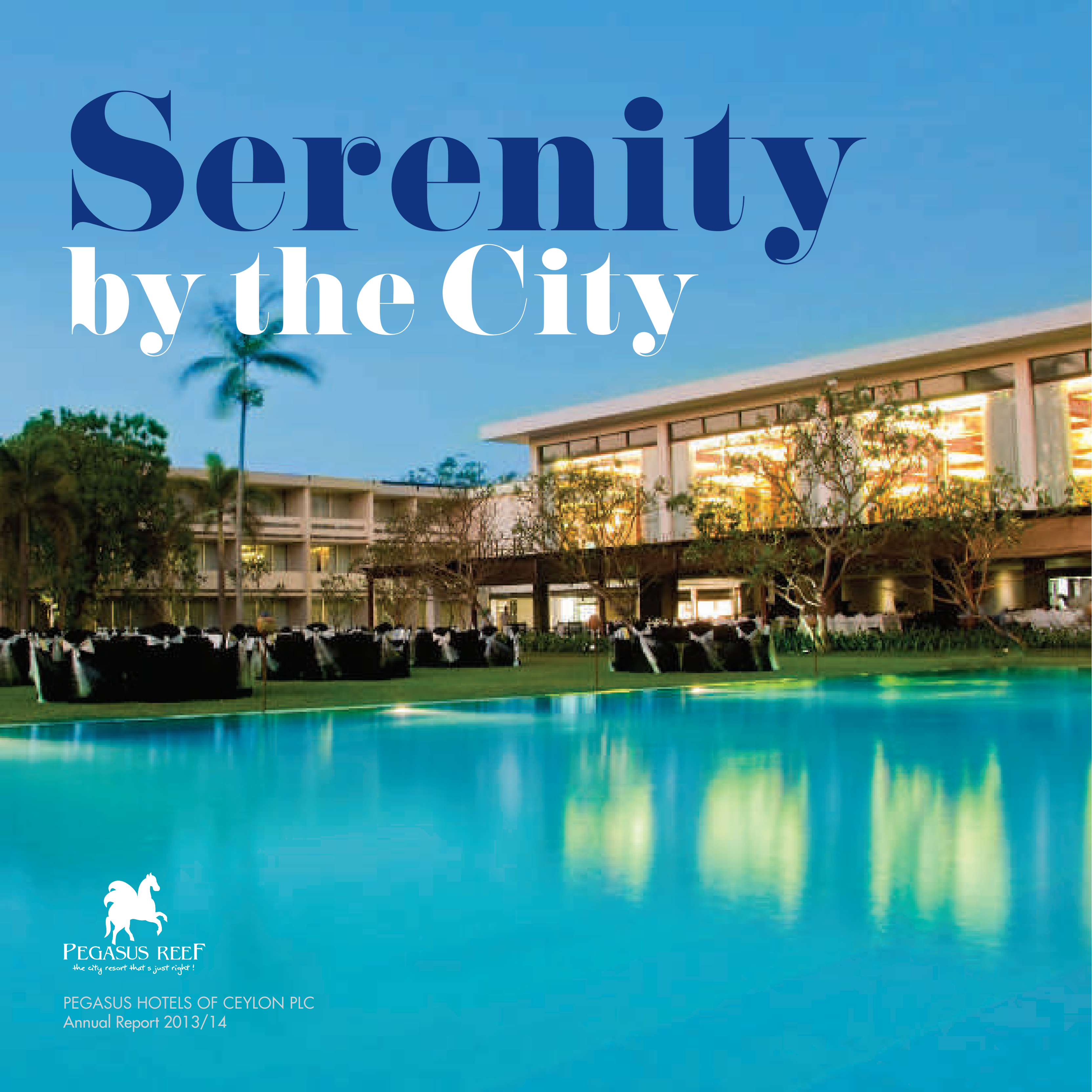
Serenity by the City



PEGASUS REEF
the city resort that's just right !

PEGASUS HOTELS OF CEYLON PLC
Annual Report 2013/14

Contents

Serenity by the City

The Pegasus Reef Hotel is a contemporary styled 4 star property uniquely endowed with the features of a beach resort and the convenience of a city hotel.

A popular choice for weddings and MICE events, Pegasus is also one of the best loved hotels by the Sri Lankan and international travellers seeking a tranquil holiday experience, just by the city.

Pegasus Reef Hotel. Serenity by the city.

Financial Information - Group

For the year ended / As at 31st March	2011	2012	2013	2014
Turnover (Rs. Mn)	289	426	493	**452**
Profit before tax (Rs. Mn)	59	136	158	**75**
Profit after tax (Rs. Mn)	49	121	142	**67**
Total assets (Rs. Mn)	1,314	1,433	1,505	**1,531**
Net assets (Rs. Mn)	1,006	1,105	1,343	**1,393**
Earning per share (EPS) (Rs.)	1.78	4.39	4.68	**2.19**
Dividend per share (DPS) (Rs.)	0.30	0.50	0.50	**0.50**
Net asset per share (Rs.)	36.80	40.40	44.18	**45.83**
Market price per share (Rs.)	71.00	38.00	36.90	**37.00**

REVENUE

Rs.452mn

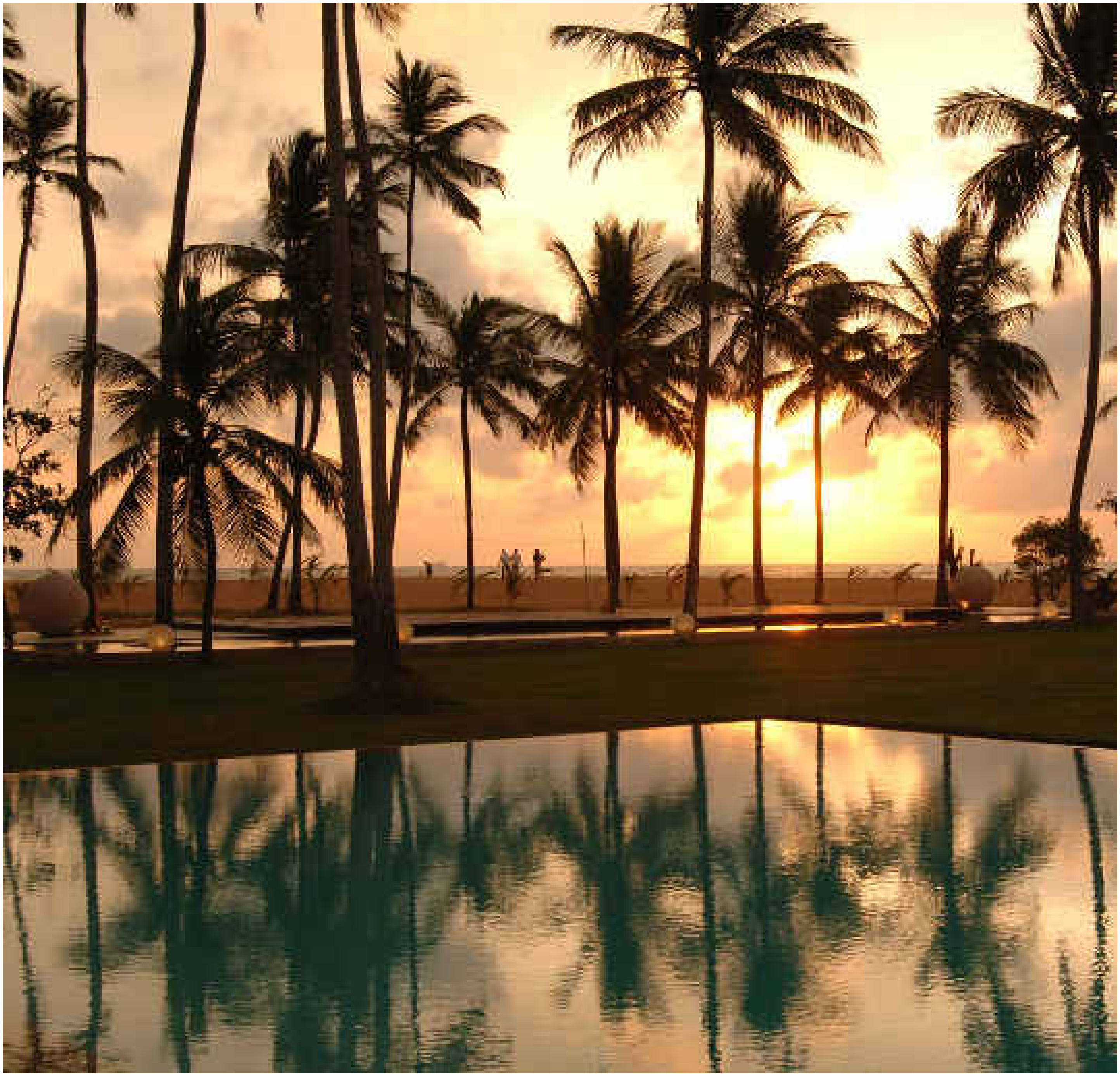
PROFIT AFTER TAX

Rs.67mn

The story continues

Although we're over 40 years old, our drive to innovate has never been greater...

WE ARE STRONGLY POSITIONED TO CREATE ENDURING VALUE FOR THE COMMUNITIES WHERE WE OPERATE AND FOR THOSE WHO PLACE THEIR TRUST IN US - OUR SHAREHOLDERS. WE HAVE THE RIGHT PEOPLE WITH THE RIGHT SKILLS, AN UNPARALLELED SERVICE PORTFOLIO, PROVEN STRATEGIES AND A CULTURE COMMITTED TO BEING THE 4 STAR HOTEL MOST ADMIRED FOR ITS PEOPLE, PARTNERSHIP AND PERFORMANCE.



Pegasus

Pegasus

Chairman's message

Discover our value

We know our passion to offer people the best value is what sets us apart..

Chairman's Message

Dear Shareholder,

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Pegasus Hotels of Ceylon PLC for the financial year ended March 2014.

The year under review was an eventful one for Sri Lanka on many fronts, with the likes of milestone events such as the opening of the Colombo-Katunayake expressway, Colombo South Harbour etc. taking place. The economy grew by an impressive 7.3% for the year ended December 2013 relative to the 6.4% growth witnessed during the previous year.

Re-instating its position as a significant source of foreign exchange and a key contributor to the country's growth, gross receipts from tourism improved to USD 1.72 Bn for the year ended December 2013, from the USD 1.04 Bn reported for the previous year.

Despite a slow start in the first quarter of 2013, tourist arrivals hit record levels for the calendar year 2013, with 1.27 Million tourists, a 26.75% YoY increase. The spending per tourist too recorded unprecedented growth of 30.3% YoY, to USD 1,346 approximately, in comparison to the USD 1,033 reported for the year ended December 2012

Our focus on growth and value is second only to our commitment to good governance and the highest standards of business conduct.

However, although there was an increase in tourist arrivals, we did not feel the impact as much, due to the rising levels of competition and the new hotels coming up in the area.

In addition, since of late, the hotel industry has been grappling with the emergence of low grade, informal accommodation venues, which has blurred the prospects for the hotel segment, to an extent where occupancy of graded establishments is not reflective of the booming arrivals.

Tourism has been projected as a thrust industry in the Governments vision to make Sri Lanka an economic hub in the region. While we view this in positive light, we would also like to highlight the need for a comprehensive strategy to direct tourist spending and enhance tourist activity in Sri Lanka.

Further, given the high degree of sensitivity to pricing in this industry, we must ensure that we do not over price ourselves, for as at present, Sri Lanka appears to be relatively costly when compared with our other regional peers.

Amidst such challenges, Pegasus Hotels of Ceylon PLC reported a consolidated revenue of Rs. 452.21 Mn for the current financial year, down by 8.31% in comparison to the corresponding period. At company level, the Pegasus Reef hotel experienced a 6.69% YoY decline in its topline during the period under consideration, to Rs. 370.72 Mn.

Occupancy witnessed a significant decline, where Pegasus Reef Hotel reported an overall occupancy of 44% for the financial year 2014 relative to the 53% recorded previously, whilst the same for Giritale Hotel was at 59% for the current period, relative to the 68% registered for financial year 2013.

During the year, the Company continued to engage in its promotional drive to entice local tourists to patronize the hotel more. Despite the sluggish trend in room occupancy, the hotel has witnessed increased demand by local clientele for special events such as weddings, conferences, and other banquet functions. As such, during the year, the Company undertook to refurbish its banquet hall with additional capacity. We are pleased to announce that the investment has paid off, with positive returns being generated during the year. Revenue from the MICE segment also contributed positively towards group earnings.

In addition to the promotions carried out amongst local clientele, the company also continued its efforts to strengthen ties with tour operators by way of offering various package deals and discounts in order to drive tourist occupancy.

Research indicates that more and more travelers rely on the internet as a primary source of planning travel. Thus the hotel is focusing on the online reservations through the updated website and also by securing agreements with recognized internet booking segments.

In contrast to the dip in overall top line over the year, direct costs trended upwards by 9.3% YoY, to Rs. 257.98 Mn. As a result, Pegasus Hotels of Ceylon PLC reported a net profit of Rs. 66.56 Mn, relative to the Rs. 141.96 Mn recorded for financial year 2013.

Going forward, with the rising prominence of the tourism sector, coupled with increased economic activity in the country, we are certainly optimistic about the sector's prospects. Therefore, we continue to refurbish and upgrade the property to meet the future challenges & opportunities. Planned sea food restaurant is one of the key highlights in the proposed refurbishment plan for the next financial year which includes banquet area, lobby area and car park and expected to be financed mainly via funds generated from operations and cash reserves of the Company.

To our valued shareholders, I wish to say a heartfelt thank you, for the confidence placed in the management and for your continued support. Your hotel embarked on its 45th year of operations in the coming year and will no doubt face many new challenges. We are confident to overcome any obstacles which are encountered in the future.

In conclusion, 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 the leisure sector and the respective staff members of the two hotels for ensuring that our business remains profitable in the face of many challenges.

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

12th May 2014

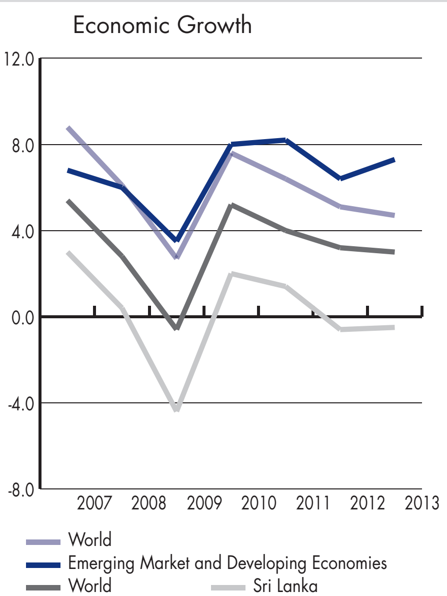
Review of Operations

Setting the standards

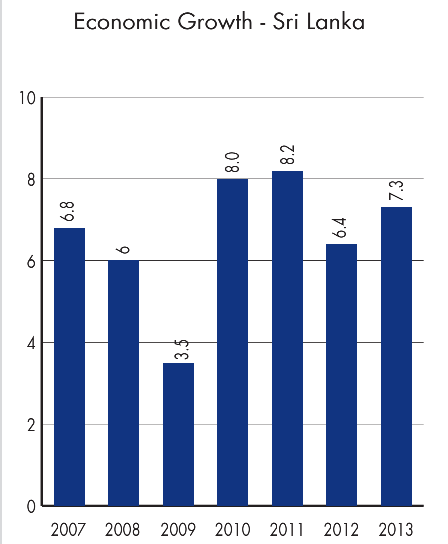
In 2013, Pegasus Reef Hotel became one of the few successfully certified hotels in Sri Lanka. In addition to ISO 22000: 2005 certification the hotel now has HACCP (Hazard Analysis Critical Control Point)certification as well.

Macro Overview

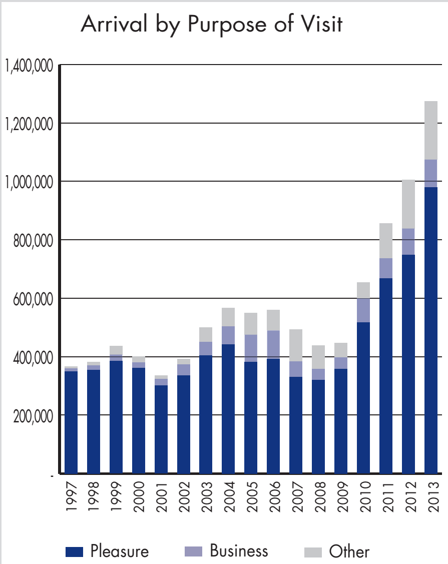
2013 was a good year for Sri Lanka, albeit many challenges, as real GDP growth increased to a healthy 7.3% driven by both domestic and external economic activities



Source: IMF World Economic Outlook database



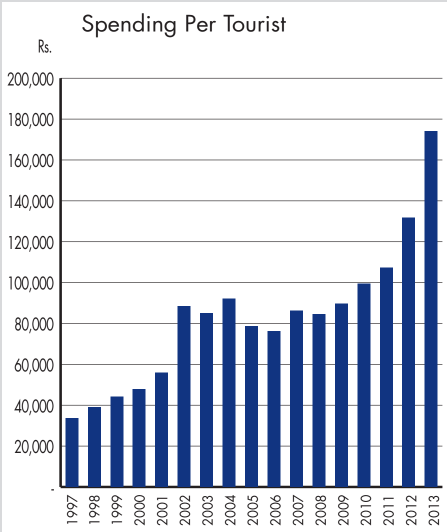
Source: Central Bank of Sri Lanka



Source: Central Bank of Sri Lanka

Although the global economy has been operating amidst much uncertainty & challenges since of late, International Tourism has demonstrated much resilience, as evidenced by the most recent UNWTO World Tourism Barometer data. Accordingly, international tourist arrivals recorded a 5% YoY growth, to 1,087 Million for the year 2013.

As revealed by the SLTDA data, Sri Lanka too witnessed a significant improvement in tourist arrivals for the year 2013, largely driven by the increase in leisure travelers to the country. Further, spending per tourist also increased substantially to Rs. 173,954 (USD 1,345.5 approximately) from the Rs. 131,688 (USD 1,032.9 approximately) recorded previously.



Source: Derived based on data published by the Central Bank of Sri Lanka

Review of Operations

Operational Review

The Pegasus Reef Hotel is situated in between the Katunayaka Airport and Colombo city as a city resort with ample garden space and a wide beach front. Giritale Hotel on the other hand, is situated 220 km away from Colombo, in the tranquil city of Giritale, Pollonnaruwa, far from the metro life style.

The latter is also famed amongst eco-tourists, due to its unique location overlooking the Giritale Tank. It is also in the vicinity of the Minneriya Wildlife sanctuary, which is a popular destination for elephant viewing.

Pegasus Reef Hotel in particular is a key beneficiary of MICE tourism. Accordingly, the hotel recorded MICE revenue of Rs. 87.39 Mn for the year ended March 2014, constituting 23.75% of company top line.

During the year, Pegasus Reef Hotel engaged in developing the beach frontage in order to attract tourists clientele. The hotel is also currently in the process of constructing a Sea Food Restaurant and a new infinity pool which will definitely improve profit potential of the property in time to come. Future plans are also underway to enhance the lobby area, car park and the hotel frontage to incorporate an added touch of elegance to the establishment.

Occupancy of both hotels witnessed a significant decline during the current period, where Pegasus Reef Hotel reported an overall occupancy of 44% for the financial year 2014 relative to the 53% recorded previously, whilst the same for Giritale Hotel was at 59% for the current period, relative to the 68% registered for financial year 2013.

Financial review

The Pegasus Group recorded a revenue of Rs. 452.21 Mn for the period under review, down by 8.31% relative to the previous financial year due to drop in overall occupancy.

As a result of decline in Revenue, coupled with increased direct cost for the period, Gross Profitability recorded by the Pegasus Group trended downwards to Rs. 194.22 Mn for the current financial year, relative to the Rs. 257.15 Mn recorded previously.

Triggered by lower gross profits, Net comprehensive income recorded by the group stood at Rs. 65.38 Mn, a 53.95% drop relative to that of last year.

At company level, total operating revenue decreased by 6.7% from Rs. 397.3mn to 370.7mn for the current period, triggered by a 16.7% YoY decline in room revenue (from Rs. 249.8mn to Rs. 208.1mn) mainly due to the drop in occupancy. In contrast however, revenue from the food & beverage segment reported a 10.2% increase relative to the corresponding period.

In addition to the dip in revenue, company level earnings was also negatively affected by the14.6% YoY increment in operating expenses, which went up from Rs. 274.1 Mn in financial year 2012/13 to Rs. 314.3mn for the current period. From the latter, expenses incurred on food & beverages amounted to Rs. 71mn, which constitutes 22.59% of the total operating expenses for the period. The remainder comprised of power & energy cost, administrative expenses etc.

Accordingly, earnings before interest and taxation of Pegasus Reef Hotel decreased by 52% YoY from Rs. 128.2mn in the previous financial year to Rs. 61.6mn for the period under review,.

Total comprehensive income of the company for the twelve months ended 31st March 2014 stood at Rs. 69.8 Mn, marking a 44% drop relative to that of last year.

Talent Management

The Pegasus Reef Hotel constantly strives to offer best of class service to our valued customers. To this end, Hotel is in the lookout for industry professionals to fill up its cadre. Such recruitments and retention are regularly put to test as a result of fierce competition for competent resources from both local and foreign employment opportunities. In spite of losing trained personnel to outside, our professional team of heads of departments keeps up staff training as a key agenda item. By doing so, hotel has achieved satisfied external and internal customers. The hotel is in continuous process of recruiting school leavers within the locality to train them in the various departments to suit them to work in the hospitality industry as a successful employee. In the past the hotel had successfully proved that the trainees who have completed their training program have been absorbed to the hotel staff cadre.

In the process of checks and balance and curtail costs, the management has focussed various teams of staff members to monitor pilferage and waste within the hotel.

Corporate Social Responsibility

Furthering their commitment to the society they operate in, Carson Cumberbatch Hotels have constructed a brand new building to house the Sunday school for the children of Agbopura in Polonnaruwa area, which could accommodate approximately 200 children. This initiative was taken last year after seeing the derelict state of the building that was used by the children of the community close to Giritale hotel. A sum of Rs.4.8 mn has been invested in this project and the completed building has been ceremoniously handed over to the Chief Priest of the Agbopura Temple.

Carsons Management Services (Private) Limited
Managers

12th May 2014

Review of Operations

Pegasus

Pegasus

Giritale

The Board of Directors

A vision of excellence

We want to set the trends of hospitality and governance that will make an impact, nationwide...

Board 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, 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.

Mr. Gunawardena 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, UK.

HARI SELVANATHAN

Hari Selvanathan is the Chairman of Bukit Darah PLC and Deputy Chairman of Carson Cumberbatch PLC & Goodhope Asia Holdings Ltd. He is the 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 and the Chairman of Express Newspapers (Ceylon) Ltd. He is also the Chairman of Carsons Management Services (Private) Limited and Agro Harapan Lestari (Private) Limited, the Group's Management companies. Past President of the National Chamber of Commerce and Past Vice Chairman of the International Chamber of Commerce (Sri Lanka).

He counts over 20 years experience in commodity trading in International Markets.

He holds a Bachelor of Commerce Degree.

MANO SELVANATHAN

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

He has served as the Chairman of The Ceylon Chamber of Commerce and The Indo Lanka Chamber of Commerce & Industry and also as the President of the Rotary Club of Colombo North. At present he is the Honorary Consul of the Republic of Chile in Sri Lanka.

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 November 2005.

In January 2011 he was awarded with the prestigious 'PRAVASI BHARATIYA SAMMAN AWARD' by the President of India.

He also received the Presidential Honour of 'ORDER OF KNIGHT COMMANDER' in October 2013 awarded by the Government of Chile.

SEGA NAGENDRA

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

Senior Director & Financial Consultant of CML - MTD Construction Ltd., Executive Chairman Travelserv Ltd., Travelon Ltd and Travelon Management Services Ltd.

He is also Chairman & Director of several public listed and private companies.

Past President of Skal International Colombo (International Association of Travel and Tourism Professionals), Past Secretary of the Skal 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 and present Council Member. Also Past President of the Sri Lanka - Benelux Business Council and present Council Member and Past President of the Chartered Management Institute, UK - Sri Lanka Branch and 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.

Companion 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, a former Director Food & Beverage, Keells Hotels Sri Lanka and Maldives. He was also a former Director/ General Manager of Keells Hotels.
A past Chairman of the Hotel & Catering International Management Association U.K. Sri Lanka chapter.

He is also a Fellow and Past President of the Ceylon Hotel School Graduates Association. Mr. Withana is a Past District Governor of the International Association of Lions Clubs, District 306 A1.

NALAKE FERNANDO (ALTERNATE DIRECTOR TO MR. M. SELVANATHAN)

Nalake Fernando is a Director of the Property Management Companies of the Carson Cumberbatch Group-Equity One PLC and Equity Two PLC. He is also a Director of Carsons Management Services (Private) Limited and in some of the Boards of the Malaysian Plantation Companies of the Carsons Group. He was the Country representative for Sri Lanka with Dalekeller & Associates Ltd., Designers and Skidmore Ownings & Merrill Architects. He was also a Director of SKC Management Services Ltd.

He counts over 40 years of work experience and holds a Technician's Certificate of the Institute of Work Study Practitioners of UK.

SUBSIDIARY COMPANY

CHANDIMA GUNAWARDENA

(Refer under Company profile)

PUSHPAKUMARA M. WITHANA

(Refer under Company profile)

VIBATH WIJESINGHE

Vibath Wijesinghe is the Financial Controller of Carsons Management Services (Private) Limited, the management support service provider to the Carson Cumberbatch Group.

He began his career at M/s. KPMG, Sri Lanka and has over ten years of experience in the fields of finance, corporate finance and auditing. He joined Carson Cumberbatch Group in 2004. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka, Chartered Institute of Management Accountants (UK) and of the Society of Certified Management Accountants of Sri Lanka. He also holds a Masters degree in Business Administration from Postgraduate Institute of Management – University of Sri Jayawardenepura.

Pegasus

Giritale

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. The risk management process supports;

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

Risk management 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.

Board of Directors

- Responsible for approval of ERM framework
- Set risk appetite thresholds
- Approve Business Plans
- Review Reports - Risk Dash Board and summary of risk register

Audit Committee

- Consider adequacy of risk management and internal control framework
- Receive and review risk management reports/ Dash Board/Risk Register
- Receive and review reports from internal and external auditors

Management Team

- Define and set risk appetite and consider new and emerging risks
- Develop / monitor suitable action plans to mitigate/manage risks
- Consider actions to improve risk management processes
- Provide representation on compliances

Risk owners

- Responsible for day to day monitoring / supervision of risk and risk mitigation actions.
- Required to evaluate status of risk and effectiveness of risk mitigation action plans

Risk Management

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
Market risk	Not being able to achieve business objectives.	Low	The Group manages this risk by means of following actions and procedures • Diversity of revenue sources • Maintain and build relationship with tour operators • Participation in relevant trade and business promotions, locally and internationally • Maintaining value and standard of the hotel through regular refurbishments and training and development of employees • Develop and monitor comprehensive business plans • Diversification of revenue base
Liquidity Risk	Inability to raise funds or effect payments when required.	Moderate	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 damage to the Group's reputation. 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. In addition, the Group has access to short-term financing facilities extended from the parent company Carson Cumberbatch PLC.

Risk	Impact	Risk rating	Risk response & strategies
Credit Risk	The credit risk of the Group is mainly derived from the dues receivable from its customers. Group's objective is to seek continual revenue growth while minimizing losses incurred due to increased credit risk exposure.	Low	The hotel sector implements following controls to mitigate this risk. • Continuous and regular evaluation of creditworthiness of tour operators and other customers • Ongoing monitoring and follow up of receivable balances.
Foreign Exchange Risk	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 Group monitors fluctuations in 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.
Interest Rate Risk	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 borrowing 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.)

Risk Management

Risk	Impact	Risk rating	Risk response & strategies
Systems and process risks	The risk of direct or indirect losses due to inadequate or failed internal processes and systems.	Low	• Maintain detail procedure manuals and provide training and guidelines for new recruits. • 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.
Human Resource Risk	Attracting, developing and retaining talent employees are essential to deliver Group's objectives. Failure to determine the appropriate mix of skills required to implement Group strategies and failure to retain or develop the right number of appropriately qualified staff could affect the achievement of Group's objectives.	Low	The following initiatives have been implemented by the Group • Ensure recruitments are carried out to hire employees with required qualification, knowledge and experience. • Availability of detailed job descriptions and role profiles for each job. • HR policies are focused on encouraging continuous training and development and ensuring appropriate compensation as per market rates to retain and develop employees.

Risk	Impact	Risk rating	Risk response & strategies
Legal & Regulatory Compliance Risk	Failure to comply with regulatory and legal framework applicable to the group.	Low	The management together with the Carsons group legal division protectively identifies and set up appropriate systems and processes for legal regulatory compliance with respect of Group's operations. • Arrange training programs and circulate updates for key employees on new / revise laws and regulations on need basis. • Provide comments on draft laws to government and regulatory authorities. • Obtain comments and interpretation from external legal consultants on areas that require clarity. • Obtain compliance certificates from management on quarterly basis on compliance with relevant laws and regulations.

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

Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors of Pegasus Hotels of Ceylon PLC have pleasure in presenting to the shareholders their Report together with the Audited Financial Statements for the year ended 31st March 2014.

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 are guided by recommended best Accounting Practices.

The Annual Report was approved by the Board of Directors on 12th May 2014.

1. GENERAL

Pegasus Hotels of Ceylon PLC (the "Company") is a public quoted Company with limited liability incorporated in Sri Lanka in 1966.

2. 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 Message and the Review of Operations describe in detail the 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, Cash Flow Statement, Statement of Changes in Equity and Notes to the financial statements of the Company and the Group for the year ended 31st March 2014 are set out on pages 48 to 86 These financial statements do comply with the requirements of the section 151 of the Companies Act No. 07 of 2007.

4.1 Revenue

The Company and the Group generated revenue of Rs 370.7 mn and Rs. 452.2 mn (2013 - Rs. 397.3 mn and Rs. 493.2 mn). 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)	Group		Company	
For the year ended 31st March	**2014**	**2013**	**2014**	**2013**
Profit for the year	**66,556**	141,963	**70,468**	123,759
Other comprehensive expense for the year	**(1,175)**	-	**(630)**	-
Total comprehensive income for the year	**65,381**	141,963	**69,838**	123,759
Retained earnings as at the begining of the year	**152,194**	25,427	**114,371**	5,808
Retained earnings before appropriations	**217,575**	167,390	**184,209**	129,567
Dividend paid	**(15,196)**	(15,196)	**(15,196)**	(15,196)
Retained earnings as at the end of the year	**202,379**	152,194	**169,013**	114,371

4.3 Significant accounting policies

The accounting policies adopted in the preparation of these financial statements are given on pages 52 to 63.

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 ended 31st March 2012, a revaluation gain was recognised on freehold land to the value of Rs. 111.5 mn, based on a professional valuation performed by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka), an Independent Professional Valuer.

4.5 CAPITAL EXPENDITURE

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

(In Rupees thousands)	Group		Company	
For the year ended 31st March	2014	2013	2014	2013
Property Plant & Equipment	**61,475**	97,709	**60,092**	94,333

4.6 RESERVES

As at 31st March 2014, the Group's total reserves stood at Rs. 877.7 mn (2013 – Rs. 827.5 mn) comprising capital reserves of Rs. 675.1 mn (2013 – 675.1 mn) and revenue reserves of Rs. 202.6 mn (2013 – Rs. 152.4 mn).

The total reserves of the Company as at 31st March 2014 stood at Rs. 844.3 mn (2013 - Rs. 789.6 mn) comprising Capital Reserves of Rs. 675.1 mn (2013 - Rs. 675.1 mn) and Revenue Reserves of Rs. 169.2 mn (2013 - Rs. 114.5 mn). Details are shown in the Statement of Changes in Equity on page 50.

5. STATEMENT OF DIRECTORS RESPONSIBILITIES

The responsibilities of the Directors in relation to the Financial Statements, are detailed in the following paragraphs, whilst the responsibilities of the Auditors are set out in the Report of the Auditors.

According to the Companies Act No. 07 of 2007 and the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the 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 results 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 in order to ensure that its Financial Statements meet with the requirements of Companies Act No. 07 of 2007 and the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

They are also responsible for taking reasonable measures to safeguard the assets of the Company and the Group in this regard to give proper consideration to the establishment of appropriate systems of internal control with a view to prevent, detect and rectify frauds and other irregularities.

These Financial Statements have been prepared on a going concern basis, since the Directors are of the view that the Company has adequate resources to continue operations in the foreseeable future from the date of signing these Financial Statements.

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

6. INDEPENDENT AUDITORS' REPORT

The Independent Auditors' Report on the Financial Statements is given on page 47 of this Report.

7. INTERESTS REGISTER

The Company maintains the 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. 07 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 2014 is given in note 13.3 to the Financial Statements.

7.2. DIRECTORS' INTEREST IN CONTRACTS AND SHARES

The Related Party Transactions of the Company as required by the Sri Lanka Accounting Standard LKAS 24 - "Related Party Disclosures" are disclosed in note 33 to the Financial Statements and have been declared at Meetings of the Board of Directors. The Directors have had no direct or indirect interest in any other contracts or proposed contracts in relation to the business of the Company other than those disclosed in note 33.

The following Directors of the Company did not have any interests in ordinary shares of the Company as at 01st April 2013 or as at 31st March 2014.

1. Mr. D.C.R. Gunawardena
2. Mr. H. Selvanathan
3. Mr. M. 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 Corporate Information provided 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. H. 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. 245,000/- and Rs. 433,000/- (2013 - Rs. 220,225/- and Rs. 370,225/-) was paid to them by the Company and the Group respectively, as audit fees for the year ended 31st March 2014. In addition to the above, the auditors were paid Rs. 71,000/- and Rs. 91,000/- (2013 – Rs. 75,000/- and Rs. 138,000/-) as professional fees for Audit related services for the Company and the Group respectively. Further, an amount of Rs. 75,000/- (2013 – 163,000/- and Rs. 244,000/- for the Company and the Group respectively) 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 authorizing the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

The Audit Committee reviewed the appointment of the auditors, its effectiveness and their relationship with the Company and its subsidiary, 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 FINANCIAL YEAR

There were no significant events during the year.

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

There were no transactions entered into by the Company during the year under review in the ordinary course of business, the value which exceeded 10% of the Shareholders' equity or 5% of the total assets of the Company as at 31st March 2014.

The details of the Related Party Transactions are given in note 33 on page 83 to 86 of the 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 18 to 19 of the Annual Report.

Directors	Executive/ Non-Executive / Independent
Mr. D. C.R. Gunawardena (Chairman)	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)	Executive

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 (CSE). The said declarations were tabled at a Board

Meeting of the Board of Directors of the Company held on 12th May 2014, in order to enable the Board of Directors to determine the Independence/ Non-Independence of each of the Non-Executive Directors, in terms of Rule 7.10.3(a) of the Listing Rules of the CSE.

The Board has determined that Mr. S. Nagendra is an Independent / Non- Executive Director in spite of being on the Board for more than nine 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.

12.2 Directors' Meetings Attendance

During the financial year the Board of Directors had four Board Meetings and the attendance of the Directors were as follows;

Board Meetings	Attended/ Eligible to Attend
Non-Executive/ Independent Director	
Mr. S. Nagendra	4/4
Non-Executive Director	
Mr. D.C. R. Gunawardena	3/4
Executive Directors	
Mr. H. Selvanathan	3/4
Mr. M. Selvanathan	3/4
Mr. P. M. Withana	4/4
Mr. K. C. N. Fernando (Alternate Director to Mr. M. Selvanathan)	1

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 (Chairman)	Non-Executive/ Independent Director of CCPLC
Mr. F. Mohideen	Non-Executive/ Independent Director of CCPLC
Mr. D. C. R. Gunawardena	Non-Executive Director of CCPLC

The Audit Committee Report is given on page 42 to 43 of this Annual Report.

12.4 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
Mr. R. Theagarajah**	Non-Executive/ Independent Director of CCPLC

*Resigned from the CCPLC Board with effect from 31st March 2014 and accordingly from the Remuneration Committee with effect from 31st March 2014

**Appointed with effect from 1st April 2014

Scope and Objective

The primary objective of the Remuneration Committee is to lead to establish a formal and transparent procedure for the development of a remuneration policy and the establishment of a remuneration structure.

A remuneration policy has been formulated based on market and industry factors and individual performance for all group Companies.

Functions and Proceedings

The Remuneration Committee recommends to the Board the remuneration to be paid to the Chief Executive Officer, Executive Directors and Non-Executive Directors. Based on the recommendation of the Remuneration Committee, the Board approves remuneration to the respective Directors.

The Chief Executive Officer, Director-in-charge and other members of Senior Management may be invited to attend meetings to discuss the performance of the Executive Directors and make proposals as necessary. Neither Executive nor Non-Executive Directors are involved in Remuneration Committee meetings when determinations are made in relation to the remuneration of the respective Directors.

The Committee is authorised by the Board to seek appropriate professional advice internally and externally as and when it considers necessary.

The Remuneration Committee meets at least twice a year.

During the period under review the Committee had two meetings.

Remuneration Committee	Attended/ Eligible to Attend
Mr. I. Paulraj (Chairman)	2/2
Mr. M. Moonesinghe*	0/2
Mr. D.C.R. Gunawardena	2/2
Mr. R. Theagarajah**	-

* Resigned from the CCPLC Board with effect from 31st March 2014 and accordingly from the Remuneration Committee with effect from 31st March 2014

**Appointed with effect from 1st April 2014

Reporting and Responsibilities

The Committee Chairman reports formally to the Board on its proceedings on all matters within its duties and responsibilities. The Committee makes recommendations to the Board as deemed appropriate on any area within its limit where action or improvements are needed.

Aggregated remuneration paid to the Directors of the Company is disclosed under note 13.3 on page 65 of the Annual Report.

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 Director
Mr. D.C.R. Gunawardena	Non-Executive Director

Scope and Objective

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

Functions and Proceedings

The Nomination Committee recommends new appointments to the Board. Based on the recommendation of the Nomination Committee, the Board approves the new appointments of Executive and Non-Executive Directors to the Board.

Any Director of the Board and the Chief Executive Officer/ Director-in-Charge and other members of Senior Management may be invited to attend Meetings of the Nomination Committee. The Committee may also invite appointed external consultants to aid the Committee in the discharge of its duties.

The Committee is authorised by the Board to seek appropriate professional advice internally and externally as and when considered necessary.

The Nomination Committee meets at least twice a year.

During the period under review the Committee had two meetings with all members in attendance.

Nomination Committee	Attended/ Eligible to Attend
Mr. S. Nagendra (Chairman)	2/2
Mr. D.C.R. Gunawardena	2/2

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 fulfilment 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 22 to 27.

15. DIVIDEND

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 2014 (2013- Rs. 0.50 per share)

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

16. 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. The Company's Auditors, KPMG, Chartered Accountants have issued a Certificate of Solvency confirming same.

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. STATUTORY PAYMENTS

The Directors to the best of their knowledge and belief are satisfied that all statutory payments have been paid up to date or have been provided for in these Financial Statements.

19. GOING CONCERN

The Board of Directors is satisfied that the Company and its subsidiary has adequate resources to continue its operations in the foreseeable future. Accordingly, these Financial Statements are prepared based on the Going Concern concept.

20. DONATIONS

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

21. 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 it's business priorities and to ensure that its employees are developing the skills and knowledge required for future success of the Company and the Group.

The number of persons employed by the Company and the Group as at 31st March 2014 were 168 and 238 (2013 - 177 and 245) respectively.

Management support services are provided by Carsons Management Services (Private) Limited (CMSL).

22. MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS

There were no material issues relating to employees and industrial relations during the year ended 31st March 2014.

23. STATED CAPITAL

The stated capital of the Company as at 31st March 2014 was Rs. 515,169,681 /- consisting of 30,391,538 ordinary shares. (2013 - Rs. 515,169,681/- consisting of 30,391,538 ordinary shares).

There was no change in the Stated Capital of the Company during the year.

23.1 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.

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.

24. EQUITABLE TREATMENT TO SHAREHOLDERS

The Company endeavour's at all times to ensure equitable treatment to all shareholders.

25. OUTSTANDING LITIGATION

The outstanding litigations related to the Company are shown in note 31 to these Financial Statements.

26. EVENTS OCCURRING AFTER THE REPORTING DATE

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

27. SHARE INFORMATION

Information relating to share trading are given on pages 89 and 90 of this Report.

28. TWENTY MAJOR SHAREHOLDERS WITH COMPARATIVES

The Parent Company Carson Cumberbatch PLC holds 93.09% of the total ordinary shares in issue of the Company as at 31st March 2014.

Twenty Major Shareholders as at 31st March	2014		2013	
	No. of shares	%	No. of shares	%
Carson Cumberbatch PLC A/C No. 2	**28,290,958**	**93.09**	28,290,958	93.09
Dee Investments (Pvt) Ltd	**180,903**	**0.60**	83,800	0.28
Mr. H.C. Subasinghe	**99,990**	**0.33**	64,285	0.21
Mrs. N.H. Abdul Husein	**85,798**	**0.28**	85,308	0.28
Merchant Bank of Sri Lanka Ltd A/c No 1	**56,310**	**0.19**	24,968	0.08
Mrs. I. Gwyn	**55,000**	**0.18**	55,000	0.18
Codegen International (Private) Limited	**50,100**	**0.16**	50,100	0.16
Mr. H.W.M. Woodward	**42,679**	**0.14**	42,679	0.14
Acuity Partners (Pvt) Limited/Mr. N.K. Punchihewa	**30,000**	**0.10**	30,000	0.10
Mr. S.N.C.W.M.B.C. Kandegedara	**29,999**	**0.10**	30,000	0.10
Asha Financial Services Ltd/ Mr.E.M.R. Egodawatte	**27,000**	**0.09**	27,000	0.09
Dr. C .J. Fernando	**26,594**	**0.09**	26,594	0.09
Mr. A.J.M. Jinadasa	**26,423**	**0.09**	30,285	0.10
Mr. H.S.M. Pieris	**25,000**	**0.08**	40,000	0.13
Pan Asia Banking Corporation PLC./Mr. R. E. Rambukwelle	**25,000**	**0.08**	27,900	0.09
Mr. S.S. Jeyaselvan	**23,523**	**0.08**	22,273	0.07
Dr. M. Ramasubbu	**22,695**	**0.07**	20,664	0.07
Mr. K.C. Jayawardene	**21,800**	**0.07**	7,700	0.03
Waldock Mackenzie Limited/Mr. L.P. Hapangama	21,500	0.07	21,500	0.07
Universe Capital (Private) Limited	21,400	0.07	21,400	0.07

29. ANNUAL REPORT

The Board of Directors has approved the Audited Financial Statements of the Company together with the Reviews and other Reports which form part of the Annual Report on 12th May 2014. The appropriate number of copies of the Annual Report will be submitted to the Colombo Stock Exchange, the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Registrar General of Companies, within applicable time frames.

30. ANNUAL GENERAL MEETING

The 48th Annual General Meeting of the Company will be held on Tuesday, 17th June 2014 at 3.30 P.M at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala.

The Notice of the Annual General Meeting, setting out the business which will be transacted thereat is on page 91 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

12th May 2014

Audit Committee Report

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

The members of the Audit Committee are as follows :

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

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

Mr.Chandima Gunawardena is a Non-Executive Director of CCPLC and in most of its Group Companies. 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 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 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, Messrs. KPMG 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 and discussed the draft Financial Report and Accounts, without the management being present.

The Audit Committee approved the audit plan for the financial year 2013/2014 and the Group Internal Audit (GIA) carried out five detailed audits of key processes of Hotels Sector companies.

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

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

The interim financial statements of Pegasus Hotels of Ceylon PLC have been reviewed by the Audit Committee Members at Audit Committee Meetings.

The draft financial statements of Pegasus Hotels of Ceylon PLC for the year ended 31st March 2014 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 2015, 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

12th May 2014.

Pegasus

Financial Information

The Competitive Edge

Pegasus Reef Hotel continues to steadily advance in its process of corporate cohesion year after year. We are indeed a hotel that holds the competitive edge.

Financial Calendar

Quarterly Financial Statements

1st Quarter	**30th June 2013**
Issued to Colombo Stock Exchange	14th August 2013
2nd Quarter	**30th September 2013**
Issued to Colombo Stock Exchange	14th November 2013
3rd Quarter	**31st December 2013**
Issued to Colombo Stock Exchange	13th February 2014
Annual Report for the year ended	**31st March 2014**
48th Annual General Meeting	**17th June 2014**

Independent Auditors Report

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

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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 subsidiary ("the Group"), which comprise the statement of financial position as at March 31, 2014, 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 48 to 86 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.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2014 and the financial statements give a true and fair view of the financial position of the Company as at March 31, 2014, 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 subsidiary dealt with thereby as at March 31, 2014, and 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. 109,905,741 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 realization of the compensation due from the Government of Sri Lanka.

Report on Other Legal and Regulatory Requirements

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

KPMG

CHARTERED ACCOUNTANTS

12th May, 2014
Colombo

Statement of Comprehensive Income

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Notes	Group 2014	Group 2013	Company 2014	Company 2013
Revenue	11	**452,205**	493,184	**370,723**	397,322
Direct costs		**(257,983)**	(236,037)	**(210,493)**	(187,590)
Gross profit		**194,222**	257,147	**160,230**	209,732
Other income	12	**7,232**	6,668	**5,223**	5,012
Selling and promotional expenses		**(15,589)**	(8,997)	**(12,728)**	(6,313)
Administrative expenses		**(117,952)**	(103,331)	**(91,070)**	(80,220)
Profit from operations	13	**67,913**	151,487	**61,655**	128,211
Finance income	14	**14,982**	18,629	**23,805**	18,438
Finance costs	14	**(7,563)**	(11,942)	**(7,321)**	(10,354)
Net finance income	14	**7,419**	6,687	**16,484**	8,084
Profit before taxation		**75,332**	158,174	**78,139**	136,295
Income tax expenses	15	**(4,353)**	(9,574)	**(3,199)**	(6,887)
Deferred taxation	15	**(4,423)**	(6,637)	**(4,472)**	(5,649)
Profit for the year		**66,556**	141,963	**70,468**	123,759
Other comprehensive income					
Actuarial loss from valuation of employee benefits	29.2	**(1,175)**	-	**(630)**	-
Other comprehensive expense for the year		**(1,175)**	-	**(630)**	-
Total comprehensive income for the year		**65,381**	141,963	**69,838**	123,759
Earnings per share (Rs.)	16	**2.19**	4.68	**2.32**	4.08
Dividend per share (Rs.)		**0.50**	0.50	**0.50**	0.50

The notes from pages 52 to 86 form an integral part of these financial statements.

Figures in brackets indicate deductions

Statement of Financial Position

(All figures in Sri Lankan Rupees thousands)

As at 31st March	Notes	Group 2014	Group 2013	Company 2014	Company 2013
ASSETS					
Non-current assets					
Property, plant and equipment	17	**1,171,770**	1,147,402	**1,143,162**	1,116,409
Intangible assets	18	**115,287**	115,287	**-**	-
Investment in subsidiary	19	**-**	-	**110,223**	110,223
Compensation receivable	20	**109,906**	98,441	**109,906**	98,441
Total non-current assets		**1,396,963**	1,361,130	**1,363,291**	1,325,073
Current assets					
Inventories	21	**12,836**	14,981	**9,258**	11,618
Trade and other receivables	22	**48,096**	56,008	**38,573**	41,820
Cash and cash equivalents	23	**73,077**	73,381	**66,033**	70,856
Total current assets		**134,009**	144,370	**113,864**	124,294
Total assets		**1,530,972**	1,505,500	**1,477,155**	1,449,367
EQUITY AND LIABILITIES					
Equity					
Stated capital	24	**515,170**	515,170	**515,170**	515,170
Capital reserves	25	**675,099**	675,099	**675,099**	675,099
Revenue reserves	26	**202,555**	152,370	**169,189**	114,547
Total equity		**1,392,824**	1,342,639	**1,359,458**	1,304,816
Non-current liabilities					
Loans and borrowings	27	**7,878**	16,446	**7,878**	16,446
Deferred tax liability	28	**28,741**	24,318	**27,572**	23,100
Employee benefits	29	**14,063**	10,465	**9,278**	6,986
Total non-current liabilities		**50,682**	51,229	**44,728**	46,532
Current liabilities					
Loans and borrowings	27	**8,568**	8,568	**8,568**	8,568
Trade and other payables	30	**75,242**	98,200	**61,796**	85,786
Current tax liabilities		**3,656**	4,864	**2,605**	3,665
Total current liabilities		**87,466**	111,632	**72,969**	98,019
Total liabilities		**138,148**	162,861	**117,697**	144,551
Total equity and liabilities		**1,530,972**	1,505,500	**1,477,155**	1,449,367
Net assets per share (Rs.)		**45.83**	44.18	**44.73**	42.93

The notes from pages 52 to 86 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 12th May 2014.

Approved and signed on behalf of the Managers,

(Sgd).
A.P. Weeratunge
Director
Carsons Management Services (Private) Limited
Colombo
12th May 2014

Approved and signed on behalf of the Board,

(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	
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	110,929	-	-	-	-	110,929
Dividend paid - 2011/12	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2013	515,170	659,955	15,144	176	152,194	1,342,639
Balance as at 1st April 2013	515,170	659,955	15,144	176	152,194	1,342,639
Profit for the year	-	-	-	-	66,556	66,556
Other comprehensive expense for the year	-	-	-	-	(1,175)	(1,175)
Total comprehensive income for the year	-	-	-	-	65,381	65,381
Dividend paid - 2012/13	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2014	515,170	659,955	15,144	176	202,379	1,392,824

Company	Stated capital	Capital reserves		Revenue reserves		Total equity
		Revaluation reserve	Capital accretion reserve	General reserve	Retained earnings	
Balance as at 1st April 2012	404,241	659,955	15,144	176	5,808	1,085,324
Profit for the year	-	-	-	-	123,759	123,759
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	123,759	123,759
Rights issue of shares	110,929	-	-	-	-	110,929
Dividend paid - 2011/12	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2013	515,170	659,955	15,144	176	114,371	1,304,816
Balance as at 1st April 2013	515,170	659,955	15,144	176	114,371	1,304,816
Profit for the year	-	-	-	-	70,468	70,468
Other comprehensive expense for the year	-	-	-	-	(630)	(630)
Total comprehensive income for the year	-	-	-	-	69,838	69,838
Dividend paid - 2012/13	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2014	515,170	659,955	15,144	176	169,013	1,359,458

The notes from pages 52 to 86 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 2014	Group 2013	Company 2014	Company 2013
Cash flows from operating activities					
Profit before taxation		**75,332**	158,174	**78,139**	136,295
Adjustments for:					
Loss on disposal / write-off of property, plant and equipment	13	**-**	1,661	**-**	1,661
Interest income on placement with banks and government securities	14	**(3,048)**	(7,828)	**(3,021)**	(6,244)
Dividend income	14	**-**	-	**(8,945)**	(1,481)
Unwinding of discount on compensation receivable	14	**(11,465)**	(10,177)	**(11,465)**	(10,177)
Interest expenses on bank borrowings	14	**1,900**	2,684	**1,900**	2,680
Interest expenses on related party borrowings	14	**5,256**	8,679	**5,014**	7,095
Corporate guarantee charges	14	**407**	579	**407**	579
Depreciation on property, plant and equipment	17	**36,582**	26,540	**32,870**	23,199
Provision / (reversal of provision) for impairment of trade receivables		**955**	(2,704)	**921**	(2,704)
Provision for employee benefits		**2,669**	6,030	**1,908**	2,572
Profit before working capital changes		**108,588**	183,638	**97,728**	153,475
(Increase) / decrease in inventories		**2,145**	(1,502)	**2,360**	(1,110)
Decrease in trade and other receivables		**6,550**	3,033	**1,919**	4,217
Increase / (decrease) in trade and other payables		**8,521**	(9,273)	**7,577**	(5,874)
Cash generated from operations		**125,804**	175,896	**109,584**	150,708
Employee benefits paid	29	**(246)**	(3,845)	**(246)**	(243)
Income tax paid		**(5,561)**	(10,477)	**(4,259)**	(8,702)
Net cash generated from operating activities		**119,997**	161,574	**105,079**	141,763
Cash flows from investing activities					
Purchase of property, plant and equipment	17	**(61,475)**	(97,709)	**(60,092)**	(94,333)
Proceeds from disposal of property, plant and equipment		**525**	1,398	**469**	1,342
Interest received		**3,048**	7,828	**3,021**	6,244
Dividend received		**-**	-	**8,945**	1,481
Net cash used in investing activities		**(57,902)**	(88,483)	**(47,657)**	(85,266)
Cash flows from financing activities					
Proceeds from right issue of shares	24	**-**	110,929	**-**	110,929
Dividend paid		**(15,108)**	(15,113)	**(15,196)**	(15,113)
Loans and borrowings repaid during the year		**(8,568)**	(8,568)	**(8,568)**	(8,568)
Net amounts settled to related companies including interest		**(36,823)**	(164,020)	**(36,581)**	(132,672)
Interest paid on bank borrowings		**(1,900)**	(2,684)	**(1,900)**	(2,680)
Net cash used in financing activities		**(62,399)**	(79,456)	**(62,245)**	(48,104)
Net (decrease) / increase in cash and cash equivalents		**(304)**	(6,365)	**(4,823)**	8,393
Cash and cash equivalents at the beginning of the year		**73,381**	79,746	**70,856**	62,463
Cash and cash equivalents at the end of the year	23	**73,077**	73,381	**66,033**	70,856

The notes from pages 52 to 86 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 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 238 (2013 - 245) employees at the end of the financial year. The Company had 168 (2013 - 177) 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 statement of cash flow 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.

The consolidated financial statements were authorized for issue by the Board of Directors on 12th May 2014.

(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 judgments

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment with 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 cost 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 judgment 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 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 acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; 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.

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 re-measured 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.

Company's subsidiary is Equity Hotels Limited of which Company holds 99.9% of control.

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

In the Company’s financial statements, investments in subsidiary is 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 as at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate as 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 generally recognised in profit or loss.

(c) Financial instruments

i. Non-derivative financial assets
The Company and the Group initially recognises non-derivative 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 ‘loan and receivables’.

The Company and the Group initially recognizes such financial assets categorized as loan and receivables on the date they are originated.

The Company and the Group de-recognises 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.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize 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, and trade and other receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances, placements with banking institutions and placement 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 Group in the management of its short-term commitments.

ii. Non-derivative financial liabilities
Financial liabilities which are held by the company 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 de-recognises 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, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Company and 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 equipment are initially recorded at cost. Where items of property, plant & equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the reporting date.

Subsequent to the initial recognition of the asset at cost, the revalued property, plant & 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 & equipment which are stated at historical cost less accumulated depreciation less 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 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 capitalized 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 every year 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 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 are recognized net within 'Other Income' in the Statement of 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 has arisen on the acquisition of the subsidiary. It is presented along with intangible assets, in the statement of financial position.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

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

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 intangible assets and carried at cost less accumulated amortization and any accumulated impairment losses. These costs are amortised to the Statement of comprehensive Income using the straight line method over 3 to 10 years.

iii. 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.

iv. Amortisation
Except for goodwill, intangible assets are amortised on a straight-line basis in 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.

v. 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, except for fresh fruit bunches which are valued at since realized values.

The cost of inventories are determined on a weighted average basis for food items which are ascertained on first-in-first out basis. The costs are derived on the following bases;

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
A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is 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.

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. 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 or cash generating unit (CGU) 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. Subject to an operating segment ceiling test, 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 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 calculation is performed annually by a qualified actuary using the projected unit credit method, as recommended by LKAS 19 - 'Employee Benefits'. The liability is not externally funded. All actuarial gains or losses are recognised immediately in the other comprehensive income.

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 the discount is recognised as finance cost.

(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

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

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

Lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

The land where the Equity hotel is located is on a 30 year operating 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.

(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
   Room revenue is recognized based on the number of rooms occupied

ii. Food and beverage revenue
   Revenue from food and beverage is recognized 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 & equipment in a state of efficiency has been charged to revenue in arriving at the profit or loss for the year. Provision has also been made for bad and doubtful debts, all known liabilities and depreciation on property, plant & equipment.

ii. Finance income and finance costs
Finance income comprises interest income on funds invested and unwinding of discount on compensation receivable. Interest income is recgnised as it accrues in profit or loss, using the effective interest method.(including available-for-sale financial assets), gains on the re-measurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognised in profit or loss and reclassifications of net gains previously recognised in other comprehensive income. 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, deferred consideration, dividends on preference shares classified as liabilities, contingent consideration, losses on hedging instruments that are recognised in profit or loss and reclassifications of net losses previously recognised in other comprehensive income.

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) 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 taxation
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 taxation
Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted by the reporting date.

Deferred tax assets including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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 realized.

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.

(o) Cash flow

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

(p). 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.

4. EARNINGS PER SHARE

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. EVENTS AFTER THE REPORTING PERIOD

All material and important events which occur after the Reporting date have been considered and disclosed in note 34 to the financial statements.

6. 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.

7. 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

8. DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and presentation of the Financial Statements. This is more fully described under the relevant clause in the Directors' Report.

9. DETERMINATION OF FAIR VALUE MEASUREMENT

Number of 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.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based o the inputs used in the valuation techniques as follows;

Level 1- Quoted prices (unadjusted) in active markets for identifiable assets and liabilities

Level 2- Inputs other than quoted prices included in Level 1 that are observable from the asset or liability either directly (as prices) or indirectly (derived prices)

Level 3 - Inputs from the asset or liability that are not based on observable market data (unobservable inputs)
If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

10. NEW ACCOUNTING STANDARDS NOT EFFECTIVE AT THE REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2014.

Accordingly, these Standards have not been applied in preparing these financial statements.

Sri Lanka Accounting Standards –SLFRS 10 "Consolidated financial statements"

The objective of this SLFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

An investor is expected to control an investee if and only if the investor has all the following;

Owner over the investee; exposure, or rights, to variable returns from its involvement with the investee; an ability to use its power over the investee to affect the amount of the investor's returns

This standard will require the Company to review the group structure in the context of the new Standard and its requirements. Accordingly adoption of this standard is expected to have an impact on the Group structure, and consolidated reporting.

SLFRS 10 will become effective from 1 April 2014 for the Group with early adoption permitted. This SLFRS will supersede the requirements relating to consolidated financial statements in LKAS 27-Consoliadated and Separate Financial Statements.

Sri Lanka Accounting Standard - SLFRS 13, “Fair Value Measurement”

This SLFRS defines fair value, sets out in a single SLFRS a framework for measuring fair value; and requires disclosures about fair value measurements.

This SLFRS will become effective for the Group from 1 April 2014. Earlier application is permitted.

This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

Sri Lanka Accounting Standard – SLFRS 9 “Financial Instruments”

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement.

The effective date of this standard has been deferred.

(All figures in Sri Lankan Rupees thousands)

	For the year ended 31st March	Group 2014	Group 2013	Company 2014	Company 2013
11.	**REVENUE**				
	Revenue analysis (net)				
	Room revenue	**262,074**	311,856	**208,165**	249,858
	Food and beverage revenue	**178,527**	168,796	**151,485**	137,474
	Other revenue	**11,604**	12,532	**11,073**	9,990
		452,205	493,184	**370,723**	397,322
12.	**OTHER INCOME**				
	Rent income	**3,466**	3,148	**1,889**	1,654
	Club membership income	**2,299**	1,510	**2,299**	1,510
	Sundry income	**1,467**	2,010	**1,035**	1,848
		7,232	6,668	**5,223**	5,012
13.	**PROFIT FROM OPERATIONS**				
	Profit from operations is stated after charging all expenses including the following:				
	Auditors' remuneration				
	- Audit services	**433**	370	**245**	220
	- Audit related services	**91**	138	**71**	75
	- Non-audit services	**75**	244	**75**	163
	Depreciation (note 13.1)	**36,582**	26,540	**32,870**	23,199
	Loss on disposal / write-off of property, plant and equipment	**-**	1,661	**-**	1,661
	Provision/ (reversal of provision) for impairment of trade receivable	**955**	(2,704)	**921**	(2,704)
	Donations	**4,853**	108	**1,685**	108
	Professional service costs (note 13.2)	**690**	2,566	**559**	2,413
	Nomination committee fees	**50**	50	**50**	50
	Personnel costs (note 13.3)	**110,394**	92,837	**81,037**	66,074
	Operating lease expenses	**494**	494	**-**	-
	Support service fees	**5,895**	6,387	**4,871**	5,126
13.1	**Depreciation**				
	Depreciation included in the income statement under the following heading:				
	Direct cost	**31,408**	22,831	**28,523**	20,144
	Administrative expenses	**5,174**	3,709	**4,347**	3,055
		36,582	26,540	**32,870**	23,199

	For the year ended 31st March	Group 2014	Group 2013	Company 2014	Company 2013
13.2	**Professional Service costs**				
	Legal services	**412**	672	**298**	537
	Valuation services	**46**	187	**29**	169
	Consultation fees	**200**	337	**200**	337
	Other services	**32**	1,370	**32**	1,370
		690	2,566	**559**	2,413
13.3	**Personnel costs**				
	Salaries, wages and other related expenses	**99,104**	79,273	**72,606**	57,794
	Defined benefit plan cost - Employee benefits	**2,669**	6,030	**1,908**	2,572
	Defined contribution plan cost - EPF and ETF	**8,621**	7,534	**6,523**	5,708
		110,394	92,837	**81,037**	66,074
	The above include:				
	Directors' fees	**-**	-	**-**	-
	Directors' emoluments	**13,146**	9,992	**10,615**	7,844
		13,146	9,992	**10,615**	7,844
14	**NET FINANCE INCOME**				
14.1	**Finance income**				
	Interest income on placement with banks and government securities	**3,048**	7,828	**3,021**	6,244
	Dividend income	**-**	-	**8,945**	1,481
	Unwinding of discounting on compensation receivable	**11,465**	10,177	**11,465**	10,177
	Gain on foreign exchange transactions	**469**	624	**374**	536
		14,982	18,629	**23,805**	18,438
14.2	**Finance cost**				
	Interest expenses on loans and borrowings				
	- On bank borrowings	**1,900**	2,684	**1,900**	2,680
	- On related party borrowings	**5,256**	8,679	**5,014**	7,095
	Corporate guarantee charges	**407**	579	**407**	579
		7,563	11,942	**7,321**	10,354
	Net finance income	**7,419**	6,687	**16,484**	8,084

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.

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Group 2014	Group 2013	Company 2014	Company 2013
15. INCOME TAX EXPENSES				
15.1 Current taxation				
Current tax expenses (note 15.3)	**4,174**	11,746	**3,395**	9,388
(Over)/under provision for previous years	**179**	(2,172)	**(196)**	(2,501)
	4,353	9,574	**3,199**	6,887
15.2 Deferred taxation				
On origination and reversal of temporary differences (note 28.1)	**4,423**	6,637	**4,472**	5,649
	4,423	6,637	**4,472**	5,649
	8,776	16,211	**7,671**	12,536
15.3 Reconciliation between the accounting profit and the profit for the tax purposes				
Accounting profit before taxation	**75,332**	158,174	**78,139**	136,295
Aggregate disallowable expenses	**47,903**	43,101	**39,279**	31,854
Aggregate allowable expenses	**(58,331)**	(41,080)	**(54,103)**	(36,710)
Notional adjustments arising on application of LKAS/SLFRS	**(11,057)**	(9,609)	**(11,057)**	(9,596)
Profits exempt from income tax	**(8,945)**	(1,481)	**(8,945)**	(1,481)
Adjustment due to consolidation of financial statements	**8,400**	1,481	**-**	-
Interest income	**(3,048)**	(7,828)	**(3,021)**	(6,244)
Adjusted profit from operations for tax purposes	**50,254**	142,758	**40,292**	114,118
Interest income	**3,261**	7,828	**3,234**	6,244
Total Statutory Income	**53,515**	150,586	**43,526**	120,362
Utilization of tax losses (notes 15.4)	**(18,730)**	(52,705)	**(15,234)**	(42,127)
Taxable income	**34,785**	97,881	**28,292**	78,235
Taxation thereon (note 15.5 a)	**4,174**	11,746	**3,395**	9,388
15.4 Analysis of tax losses				
Tax losses brought forward	**261,539**	305,087	**255,180**	291,613
Adjustment on finalization of tax liability	**3,658**	9,157	**880**	5,694
Utilization of tax losses during the year (note 15.5 b)	**(18,730)**	(52,705)	**(15,234)**	(42,127)
Tax losses carried forward	**246,467**	261,539	**240,826**	255,180

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%.

(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% (2013 - 12%) for the Company and the Group.

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".

	Group		Company	
For the year ended 31st March	**2014**	**2013**	**2014**	**2013**
Amount used as the numerator				
Profit attributable to the ordinary equity holders of the parent company	**66,556**	141,963	**70,468**	123,759
Amount used as the denominator				
Weighted average number of ordinary shares outstanding at the beginning of the year (In thousands)	**30,392**	27,352	**30,392**	27,352
Increase in weighted average number of ordinary shares outstanding due to the rights issue of shares (In thousands)	**-**	2,960	-	2,960
Adjusted weighted average number of ordinary shares outstanding for earnings per share calculation (In thousands)	**30,392**	30,312	**30,392**	30,312
Earnings per share (Rs.)	**2.19**	4.68	**2.32**	4.08

17. PROPERTY, PLANT AND EQUIPMENT

17.1 Group

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipments	Motor Vehicles	Cutlery crockery and glassware	Capital work-in progress	Total as at 31 March 2014	Total as at 31 March 2013
Cost/valuation											
Balance at the beginning of the year	504,332	503,454	104,615	73,772	8,959	30,891	4,569	4,025	32,947	**1,267,564**	1,177,535
Transferred from capital working progress	-	11,142	2,918	18,887	-	-	-	-	(32,947)	**-**	
Additions during the year	-	17,082	4,214	30,553	141	1,750	7,475	260	-	**61,475**	97,709
Disposals/write-off during the year	-	-	-	(190)	-	(478)	-	(896)	-	**(1,564)**	(7,680)
Balance at the end of the year	504,332	531,678	111,747	123,022	9,100	32,163	12,044	3,389	-	**1,327,475**	1,267,564
Depreciation											
Balance at the beginning of the year	-	15,037	55,645	22,989	7,065	16,574	952	1,900	-	**120,162**	98,243
Charge for the year	-	9,215	6,446	13,925	1,091	3,461	1,765	679	-	**36,582**	26,540
On disposals/write-off during the year	-	-	-	(64)	-	(478)	-	(497)	-	**(1,039)**	(4,621)
Balance at the end of the year	-	24,252	62,091	36,850	8,156	19,557	2,717	2,082	-	**155,705**	120,162
Net book value as at the end of the year	504,332	507,426	49,656	86,172	944	12,606	9,327	1,307	-	**1,171,770**	1,147,402

(All figures in Sri Lankan Rupees thousands)

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipments	Motor Vehicles	Cutlery crockery and glassware	Capital work-in progress	Total as at 31 March 2014	Total as at 31 March 2013
17.2 Company											
Cost/valuation											
Balance at the beginning of the year	504,332	478,393	91,311	60,683	8,635	21,563	4,569	3,158	32,922	**1,205,566**	1,118,821
Transferred from capital working progress	-	11,117	2,918	18,887	-	-	-	-	(32,922)	**-**	-
Additions during the year	-	17,069	3,591	30,241	141	1,402	7,475	173	-	**60,092**	94,333
Disposals/write-off during the year	-	-	-	(190)	-	(478)	-	(802)	-	**(1,470)**	(7,588)
Balance at the end of the year	504,332	506,579	97,820	109,621	8,776	22,487	12,044	2,529	-	**1,264,188**	1,205,566
Depreciation											
Balance at the beginning of the year	-	7,045	46,752	15,187	7,065	10,718	952	1,438	-	**89,157**	70,543
Charge for the year	-	7,891	5,823	13,069	1,091	2,634	1,765	597	-	**32,870**	23,199
Disposals/write-off during the year	-	-	-	(64)	-	(478)	-	(459)	-	**(1,001)**	(4,585)
Balance at the end of the year	-	14,936	52,575	28,192	8,156	12,874	2,717	1,576	-	**121,026**	89,157
Net book value as at the end of the year	504,332	491,643	45,245	81,429	620	9,613	9,327	953	-	**1,143,162**	1,116,409

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 2014	Carrying value of revalued assets 2013
Pegasus Reef Hotel, Wattala.	Freehold land	Market approach	5,250	504,332	504,332
	Building	Market approach	283,822	491,643	471,348

As at 31st March	Group 2014	Group 2013	Company 2014	Company 2013
17.4 Analysis of Capital work-in-progress				
Freehold building	-	11,142	-	11,117
Plant and machinery	-	2,918	-	2,918
Furniture and fittings	-	18,887	-	18,887
	-	32,947	-	32,922

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

17.6 Details of fully depreciated assets in property, plant and equipment

	Group		Company	
As at 31st March	**2014**	**2013**	**2014**	**2013**
Plant and machinery	**25,335**	25,335	**17,876**	17,876
Office equipment, furniture and fittings	**17,256**	16,740	**11,129**	10,613
Computer equipments	**5,310**	5,310	**5,393**	5,293
	47,901	47,385	**34,398**	33,782

17.7 Capitalization of borrowing costs in to property, plant and equipment

No borrowing costs were capitalized during the year for property, plant and equipment (2013 - Nil) for the Company and the Group respectively.

17.8 Restrictions on title of property, plant and equipment

There are no restrictions on title of the property, plant and equipment held by the Company and the Group, except for as disclosed in note 17.10.

17.9 Property, plant and equipment pledged as security for liabilities

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

17.10 Acquisition of land by the government of Sri Lanka

During the financial year 2008/09, the government acquired approximately 1,605 perches of the land owned by the Company, out of which 353.89 perches of land was subject 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 20 November 2008, the said land is to be returned to the Company on the completion of the construction work of the fisheries harbour project.

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

Accordingly the market value of the said land, (353.89 perches) amounting to Rs. 52,950,000/- (2013 - Rs. 52,950,000/-) as at the reporting date has not been removed from the property, plant and equipment.

(All figures in Sri Lankan Rupees thousands)

As at 31st March	Group 2014	Group 2013	Company 2014	Company 2013
18. INTANGIBLE ASSETS				
18.1 Goodwill on consolidation				
Balance as at the beginning of the year	**115,287**	115,287	**-**	-
Balance as at the end of the year	**115,287**	115,287	**-**	-

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

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

18.3 Accounting software included under intangible assets is fully amortized as at 31st March 2014 (2013 - Nil)

As at 31st March	Group 2014	Group 2013	Company 2014	Company 2013
19. INVESTMENT IN SUBSIDIARY				
Investment in subsidiary (note 19.1)	-	-	**110,223**	110,223
	-	-	**110,223**	110,223

19.1 Details of investment in subsidiary

	No. of shares	Cost as at 31 March 2014	No. of shares	Cost as at 31 March 2013
Equity Hotels Limited	685,469	**110,223**	685,469	110,223
Total investment in subsidiary		**110,223**		110,223

As at 31st March	Group 2014	Group 2013	Company 2014	Company 2013
20. COMPENSATION RECEIVABLE				
Compensation receivable	**109,906**	98,441	**109,906**	98,441
	109,906	98,441	**109,906**	98,441

20.1 The government of Sri Lanka acquired approximately 1,251 perches of land owned by the Company under Section 38 provision (a) of the Land Acquisition Act, No.28 of 1964 by gazette notification dated 14 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 16 July 2008. The final claim stands at Rs.563 mn taking into account the market value of the property, potential economic value lost for hotel expansion and the nuisance value that will be created for hotel operation by the said project. However, as a matter of prudence the Company has accounted for the compensation receivable of Rs. 189.5 mn in the financial statements based only on the market value and related costs supported by a professional valuation dated 4 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 31 March 2012 and according to the said valuation, the said acquired property is valued at Rs.250.4 mn.

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. 11.5 mn (2013 - Rs.10.2 mn)has been recognized in the statement of comprehensive income on account of unwinding of discount on compensation receivable.

		Group		Company	
	As at 31st March	**2014**	**2013**	**2014**	**2013**
21.	**INVENTORIES**				
	Food	**3,129**	2,091	**2,171**	1,313
	Beverage	**1,455**	1,478	**744**	847
	Engineering spares	**1,648**	2,276	**1,235**	1,858
	Linen	**4,102**	4,946	**3,179**	3,964
	Others	**2,502**	4,190	**1,929**	3,636
		12,836	14,981	**9,258**	11,618
22.	**TRADE AND OTHER RECEIVABLES**				
	Financial				
	Trade receivables (note 22.1)	**41,951**	49,262	**34,287**	37,451
	Other receivables	**2,634**	2,372	**1,062**	463
	Loans given to company officers (note 22.2)	**512**	243	**497**	188
		45,097	51,877	**35,846**	38,102
	Non-financial				
	Advances and prepaid expenses	**2,697**	3,422	**2,425**	3,009
	Fair valuation of corporate guarantees	**302**	709	**302**	709
		2,999	4,131	**2,727**	3,718
		48,096	56,008	**38,573**	41,820

(All figures in Sri Lankan Rupees thousands)

	As at 31st March	Group 2014	Group 2013	Company 2014	Company 2013
22.1	**Trade receivables**				
	Trade debtors	**42,998**	49,354	**35,208**	37,451
	Less: Provision for bad debtors	**(1,047)**	(92)	**(921)**	-
		41,951	49,262	**34,287**	37,451
22.2	**Loans given to company officers**				
	Balance as at the beginning of the year	**243**	200	**188**	158
	Loans granted during the year	**1,624**	1,273	**1,149**	760
	Amount recovered during the year	**(1,355)**	(1,230)	**(840)**	(730)
	Balance as at the end of the year	**512**	243	**497**	188
23	**CASH AND CASH EQUIVALENTS**				
	Cash at bank and in hand	**28,714**	31,837	**26,697**	29,312
	Placements with banking institutions	**5,027**	-	**-**	-
	Placements in government securities	**39,336**	41,544	**39,336**	41,544
		73,077	73,381	**66,033**	70,856

	As at 31st March	Group 2014	Group 2013	Company 2014	Company 2013
24.	**STATED CAPITAL**				
	Issued and fully paid				
	At the beginning of the year - 30,391,538 shares (27,352,385 shares as at 31st April 2012)	**515,170**	404,241	**515,170**	404,241
	Rights issue of shares	**-**	110,929	**-**	110,929
	At the end of the year (30,391,538 shares)	**515,170**	515,170	**515,170**	515,170

24.1 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 Standard (LKAS 39) - "Financial Instruments-Measurement and Recognition" require 'Financial Guarantee' of this nature to be fair valued, 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. 0.41mn (2013 - Rs.0.58 mn) was recognized in the statement of comprehensive income of the Company, under 'finance cost' on the amortization of the said benefit granted from the parent company.

	As at 31st March	Group 2014	Group 2013	Company 2014	Company 2013
25.	**CAPITAL RESERVE**				
	Revaluation reserve	**659,955**	659,955	**659,955**	659,955
	Capital accretion reserve	**15,144**	15,144	**15,144**	15,144
		675,099	675,099	**675,099**	675,099

25.1 Revaluation reserve

The revaluation reserve represents the surplus arising from the revaluation of freehold land and building of the Company and the Group. A subsequent decline in the carrying amount of the asset will be offset against a previous increase for the same asset which was credited to the revaluation surplus. A further decline is recognized as an expense in the Statement of 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	Group 2014	Group 2013	Company 2014	Company 2013
26.	**REVENUE RESERVES**				
	General reserve	**176**	176	**176**	176
	Retained earnings	**202,379**	152,194	**169,013**	114,371
		202,555	152,370	**169,189**	114,547

26.1 General reserves

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

(All figures in Sri Lankan Rupees thousands)

		Group 2014	Group 2013	Company 2014	Company 2013
	As at 31st March				
27.	**LOANS AND BORROWINGS**				
27.1	**Non-current liabilities**				
	Secured bank loans	**7,878**	16,446	**7,878**	16,446
		7,878	16,446	**7,878**	16,446
27.2	**Current liabilities**				
	Current portion of secured bank loans	**8,568**	8,568	**8,568**	8,568
		8,568	8,568	**8,568**	8,568
		16,446	25,014	**16,446**	25,014

		Currency	Nominal interest rate	Year of maturity	2014 Face value	2014 Carrying amount	2013 Face value	2013 Carrying amount
27.3	**Details of long-term borrowings - Group**							
	Pegasus Hotels of Ceylon PLC							
	Commercial Bank	LKR	9%	2016	16,446	**16,446**	25,014	25,014
					16,446	**16,446**	25,014	25,014

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 a corporate guarantee to Commercial bank of Ceylon PLC , in securing the borrowing facility as disclosed in note 27.3.

		Group 2014	Group 2013	Company 2014	Company 2013
	As at 31st March				
28.	**DEFERRED TAX (ASSET) / LIABILITY**				
	Balance as at the beginning of the year	**24,318**	17,681	**23,100**	17,451
	Charge for the year (note 28.1)	**4,423**	6,637	**4,472**	5,649
	Balance as at the end of year	**28,741**	24,318	**27,572**	23,100

	As at 31st March	Group 2014	Group 2013	Company 2014	Company 2013
28.1	**Charge for the year**				
	Arising from;				
	Property, plant and equipment	**3,035**	1,135	**3,024**	1,007
	Employee benefits	**(432)**	(262)	**(275)**	(279)
	Provisions	**11**	542	**-**	550
	Tax losses brought forward	**1,809**	5,222	**1,723**	4,371
		4,423	6,637	**4,472**	5,649
28.2	**Deferred tax assets**				
	Tax effect on employee benefits	**1,688**	1,256	**1,113**	838
	Tax effect on provisions	**-**	11	**-**	-
	Tax effect on tax losses	**29,576**	31,385	**28,899**	30,622
	Total deferred tax assets	**31,264**	32,652	**30,012**	31,460
28.3	**Deferred tax liability**				
	Tax effect on property , plant and equipment	**60,005**	56,970	**57,584**	54,560
	Total deferred tax liabilities	**60,005**	56,970	**57,584**	54,560
	Net deferred tax liability	**28,741**	24,318	**27,572**	23,100

	As at 31st March	Group 2014	Group 2013	Company 2014	Company 2013
29.	**EMPLOYEE BENEFITS**				
29.1	The movement in the liabilities recognized in the statement of financial position is as follows				
	Balance as at the beginning of the year	**10,465**	8,280	**6,986**	4,657
	Provision for the year (note 29.2)	**3,844**	6,030	**2,538**	2,572
	Payments made during the year	**(246)**	(3,845)	**(246)**	(243)
	Balance as at the end of the year	**14,063**	10,465	**9,278**	6,986
29.2	**Provision for the year**				
	The amounts recognized in the statement of comprehensive income are as follows;				
	Current service cost	**1,622**	1,248	**1,209**	949
	Interest cost	**1,047**	828	**699**	466
	Actuarial losses	**-**	3,954	**-**	1,157
		2,669	6,030	**1,908**	2,572
	The amount recognized in the statement of other comprehensive income is as follows;				
	Actuarial losses	**1,175**	-	**630**	-
		1,175	-	**630**	-
	Provision for the year	**3,844**	6,030	**2,538**	2,572

(All figures in Sri Lankan Rupees thousands)

The Employee benefits as at 31 March 2014 amounting to Rs. 9,278,019/- and Rs. 14,063,146/- (2013 – Rs. and Rs. 6,985,842/- 10,465,306/-) for the Company and the Group respectively are made based on an actuarial valuation carried out by Mr. M. Poopalanathan 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	**Group 2014**	**Group 2013**	**Company 2014**	**Company 2013**
30.	**Trade and other payables**				
	Financial				
	Trade payables	**14,276**	17,179	**10,572**	9,364
	Other payables	**15,540**	13,783	**10,182**	11,286
	Amounts due to related companies (note33.5)	**19,949**	51,516	**19,949**	51,516
		49,765	82,478	**40,703**	72,166
	Non financial				
	Deposits and advances	**10,088**	3,039	**8,568**	1,933
	Provisions and accrued expenses	**15,389**	12,683	**12,525**	11,687
		25,477	15,722	**21,093**	13,620
		75,242	98,200	**61,796**	85,786

	As at 31st March	**Group 2014**	**Group 2013**	**Company 2014**	**Company 2013**
31.	**COMMITMENT AND CONTINGENCIES**				
31.1	**Capital commitments**				
	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 from court stating that he is co-owner of 127.5 perches of the land that belonged to Pegasus Hotels of Ceylon PLC. The outcome of the matter is still pending. However, the Company is confident that it can establish title to the said land. In any case, the claimed land extent falls within the 1,251 perches of land acquired by the government for the fisheries harbour project and detailed under note 17.10.

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

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 in deposits with banking institutions and in government securities.

32.1.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows.

(All figures in Sri Lankan Rupees thousands)

	Group	
As at 31st March	**2014**	**2013**
Compensation receivable (note 20)	**109,906**	98,441
Trade and other receivables (note 22)	**45,097**	51,877
Cash and cash equivalents (note 23)	**73,077**	73,381
	228,080	223,699

a) Compensation receivable

As disclosed in detailed 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 4 April 2009 conducted 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 were resolved, the Company is of the view that it will take upto 8-10 years 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 rates 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.

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 analysed 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 and other receivables relate mainly to the Group's 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 pre-payment basis.

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

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

	Group	
As at 31st March	**2014**	**2013**
Corporate customers	**3,613**	7,727
Tour operators	**37,108**	39,209
Others	**1,230**	2,326
	41,951	49,262

Impairment of receivables

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

	Group	
As at 31st March	**2014**	**2013**
Neither past due nor impaired		
1–30 days	**19,941**	26,229
31–90 days	**17,402**	19,754
91–120 days	**1,525**	1,503
121 above	**3,083**	1,776
	41,951	49,262

Allowance for impairment of Rs. 1.05 mn (2013 - Rs. 0.1mn) has been made in respect of trade and other receivables, as at the year end.

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

c) Cash and cash equivalents

The Group held cash and cash equivalents of Rs. 73.1 mn at 31 March 2014 (2013: Rs.73.4 mn), 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(lka) to AA–(lka), based on Fitch Ratings.

Placement in government securities primarily comprise of short term repo investments, extending to a period less than 3 months.

(All figures in Sri Lankan Rupees thousands)

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 to be 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.

31 st March 2014	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	16,446	**16,446**	1,428	7,140	7,878	-	-
Trade payables	14,276	**14,276**	14,276	-	-	-	-
Other payables	15,540	**15,540**	15,540	-	-	-	-
Amount due to related parties (note 33.5)	19,949	**19,949**	19,949	-	-	-	-
	66,211	**66,211**	51,193	7,140	7,878	-	-

31 st 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	25,014	**25,014**	1,428	7,140	8,568	7,878	-
Trade payables	17,179	**17,179**	17,179	-	-	-	-
Other payables	13,783	**13,783**	13,783	-	-	-	-
Amount due to related parties (note 33.5)	51,516	**51,516**	51,516	-	-	-	-
	107,492	**107,492**	83,906	7,140	8,568	7,878	-

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.

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. 73.1 mn (2013 - Rs. 73.4 mn)

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 facility amounting to Rs. 2.5 mn as at 31 st March 2014.

In addition, the Group have 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 will affect 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 optimising 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 will fluctuate, 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, hence exposed to 'Currency risk'.

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 (Corporates 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 rate 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 groups 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 as reported to the Management of the Group was as follows.

(All figures in Sri Lankan Rupees thousands)

As at 31st March	Company 2014	2013
Variable rate instruments		
Financial assets	**44,363**	41,544
Financial liabilities	**(19,949)**	(51,516)
	24,414	(9,972)
Fixed rate instruments		
Financial liabilities	**(16,446)**	(25,014)
	7,968	(34,986)

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) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Group	Profit / (loss) 1% Increase	1% Decrease
31st March 2014		
Variable rate instruments	(244)	244
31st March 2013		
Variable rate instruments	100	(100)

32.4 Accounting classifications and fair values

Financial instruments measured subsequently on the ongoing basis either at fair value or amortised cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table analyses the fair value of financial instruments together with the carrying amounts shown in the statement of financial position.

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

32.5 Fair value vs carrying amounts

31 st March 2014	Trading	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	-	109,906	-	-	109,906	109,906
Cash and cash equivalents	-	-	73,077	-	-	73,077	73,077
Trade and other receivables	-	-	45,097	-	-	45,097	45,097
	-	-	228,080	-	-	228,080	228,080
Loans and borrowings	-	-	-	-	16,446	16,446	16,446
Trade and other payables	-	-	-	-	49,765	49,765	49,765
	-	-	-	-	66,211	66,211	66,211

31 st 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

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 entity

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 of the Company.

(All figures in Sri Lankan Rupees thousands)

	Group		Company	
	2014	**2013**	**2014**	**2013**
33.2.1 Key management personnel compensation				
Short-term employee benefits	**12,821**	9,717	**10,362**	7,630
Post-employment benefits	**325**	275	**253**	214
Termination benefits	**-**	-	**-**	-
Non-cash benefits	**-**	-	**-**	-
Other long-term benefits	**-**	-	**-**	-
	13,146	9,992	**10,615**	7,844

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 2014	% equity interest 2013
Equity Hotels Limited	99.9%	99.9%

33.4 Transactions with Related Companies

Name and the nature of the relationship	Name/s of the common Director/s	Nature of transactions	Value of the transaction Group 2014	Group 2013	Company 2014	Company 2013
Parent company						
Carson Cumberbatch PLC	H. Selvanathan M. Selvanathan D.C.R. Gunawardena	Settlement of amount payable on the acquisition of Equity Hotels Limited	-	109,638	-	109,638
		Short-term advances obtained	-	86,703	-	68,053
		Interest on short-term advances obtained	**5,256**	4,188	**5,014**	3,463
		Settlements made on short-term advances provided	**31,567**	39,375	**31,567**	20,000
		Proceeds from right issue of share	-	106,644	-	106,644
Subsidiary						
Equity Hotels Limited	D.C.R. Gunawardena P.M. Withana	Reimbursement of expenses received	-	-	**3,227**	3,624
		Disposal of property, plant and equipment	-	-	**82**	671
		Dividend received	-		**8,945**	1,481
Fellow subsidiaries						
Carsons Management Services (Private) Limited	H. Selvanathan M. Selvanathan	Interest on short-term advances obtained	-	4,491	-	3,632
(CMSL)	K.C.N. Fernando (Alternate for M. Selvanathan)	Settlements made on short-term advances provided	**16,803**	102,046	**13,846**	71,087
		Computer charges	**150**	150	**150**	150
		Secretarial fees	**360**	360	**300**	300
		Support Service fees	**5,895**	6,367	**4,871**	5,126
		Internal audit services	**1,770**	2,520	**1,770**	2,520

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

(All figures in Sri Lankan Rupees thousands)

Company	Purpose	Outstanding balance 2014	2013
Pegasus Hotels of Ceylon PLC	Term loan facility from Commercial Bank of Ceylon PLC	**16,446**	25,014
Equity Hotels Limited	Overdraft facility from Commercial Bank of Ceylon PLC	**-**	-

		Group		Company	
	As at 31st March	2014	2013	2014	2013
33.5	**Amounts due to related companies**				
	Carson Cumberbatch PLC	**19,949**	51,516	**19,949**	51,516
		19,949	51,516	**19,949**	51,516

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 a payment of first and final dividend of Rs. 0.50 per ordinary share for the year ended 31 March 2014 amounting to Rs. 15,195,769/= (2013 - 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 recognized as a liability as at 31st March 2014.

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

Five Year Summary

(All figures in Sri Lankan Rupees thousands)

For the year ended / As at 31st March	2014 Group	2013 Group	2012 Group	2011 Group	2010 Company
Trading Results					
Revenue	**452,205**	493,184	425,975	289,104	173,852
Profit from operations	**67,913**	151,487	131,205	69,475	19,900
Net finance income / (cost)	**7,419**	6,687	4,759	(10,359)	(9,859)
Profit / (loss) from operations after finance cost	**75,332**	158,174	135,964	59,116	10,041
Income taxation	**(8,776)**	(16,211)	(15,231)	(10,266)	2,057
Profit / (loss) after taxation	**66,556**	141,963	120,733	48,850	12,098
Shareholders' Funds					
Stated Capital	**515,170**	515,170	404,241	398,889	398,889
Reserves	**877,654**	827,469	700,702	607,552	422,536
Shareholders' funds	**1,392,824**	1,342,639	1,104,943	1,006,441	821,425
Assets Employed					
Property, plant and equipment	**1,171,770**	1,147,402	1,079,292	907,467	741,132
Intangible assets	**115,287**	115,287	115,287	115,287	-
Deferred tax assets	**-**	-	-	2,304	4,295
Compensation Receivable	**109,906**	98,441	88,264	189,463	189,463
Non Current assets	**1,396,963**	1,361,130	1,282,843	1,214,521	934,890
Current assets	**134,009**	144,370	150,141	101,711	50,605
Current liabilities	**(87,466)**	(111,632)	(277,066)	(269,699)	(114,679)
Working capital	**46,543**	32,738	(126,925)	(167,988)	(64,074)
Assets employed	**1,443,506**	1,393,868	1,155,918	1,046,533	870,816
Non-current liabilities					
Loans and borrowings	**(7,878)**	(16,446)	(25,014)	(34,182)	(47,367)
Employee benefits	**(14,063)**	(10,465)	(8,280)	(5,910)	(2,024)
Deferred tax liabilities	**(28,741)**	(24,318)	(17,681)	-	-
Net assets	**1,392,824**	1,342,639	1,104,943	1,006,441	821,425
Profitability Ratios					
Profit margin (%)	**15%**	29%	28%	17%	7%
Return on shareholders' funds (%)[1]	**5%**	11%	11%	5%	1%
Liquidity Ratios					
Current ratio (times)	**1.53**	1.29	(1.85)	(2.66)	(2.27)
Debt equity (%)	**2.61**	5.70	19.86	25.77	16.79
Investor Ratios					
Earnings per share (Rs.)[2]	**2.19**	4.68	4.39	1.78	0.44
Dividend per share (Rs.)	**0.50**	0.50	0.50	0.30	-
Net assets per share (Rs.)	**45.83**	44.18	40.40	36.80	30.03
Market price per share (Rs.)	**37.00**	36.90	38.00	71.00	43.00
Dividend payout (%)	**22.83**	10.68	11.39	16.85	-
Hotel Operations					
Occupancy (%)	**47**	58	59	59	41

Notes
1 Profit attributable to shareholders divided by shareholders' funds (total of stated capital and reserves).
2 Profit attributable to shareholders divided by the weighted average number of ordinary shares outstanding.
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 begining on or after 1st January 2012.

Statement of Value Added

For the year ended 31st March	2014		2013	
Revenue	**452,205**		493,184	
Other income including interest income	**22,214**		25,296	
Cost of materials and services bought from outside	**(233,021)**		(290,260)	
	241,398		228,220	
Distributed as follows:		%		%
To employees				
as remuneration	**110,394**	46	92,837	41
To government				
as taxation*	**4,353**	2	9,574	4
To providers of capital				
as dividend	**15,196**	6	15,196	7
as interest and other charges	**7,563**	3	11,942	5
Retained in the business				
as deferred taxation	**4,423**	2	6,637	3
as notional adjustments on LKAS / SLFRS	**11,527**	5	10,222	4
as depreciation	**36,582**	15	26,540	12
as profit for the year	**51,360**	21	55,272	24
	241,398	100	228,220	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.

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

2. ORDINARY SHAREHOLDERS

2.1 Number of Shareholders

	As at 31st March 2014	2013
Number of Shareholders	**2,308**	2196

2.2. Distribution and composition of shareholders

The number of shares held by non-resident shareholders as at 31st March 2014 was 132,187 (2013 – 133,383) which amounts to 0.43% (2013 – 0.44%) 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	2,037	319,315	1.05	18	5,684	0.01	2,055	324,999	1.06
1001-10,000	211	622,017	2.05	3	11,324	0.04	214	633,341	2.09
10,001-100,000	34	846,158	2.78	3	115,179	0.38	37	961,337	3.16
100,001-1,000,000	1	180,903	0.60	-	-	-	1	180,903	0.60
Above 1,000,000	1	28,290,958	93.09	-	-	-	1	28,290,958	93.09
Total	**2,284**	**30,259,351**	**99.57**	**24**	**132,187**	**0.43**	**2,308**	**30,391,538**	**100.00**

Categories of Shareholders	No. of Shareholders	No. of shares	%
Individuals	2,239	1,572,327	5.17
Institutions	69	28,819,211	94.83
Total	**2,308**	**30,391,538**	**100.00**

3. MARKET PERFORMANCE - ORDINARY SHARES

For the year ended 31st March	2014	2013
As at 31st March (Rs.)	**37.00**	36.90
Highest (Rs.)	**43.00**	54.50
Lowest (Rs.)	**33.00**	29.00
Value of shares traded (Rs.)	**21,304,933**	66,911,676
No. of shares traded	**555,038**	1,602,348
Volume of transactions (Nos.)	**1,430**	2,224

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 1,124,486,906/- as at 31st March, 2014 (2013 - Rs. 1,121,447,752/-).

5. PUBLIC HOLDING

The percentage of ordinary shares held by public as at 31st March 2014 was 6.90% (2013 – 6.90%)

6. DIVIDEND

The Directors have recommended a first and final dividend of Rs. 0.50 per share for the year ended 31st March 2014 (2013 – Rs. 0.50 per share).

7. VALUE OF PROPERTY - LAND AND BUILDING

Location	2014 Extent (in hectares)	Market value 2014 Rs. '000	Date of professional valuation
Pegasus Reef Hotel, Wattala	5.46	1,011,758	31st March 2012

8. NUMBER OF EMPLOYEES

The number of employees at the end of the year was 168 and 238 (2013 - 177 and 245) for the Company and the Group respectively.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the FORTY EIGHTH Annual General Meeting of PEGASUS HOTELS OF CEYLON PLC will be held on Tuesday 17th day of June 2014 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 2014, together with the Report of the Auditors thereon.

2. To declare a dividend as recommended by the Directors.

3. To re-elect Mr. H. 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. 7of 2007 shall not be applicable to Mr. S. Nagendra who is 74 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, 12th May 2014

Notes

1. A member is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. A Form of Proxy accompanies this notice.
2. The completed Form of Proxy must be deposited at the Registered Office, No.61, Janadhipathi Mawatha, Colombo 1, not later than 3.30 p.m. on 15th day of June 2014.
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.

Notes

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 48th Annual General Meeting of the Company to be held on Tuesday the 17th day of June 2014 at 3.30 p.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala and any adjournment thereof and at every poll which may be taken in consequence thereof.

		For	Against
1.	To adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2014, together with the Report of the Auditors thereon.		
2.	To declare a dividend of Rs. 0.50 per share as a first and final dividend for the financial year ended 31st March 2014, as recommended by the Directors		
3.	To re-elect Mr. H. Selvanathan, who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.		
4.	To re-appoint Mr. S. Nagendra, who is over Seventy years of age as a Director of the Company		
5.	To re-appoint M/s KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act No. 7 of 2007 and to authorize the Directors to determine their remuneration.		

Signed this ……… day of ………………………………Two Thousand and Fourteen.

………………………………………
Signature/s

Notes
1. * Please delete the inappropriate words.
2. 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
3. A shareholder is not entitled to appoint more than one proxy on the same occasion.
4. Instructions are noted on the reverse hereof.

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy after filling in legibly your full name and address, by signing in the space provided. Please fill in the date of signature.

2. If you wish to appoint a person other than the Directors as your proxy, please insert the relevant details in the space provided overleaf.

3. In terms of Article 54 of the Articles of Association of the Company:

   (1) Any Shareholder entitled to attend and vote at a meeting shall be entitled to appoint another person (whether a Shareholder or not) as his proxy to attend and vote instead of him. A proxy so appointed shall have the same right as the Shareholder to vote on a show of hands or on a poll and to speak at the meeting.

   (2) An instrument appointing a proxy shall be in writing and :

      (i) in the case of an individual shall be signed by the appointor or by his attorney; and
      (ii) in the case of a corporation shall be either under its common seal or signed by its attorney or by an authorized 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 authorized 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 2014.

Please fill in the following details

Name	:	....
Address	:	....
		....
Jointly with	:	....
Share folio no.	:	....

Corporate information

Name of the Company

Pegasus Hotels of Ceylon PLC
(A Carson Cumberbatch Company)

Company Registration No.

PQ 40

Legal Form

A Public Quoted Company with Limited Liability incorporated in Sri Lanka in 1966

Parent Company

Carson Cumberbatch PLC

Directors

Chandima Gunawardena (Chairman)
Mano Selvanathan
Hari Selvanathan
Sega Nagendra
P. M. Withana

Alternate Director

K.C.N. Fernando (for M. Selvanathan)

Place of Business

Santha Maria Mawatha, Wattala.

Bankers

Commercial Bank of Ceylon PLC
Standard Chartered Bank
Sampath Bank PLC
Deutsche Bank A.G.

Auditors

Messrs. KPMG
Chartered Accountants
No 32A, Sir Mohamed Macan Marker Mawatha,
Colombo 03,
Sri Lanka.

Managers & Secretaries

Carsons Management Services (Private) Limited
No. 61, Janadhipathi Mawatha,
Colombo 01.
Telephone No: +94-11- 2039200
Fax No: +94-11- 2039300

Registered Office

No. 61, Janadhipathi Mawatha,
Colombo 01.
Sri Lanka
Telephone No: +94-11-2039200
Fax No: +94-11-2039300

Committee of Management

P. M. Withana
N. Naganathan
K. Gunathilaka
M. Munasinghe
R. Jayawickrama
D. Fernando
S. Kariyawasam
S. Suraweera
K. Jayathilake

Hotel Website

www.pegasusreefhotel.com

Corporate Website

www.carsoncumberbatch.com

Designed & Produced by emagewise
Printed by Printel (Pvt) Ltd

PEGASUS REEF

the city resort that's just right !

www.pegasusreefhotel.com