THE PERFECT Blend

PEGASUS REEF
the city resort that's just right!

PEGASUS HOTELS OF CEYLON PLC
A Carson Cumberbatch Company

Annual Report 2015/2016

Contents

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THE PERFECT *Blend*

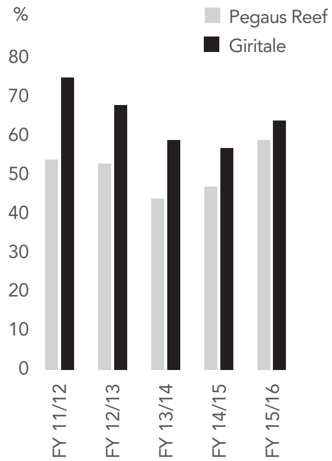
Pegasus Reef is a four star hotel located between the Colombo airport and the city centre, making it the preferred choice for both business travellers and holiday-makers from across the globe. This beachfront hotel offers luxury accommodation, fine dining and a range of leisure activities, together with excellent banquet and conference services. Pegasus is owned and managed by the Carson Cumberbatch Group which also manages Giritale Hotel, a three star rated resort sited in historic Polonnaruwa, within the Cultural Triangle. Guests can take their pick of outdoor activities, from bird watching to jungle safaris and heritage tours. Visitors to Giritale Hotel can experience the scenic beauty of the Giritale Tank and explore the Minneriya National Park nearby as well. It's also the ideal transit point for excursions to scenic beaches of Eastern Sri Lanka.

The Pegasus Reef Hotel and Giritale Hotel,

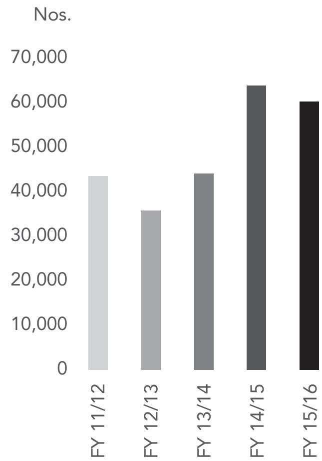
Experience a perfect blend of business and pleasure.

Financial Highlights

(All figures in Sri Lankan Rupees thousands)	2016	2015
Revenue	**582,209**	510,255
Gross profit	**263,782**	229,626
Profit from operations	**109,177**	92,365
Profit before taxation	**133,697**	110,326
Profit for the year	**120,675**	95,868
Earnings per share (Rs.)	**3.97**	3.15
Dividend per share (Rs.)	**0.50**	0.50
Total assets	**1,722,364**	1,589,933
Shareholders' equity	**1,568,253**	1,472,421
Net assets per share (Rs.)	**51.60**	48.45
Financial ratios		
Gross profit (%)	**45**	45
Net profit (%)	**21**	19
Return on equity (%)	**8**	7
Current ratio (times)	**2.9**	2.7
Market price per share (Rs.)	**31.50**	41.00
Occupancy (%)	**60**	49



Occupancy



Total Number of Banquet Guests Served

Pegasus Hotels of Ceylon PLC recorded a Revenue of Rs. 582 Mn in FY 15/16, reflecting an increase of 14.1% compared to FY 14/15

Occupancy

64%
GIRITALE HOTEL

59%
PEGASUS REEF HOTEL

60%
Group occupancy increased by 11% during the year compared to that of the previous twelve months, contributing positively towards overall revenue

957 Mn
MARKET CAPITALISATION AS AT 31ST MARCH 2016

1,722 Mn
GROUP TOTAL ASSETS FOR FY 15/16

120.7 Mn
GROUP PROFIT FOR FY 15/16

Chairman's Statement

Group's occupancy for the period improved considerably to 60% from an average of 49% in the previous financial year.

TOURIST ARRIVALS HAVE BEEN RISING STEADILY SINCE THE END OF THE WAR IN 2009, GROWING IN DOUBLE DIGITS EACH YEAR...

Dear Shareholder,

On behalf of the Board of Directors, it is with great pleasure that I present the Annual Report and Consolidated Audited Financial Statements of Pegasus Hotels of Ceylon PLC for the year ended 31st March 2016.

I am pleased to note that the group posted commendable results for the year concluded notwithstanding the challenges faced.

For a country once ravaged by war, Sri Lanka has truly come a long way to achieve admirable economic growth in a short span of time. Fuelled by this transformation, the country's Tourism & Leisure Sector too has gone through its own evolution over the years to emerge strong as a significant contributor to the national economy. Today, it is Sri Lanka's third largest foreign exchange earner with receipts of USD 2,981 Million in 2015, behind only to overseas employed worker's remittances and apparel exports.

Tourist arrivals have been rising steadily since the end of the war in 2009, growing in double digits each year. In line with this trend, arrivals for the year 2015 increased by an impressive 17.8% against 2014. Considering the prevailing arrivals pattern and the positive economic developments envisaged to take place, the outlook of the industry appears to be fairly optimistic.

But the journey ahead will not be entirely free of challenges. To begin with, as a tourist destination Sri Lanka is currently suffering through an identity crisis with nothing distinct to offer, in part due to being caught up in a set of outdated visions and strategies that are well beneath the technology oriented fast paced modern environment. This has left us lagging behind our more sophisticated and successful regional peers. Further, the lack of 'things to do' in the country from a visitor's perspective has resulted in mounting costs in the form of missed opportunities for the industry.

In addition to such deep-rooted fundamental issues, the rapid increase in substandard supplementary accommodation venues poses a more immediate threat to the industry. Majority of such venues comprise of more informal establishments such as home stays and small scale guest houses that are unregulated, with no set pricing or quality standards to conform to. This may result in Sri Lanka being labelled as an unsafe budget destination.

Amidst an environment, the Group's occupancy for the period improved considerably to 60% from an average of 49% in the previous financial year, driven by increased occupancy in both Pegasus and Giritale hotels. This, coupled with strong F&B Income growth led to a 14.1% Year-on-Year increase in consolidated Revenue for the period albeit a relative decline in room rates.

For the twelve months ended 31st March 2016, consolidated profitability stood at Rs. 120.7 Million, compared to Rs. 95.9 Million in the preceding financial year, depicting a year-on-year growth of 25.9%.

During the year, the Pegasus Reef hotel launched its exclusive sea food restaurant. Named 'The Fishery', it offers a unique fine dining experience to its patrons in a relaxed yet elegant setting. The restaurant is a great fit to the hotel's overall strategy and holds significant earnings potential going forward.

To be in par with its vision to provide a superior guest experience, the hotel will continue its refurbishment drive in the upcoming financial year as well. The proposed plan for FY 16/17 includes renovation of 81 rooms, the kitchen area and the banquet office. Scheduled from May to November 2016, the room refurbishment is designed to be more of an upgrade in interior and amenities. In addition, with the objective of improving overall quality of service, during the year, the hotel allocated considerable funds for staff training & development activities and maintained focus on retaining and recruiting skilled professionals.

Where the Giritale Hotel is concerned, the management is currently evaluating the feasibility of a soft refurbishment at the Hotel.

Mr. Asoka Gunasekera will step down from the Board at the conclusion of the Annual General Meeting. Whilst thanking him for his valuable contribution to the Company, I wish him all the success in his future endeavours. I wish to thank my colleagues on the Board, the members of the Audit Committee, Remuneration Committee, Nomination Committee and the newly appointed Related Party Transactions Review Committee, for the support and advice they have rendered throughout. Last but not least, I take this opportunity to thank the staff teams of both hotels for their dedication and commitment in ensuring that our leisure business remains profitable.

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

Colombo
12th May 2016

For the twelve months ended 31st March 2016, consolidated profitability stood at Rs. 120.7 Million, compared to Rs. 95.9 Million in the preceding financial year, depicting year-on-year growth of 25.9%.

STAFF OF PEGASUS REEF HOTEL

WE VALUE OUR PEOPLE; TOGETHER THEY FORM AN UNMATCHED TEAM WHOSE DEDICATION POWERS OUR COMPANY'S SUCCESS. THEIR DIVERSE TALENTS AND STRENGTHS CONTRIBUTE THE HUMAN BLEND TO OUR HOTEL'S OFFERING, ENABLING HIGH PERFORMANCE IN ALL WE DO.

Management Discussion & Analysis

> Arrivals from Western Europe, our key source market as of present, amounted to 31% at total visits in 2015. But the South and East Asian regions, currently occupying second and third ranks respectively, showed stronger growth during the year led by arrivals from India and China.

COMPARED TO 1.5 MILLION ARRIVALS IN THE PREVIOUS YEAR SRI LANKA WELCOMED A TOTAL OF 1.8 MILLION TOURISTS IN 2015, MARKING AN IMPRESSIVE 17.8% INCREASE YEAR-ON-YEAR...

Industry Overview

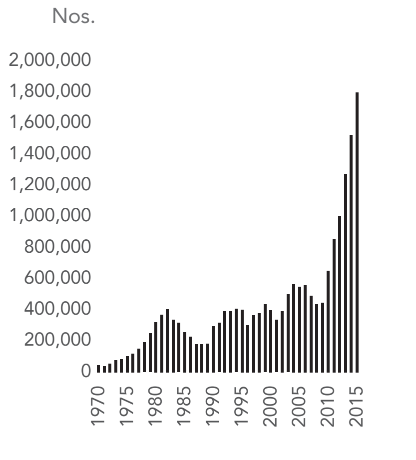
Compared to 1.5 Million arrivals in the previous year Sri Lanka welcomed a total of 1.8 Million Tourists in 2015, marking an impressive 17.8% increase year-on-year. In line with the trend witnessed historically, Leisure was the primary purpose of visit for majority of the Travellers in 2015.

Arrivals from Western Europe, our key source market as of present, amounted to 31% of total visits in 2015. But the South and East Asian regions, currently occupying second and third ranks respectively, showed stronger growth during the year led by arrivals from India and China.

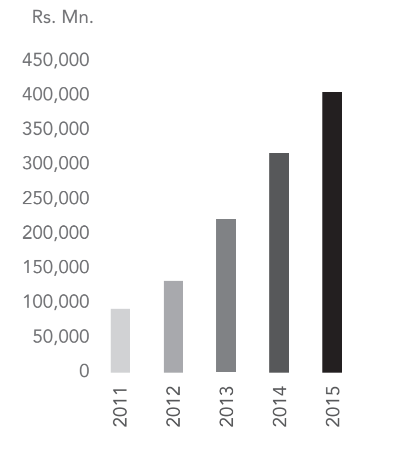
With the likes of large scale development projects such as the Western Region Megapolis plan and the Port City expansion in the pipeline, opportunities in the spheres of economic and infrastructure development appear to be in plenty for Sri Lanka. This, coupled with the overall optimistic outlook for tourism in the country, spells out luminous prospects for the sector going forward.

However, there still remains a fair bit of ground work to be addressed. At the outset, Sri Lanka currently lacks a clear vision on how it wants to be perceived as a Tourist destination, in spite of being abundantly blessed with varied resources. This is a considerable disadvantage to our country, especially in the new age of travel where our peers are capitalizing on segments such as adventure tourism, Sports Tourism, Cruise and marine tourism etc. Peripheral issues stemming from this include, ambiguity in developing infrastructure, skills and specific positioning strategies required.

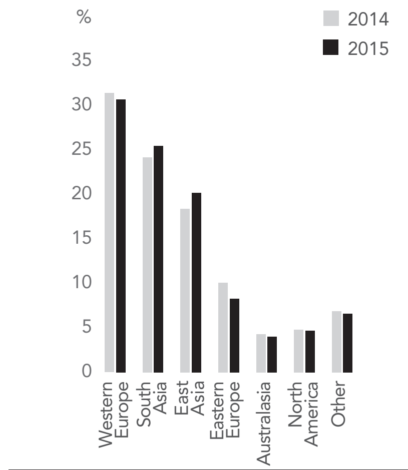
Further, the rise in ungraded accommodation, mostly informal in nature, poses a threat to the industry due to the disparities in quality and safety standards offered by such establishments.



Tourist Arrivals to Sri Lanka



Gross Tourist Receipts



Composition of Arrivals by Region

Operational Review

Pegasus Reef Hotel

The management's efforts to strengthen occupancy were rewarded during the year, as occupancy improved to 59% against 47% recorded in the previous financial year. In order to further reinforce occupancy, the team will continue to maintain dialogue with international travel agents, participate in trade fairs in key markets, and strategise and implement new initiatives.

Despite increased occupancy, the annual average room rate declined marginally in light of the prevailing competitive environment. Located in the interiors of Wattala, in between the Bandaranayake International Airport and the City of Colombo, the surrounding of Pegasus Reef comprises of more supplementary accommodation venues than graded establishments; a fact that has intensified price competition further.

Accordingly, the management's focus is on enhancing the hotel's value proposition with more differentiated offerings. To this end, the Pegasus Reef hotel embarked on a refurbishment drive two years ago, with the upgrade of the main banquet hall. Following its success, the hotel launched a brand new sea food restaurant during the year at a total investment of Rs. 49.9 Million. Named 'The Fishery', the restaurant is built to an open-air theme and can house up to 60 pax. Frequently patronized by both tourists and locals alike, the business showed promise during the year despite being in operation for only six months as at the year end.

For the upcoming financial year, the hotel has planned for comprehensive refurbishments, comprising of upgrade in rooms, kitchen area and

For the upcoming financial year, the hotel has planned for comprehensive refurbishments, comprising of upgrade in rooms, kitchen area and the banquet office.

Management Discussion & Analysis

Once completed, the refurbishment will enhance the hotel's overall service offering and enable Pegasus Reef to maintain its current market position amidst growing competition.

DRIVEN BY HIGHER REVENUE, NET PROFIT OF THE GROUP AUGMENTED BY 25.9% YEAR-ON-YEAR, TO RS. 120.7 MILLION FOR THE YEAR ENDED 31ST MARCH 2016...

the banquet office. The project will be mainly funded from accumulated operational cash flows. Of the 140 rooms in the hotel, 81 rooms will be refurbished initially, at an estimated cost of Rs. 200 Million. Where the banquet office renovation is concerned, it will certainly be of value to the hotel's growing MICE business. The investment to refurbish the kitchen area, which has not been upgraded since the Tsunami, has been budgeted at Rs. 15 Million. The period scheduled for refurbishment is May to November 2016, during which time the bulk of the rooms will not be operational. As a result, performance of the upcoming financial year will be affected to an extent. The Banquet Halls however, will be in operation throughout the year.

Once completed, the refurbishment will enhance the hotel's overall service offering and enable Pegasus Reef to maintain its current market position amidst growing competition.

Giritale Hotel

Situated in a more serene environment in a city in cultural heritage and natural resources, the Giritale hotel registered growth in both occupancy and average room rate during the year. Occupancy for the period was at 64%, depicting an increase of 7% compared to that of Financial Year 2014/15.

Given its picturesque surrounding enriched with wildlife, the hotel has immense potential as an eco-tourist destination. Whilst this is an area we are hoping to develop in the future, the management is currently focused on upgrading the hotel's service standards. Thus, refurbishment options to this effect are currently being evaluated.

Financial Review

At company level, Pegasus Reef Hotel reported topline growth of 13.9% for the twelve months in review, supported by improved room revenue and F&B income. The increase in room revenue came in spite of a decline in average room rates due to the prevailing competitive environment. Higher F&B income for the year is mainly attributable towards positive performance by the banquet segment, which has shown promising results since renovation of the main hall in 2014 and revenue from the seafood restaurant.

For the financial year concluded, the company reported an overall profit of Rs. 110.5 Million, which is an increase of 11.9% over that of financial year 14/15, fuelled by higher revenue on the main.

For the year ended 31st March 2016, Pegasus Hotels of Ceylon PLC recorded consolidated Revenue of Rs. 582.2 Million. Relative to the corresponding twelve months, this is an increase of 14.1%, driven by strong growth in Room and F&B turnover. At Rs. 302.8 Million for the year, room revenue registered year-on-growth of 16.8% on the back of higher occupancy. The improvement in F&B revenue is mainly attributable towards the rise in banquet income, which forms bulk of F&B receipts.

Stemming from expenses incurred for promotion of the new sea food restaurant at Pegasus Reef, group selling and promotional cost witnessed a sharp increase during the year. The impact of this however was negated by the positive movement in turnover. Accordingly, Pegasus Hotels of Ceylon PLC reported an 18.2% year-on-year increase in operational profit, which stood at Rs. 109.2 Million for the period.

Given the impact of zero finance cost and increased finance income, group net finance income for the twelve months under review increased by 28.5% to Rs. 24.5 Million. The growth in finance income was largely led by a Rs. 4.1 Million year-on-year increase in gain from change in fair value of short term financial instruments and a Rs. 1.5 Million increase in gain from unwinding of discounting on compensation receivable as elaborated in Note 14.3 to the accounts.

Driven by higher revenue, net profit of the group augmented by 25.9% year-on-year, to Rs. 120.7 Million for the year ended 31st March 2016.

In an environment consisting of both opportunities and challenges, the Group's Strategy is to capitalize on the strengths of each of its properties. With the upcoming refurbishment plan we believe that the Pegasus Reef hotel will be well equipped to face competition and possibly gain from the growing tourist arrivals to the country. For Giritale Hotel, the plan is to opt for a soft refurbishment and upgrade the hotel's current offering.

Carsons Management Services (Private) Limited
Managers

12th May 2016

STAFF OF GIRITALE HOTEL

THESE ARE OUR ACHIEVERS, THE TEAM OF PEOPLE WHOSE SPIRIT AND COMMITMENT HELPS OUR COMPANY PERFORM BETTER EVERY YEAR. THEIR SKILLS AND ENERGY CREATE THE PERFECT BLEND THAT DRIVES US TO BE THE BEST WE CAN BE.

Profiles of Directors

CHANDIMA GUNAWARDENA

Chandima Gunawardena serves as a Non-Independent, Non-Executive Director of 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, Deputy Chairman of Carson Cumberbatch PLC and 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 - Resigned w.e.f. 15th November 2015

Mano Selvanathan holds a Bachelors Degree in Commerce and is the Chairman of Sri Krishna Corporation (Private) Limited, Ceylon Finance & Securities (Private) Ltd. and Selinsing PLC and is a Group Director of most Companies in the Carson Cumberbatch Group in Sri Lanka, Indonesia, Malaysia and Singapore 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.

Profiles of Directors

Senior Director & Financial Consultant of CML-MTD Construction Ltd., Executive Chairman Travelserv Ltd., Travelon Ltd and Travelon Management Services Ltd. He is also Chairman and 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) and present Council Member.

Former Past President of the Sri Lanka Pakistan Business Council and Past President of the Sri Lanka - Benelux Business Council and present Council member. Past President of the Chartered Management Institute-UK, Sri Lanka Branch.

Served as an Executive Committee member of The Ceylon Chamber of Commerce and former Chairman of the Imports Section of The Ceylon Chamber of Commerce.

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

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.

MAHENDRA DAYANANDA

Mahendra Dayananda is an Independent Non-Executive Director of Bukit Darah PLC and Nestle Lanka PLC. He was a former Non - Executive Director of Delmege Ltd. An expert on economic issues, he was until recently the Chairman of the Sri Lanka Business Development Centre.

Former Chairman of the Ceylon Chamber of Commerce, he chaired the Monetary Policy Consultative Committee – Central Bank of Sri Lanka and continues to chair several organisations such as Total Tea Concepts (Private) Limited and Indo Asia Teas (Private) Limited. He is the Resident Representative of Gover Horowitz & Blunt Ltd, United Kingdom and is also the Honorary Consul for the Republic of Benin in Sri Lanka.

ASOKA DE. Z. GUNASEKERA - Will step down from the Board at the conclusion of the AGM.

Asoka Gunasekera is a Director of Guardian Capital Partners PLC. He also serves as Alternate Director to Mr. I.W. Senanayake (Chairman) of IWS Holdings (Pvt) Ltd and in most IWS Holdings Group companies. Past Chairman of the National Chamber of Commerce of Sri Lanka and Past President of the Ceylon National Chamber of Industries.

He is a Past International Director and a Board Appointee of Lions Clubs International and was also a Member of the National Police Commission of Sri Lanka. He served as Legal Advisor and Secretary to the Ministry of Posts and Telecommunications; Co-ordinating Secretary to the Ministry of Power and Energy and Ministry of Highways and was the Acting Secretary to the Ministry of Policy Planning.

He is an Attorney - at - Law & Notary Public.

KRISHNA SELVANATHAN - Appointed to the Board w.e.f 15th November 2015

Krishna Selvanathan is a Director of Carsons Management Services (Private) Limited, Lion Brewery (Ceylon) PLC and the Investment Sector Companies of the Carsons Group.

He holds a BA Degree in Accounting & Finance and Business Administration from the University of Kent, U.K.

NALAKE FERNANDO - Ceased to be Alternate Director to M. Selvanathan w.e.f. 15th November 2015

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 - EQUITY HOTELS LIMITED

CHANDIMA GUNAWARDENA

(Refer under Company profile)

AJITH WEERATUNGE

Ajith Weeratunge is a Director of the Carson Cumberbatch Group's Management Company, Carsons Management Services (Private) Limited and holds the position of Head of Finance.

He is also a Director of Group's Real-estate sector -Equity One PLC & Equity Two PLC, and the Group's Investment Holding Sector – Ceylon Investment PLC, Rubber Investment Trust Limited and Guardian Fund Management Limited and Leisure Sector - Equity Hotels Limited. He carries more than 35 years of finance related experience in several leading companies in the mercantile sector.

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

VIBATH WIJESINGHE

Vibath Wijesinghe is the Group Financial Controller of Carsons Management Services (Private) Limited the management support service provider to the Carson Cumberbatch Group on Sri Lankan business operations.

Vibath began his career at M/s. KPMG, Sri Lanka and has over 15 years of experience in the fields of finance, corporate finance and auditing and has spearheaded assignments on business restructuring, business acquisition and investment transactions. 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 Jayewardenepura, Sri Lanka.

Risk Management

Risks are inherent in any business. But an effective system of internal controls and risk management will ensure mitigation of such risks and achievement of business objectives. Group-wide risk management practices provide reasonable assurance, through the process of identification and management of events, situations or circumstances, that even if risky events do occur, they would not adversely impact the achievement of business objectives. The risk management mechanism identifies and measures key risks that the business is confronted with, and takes a proactive role in the decision making process, whereby, opportunities are explored to deliver shareholder value and threats are dealt with appropriately. Risks are managed until they are mitigated and re-assessed to be within the 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

Enterprise Risk Management Process

Risk management process 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

- Defines and set risk appetite and consider new and emerging risks
- Develop / monitor suitable action plans to mitigate/manage risks
- Considers 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 of 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 the following actions and procedures. • Maintain and build relationships with tour operators. • Participate in relevant trade and business promotions, locally and internationally. • Maintaining value and standard of the hotels through regular refurbishments and training and development of employees. • Develops and monitors comprehensive business plans. • Diversification of revenue base.
Liquidity Risk	Inability to raise funds or effect payments when required.	Low	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 damages 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. The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure.	Low	The following controls are implemented 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	As at the reporting date no financial assets / liabilities were exposed to variable rates of interest hence the group exposure to interest rate risk is not material as at the reporting date.
Systems and Process risks	The risk of direct or indirect losses due to inadequate or failed internal processes and systems.	Low	• Maintains detailed procedure manuals and provides training and guidelines for new recruits. • The Group Internal Audit function carries out regular reviews on internal control systems and processes and recommends process improvements, if shortcomings are noted.

Risk Management

Risk	Impact	Risk rating	Risk response & strategies
Human Resource Risk	Attracting, developing and retaining talented employees are essential to deliver the 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 the Group's objectives.	Low	The following initiatives have been implemented by the group. • Ensure recruitments are carried out to hire employees with required qualifications, 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.
Legal & Regulatory Compliance Risk	Failure to comply with the regulatory and legal framework applicable to the Group.	Low	The management together with the Carsons Group legal division proactively identifies and sets up appropriate systems and processes for legal regulatory compliance with respect to the Group's operations. • Arrange training programmes and circulate updates for key employees on new / revised laws and regulations on a need basis. • Provide comments on draft laws to government and regulatory authorities. • Obtain comments and interpretations from external legal consultants on areas that require clarity. • Obtain compliance certificates from management on a 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 2016.

The details set out herein provide the pertinent information required by the Companies Act No. 7 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 2016.

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 the principal activities of the Company and its subsidiary during the financial year under review.

3. REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

The Chairman's Statement and the Management Discussion & Analysis 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 Profit or Loss and Other 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 2016 are set out on pages 42 to 83. These financial statements do comply with the requirements of the Companies Act, No. 7 of 2007.

4.1. Revenue

The Company and the Group generated revenue of Rs. 484.7mn and Rs. 582.2mn (2015 - Rs. 425.5mn and Rs. 510.3mn). A detailed analysis of the revenue for the period is given in note 11 to the financial statements.

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

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	2016	2015	2016	2015
Profit for the year	**120,675**	95,868	**110,509**	98,732
Other comprehensive expense for the year	**(1,307)**	(1,075)	**(1,192)**	(705)
Total comprehensive income for the year	**119,368**	94,793	**109,317**	98,027
Retained earnings as at the beginning of the year	**281,976**	202,379	**251,844**	169,013
Super gain tax for the year of assessment - 2013/14	**(8,340)**	-	**(6,701)**	-
Adjusted retained earnings as at beginning of the year	**273,636**	202,379	**245,143**	169,013
Retained earnings before appropriations	**393,004**	297,172	**354,460**	267,040
Dividend	**(15,196)**	(15,196)	**(15,196)**	(15,196)
Retained earnings as at the end of the year	**377,808**	281,976	**339,264**	251,844

4.3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are given on pages 46 to 59.

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 recognized the carrying value of its land and building in the Statements 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 recognized on freehold land to the value of Rs. 111.5mn, based on a professional valuation performed by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka), an Independent Professional Valuer.

4.5. Capital expenditure

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

(In Rupees thousands)	Group		Company	
For the year ended 31st March	2016	2015	2016	2015
Property, plant and equipment	**76,356**	26,206	**66,329**	24,717

4.6. Reserves

As at 31st March 2016, the Group's total reserves stood at Rs. 1,053.1mn (2015 - Rs. 957.3mn) comprising capital reserves of Rs. 675.1mn (2015 - 675.1mn) and revenue reserves of Rs. 378mn (2015 - 282.2mn).

The total reserves of the Company as at 31st March 2016 stood at Rs. 1,014.5mn (2015 - 927.1mn) comprising Capital Reserves of Rs. 675.1mn (2015 - Rs. 675.1mn) and Revenue Reserves of Rs. 339.4mn (2015 - Rs. 252mn). Details are shown in the Statement of Changes in Equity on page 44.

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. 7 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:

- Statement of financial position, which presents a true and fair view of the state of affairs of the Company and the Group as at end of the financial year.
- Consolidated Statement of Profit or Loss and Other Comprehensive Income, which presents a true and fair view of the financial performance 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. 7 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.

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

These financial statements have been prepared on a Going Concern basis, since the Directors are of the view that the Company has adequate resources to continue operations for 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 41 of this Report.

7. INTERESTS REGISTER

The Company maintains the Interests Register conforming to the provisions of the Companies Act No. 7 of 2007.

All Directors have made declarations as provided for in Section 192(2) of the Companies Act aforesaid. The relevant details as required by the Companies Act No. 7 of 2007 have been entered in the Interests Register during the year under review.

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

7.1. Remuneration of Directors

Directors' remuneration for the financial year ended 31st March 2016 is given in note 13 to the financial statements, on page 61.

7.2. Directors' interest in contracts and shares

Directors' interests in contracts of the Company are disclosed in note 33 to these financial statements and have been declared at meetings of the Directors. The Directors have had no direct or indirect interest in 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 1st April 2015 or as at 31st March 2016.

1. Mr. D. C. R. Gunawardena
2. Mr. H. Selvanathan
3. Mr. M. Selvanathan (Resigned w.e.f. 15th November 2015)
4. Mr. S. Nagendra
5. Mr. M. Dayananda
6. Mr. W. A. A. De Z. Gunasekera (Will step down from the Board at the conclusion of the AGM)
7. Mr. K. Selvanathan (Appointed . 15th November 2015)
8. Mr. K. C. N. Fernando (Ceased to be Alternate Director to Mr. M. Selvanathan w.e.f. 15th November 2015)

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. Change in Directorate

i. Mr. K. Selvanathan was appointed to the Board as an Executive Director w.e.f. 15th November 2015.

ii. Mr. M. Selvanathan, Executive Director resigned from the Board w.e.f. 15th November 2015.

iii. Mr. W. A. A. De Z. Gunasekera, Non-Executive Independent Director has informed the Board that he will not be presenting himself for re-appointment as a Director. Accordingly, he would step down from the Board at the conclusion of the Annual General Meeting to be held on 15th June 2016, in terms of Article 71(e) of the Articles of Association of the Company.

iv Mr. K.C.N. Fernando ceased to be Alternate Director to Mr. M. Selvanathan w.e.f 15th November 2015.

8.2. Director 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.

8.3. Retirement at the first Annual General Meeting following the appointment as a Director

In terms of Article 68 of the Articles of Association of the Company, Mr. K. Selvanathan retires from the Board and being eligible offers himself for re-election.

8.4. Appointment of a Director who is over 70 years of age

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

9. CORPORATE GOVERNANCE

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).

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

9.1. Board of Directors

The following Directors held office as at the reporting date and their brief profiles are given on pages 13 to 15 of the Annual Report.

Directors	Executive/ Non-Executive/ Independent
Mr. D.C.R. Gunawardena (Chairman)	Non-Executive
Mr. H. Selvanathan	Executive
Mr. M. Selvanathan (Resigned w.e.f. 15th November 2015)	Executive
Mr. S. Nagendra*	Non-Executive/ Independent
Mr. M. Dayananda**	Non-Executive/ Independent
Mr. W.A.A. De Z. Gunasekera (Will step down from the Board at the conclusion of the AGM)	Non-Executive/ Independent
Mr. K. Selvanathan (Appointed w.e.f. 15th November 2015)	Executive
Mr. K.C.N. Fernando (Ceased to be Alternate Director to Mr. M. Selvanathan w.e.f. 15th November 2015)	Executive

Each of the Non-Executive Directors of the Company have 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 2016, 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 has determined that Mr. M. Dayananda is an Independent/ Non-Executive Director in spite of being on the Board of Bukit Darah PLC, since he is not directly involved in the management of the Company.

9.2. Remuneration Committee

As per the Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange, the Remuneration Committee of Carson Cumberbatch PLC (CCPLC), the Parent Company, functions as the Remuneration Committee of the Company and comprises of the following members.

Remuneration Committee Members	Executive / Non-Executive/ Independent
Mr. I. Paulraj (Chairman)	Non-Executive Director of CCPLC
Mr. D.C.R. Gunawardena	Non-Executive Director of CCPLC
Mr. R.Theagarajah	Non-Executive/ Independent Director of CCPLC
Mr. W.M.R.S. Dias *	Non-Executive/ Independent Director of CCPLC
Mr. T. de Zoysa **	Non-Executive/ Independent Director of CCPLC

*Appointed to the Remuneration Committee with effect from 18th May 2015

**Appointed to the Remuneration Committee with effect from 28th July 2015

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 Non-Executive Directors. Based on the recommendation of the Remuneration Committee, the Board approves remuneration to the respective Directors.

The 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 this necessary.

The Remuneration Committee meets at least twice a year. During the period under review, the committee had two meetings.

Remuneration Committee Members	Attended Meetings (out of two)
Mr. I. Paulraj (Chairman)	1/2
Mr. D.C.R. Gunawardena	2/2
Mr. R.Theagarajah	2/2
Mr. W.M.R.S. Dias *	2/2
Mr. T. de Zoysa **	2/2

*Appointed to the Remuneration Committee with effect from 18th May 2015

**Appointed to the Remuneration Committee with effect from 28th July 2015

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

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 Non-Executive Directors of the Company is disclosed in note 13 on page 61 of the Annual Report. Executive Directors are not compensated for their role on the Board.

9.3. Audit Committee

As per the Rule 7.10.6 of the Listing Rules of the Colombo Stock Exchange the Audit Committee of Carson Cumberbatch PLC (CCPLC), the Parent Company functions as the Audit Committee of the Company and comprises of the following members.

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 38 to 39 of this Annual Report.

9.4. Related Party Transactions Review Committee

The Parent Company of the Company is Carson Cumberbatch PLC (CCPLC). CCPLC formed a 'Related Party Transactions Review Committee' with effect from 1st January 2016.

As per the Rule 9.2.3 of the Listing Rules of the Colombo Stock Exchange, the Related Party Transactions Review Committee of CCPLC functions as the Related Party Transactions Review Committee of the Company.

Related Party Transactions Review 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
Mr. H. Selvanathan	Executive Director of CCPLC
Mr. M. Selvanathan	Executive Director of CCPLC
Mr. S. K. Shah	Executive Director of CCPLC

The Related Party Transactions Review Committee Report is given on page 37 of this Annual Report.

Declaration

The Directors have made self-declarations for the purpose of identifying parties related to them. The said declarations were noted at the First Related Party Transactions Review Committee Meeting.

The Company is in compliance with Rule 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions, during the financial year.

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

In terms of the requirements of the Listing Rules of the Colombo Stock Exchange, the transactions carried out by the Company with its Related Parties during the year ended 31st March 2016, did not exceed 10% of Equity or 5% of the Total Assets of the Company as at 31st March 2016.

The details of the Related Party Transactions are given in note 33 on page 81 to 82 of the Financial Statements.

- Non-recurrent related party transactions

There were no Non-recurrent related party transactions entered into by the Company, where the aggregate value of the Non-Recurrent Related Party Transactions exceeds 10% of the Shareholders' equity or 5% of the total assets, whichever is lower, of the Company as at 31st March 2016.

- Recurrent related party transactions

There were no recurrent related party transactions entered into by the Company, where the aggregate value of the recurrent Related Party Transactions exceeds 10% of the Gross Revenue/ Income of the Company, as at 31st March 2016.

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

9.5. Directors' Meetings Attendance

During the financial year the Board of Directors had four (04) Board Meetings and the attendance of the Directors were as follows;

Board Members	Attended Meetings (out of four)
Mr. D.C.R. Gunawardena (Chairman)	4/4
Mr. H. Selvanathan	1/4
Mr. M. Selvanathan (Resigned from the Board w.e.f. 15th November 2015).	1/2
Mr. S. Nagendra	4/4
Mr. M. Dayananda	3/4
Mr. W.A.A. De Z. Gunasekera (Will step down from the Board at the conclusion of the AGM).	3/4
Mr. K. Selvanathan (Appointed to the Board w.e.f. 15th November 2015).	2/2
Mr. K.C.N. Fernando (Ceased to be Alternate Director to Mr. M. Selvanathan w.e.f 15th November 2015).	1/2

10. 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 in group companies/ investee companies.

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 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 Meetings (out of two)
Mr. S. Nagendra (Chairman)	2/2
Mr. D.C.R. Gunawardena	2/2

During the year, the Committee recommended to the Board that Mr. K. Selvanathan be appointed to the Board as an Executive Director. This recommendation was accepted by the Board.

11. BOARD EVALUATION

The 'Board Evaluation Form' of the Company focusses on the following areas;

- Core Board Responsibilities
- Board Meetings
- Committee Meetings (any/ all sub-committees)
- Relationship with Management
- Individual self-assessment
- Stakeholder and Shareholder communication/ relationship
- Suggestions/ comments

The comments made by the Directors in the Board Evaluation Form are collated by the Nomination Committee of the Company and the results and proposed actions are reported to the Board of Directors. The suggestions and recommendations made by the Directors are being reviewed and implemented by the Company.

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

12. INDEPENDENT AUDITORS

The Company's and the Group's auditors during the year under review were Messrs. KPMG, Chartered Accountants.

Fees of Rs. 315,000/- and Rs. 525,000/- (2015 - Rs. 274,000/- and Rs. 469,000/-) were paid to them by the Company and the Group respectively, as audit fees for the year ended 31st March 2016. In addition to the above, the auditors were paid Rs. 115,000/- and Rs. 70,000/- (2015 - Rs. 51,000/- and Rs. 51,000/-) as professional fees for audit related services for the Company and the Group respectively. Further, a payment of Rs. 260,000/- was made by the Company and the Group on non - audit services. (2015 - Nil).

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

A resolution to re-appoint them as Independent 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 the subsidiary, including the level of audit and non-audit fees paid to the auditors.

12.1. Auditors' Relationship or any interest with the Company

The Directors are satisfied that, based on written representations made by the Independent Auditors to the Board, the Auditors did not have any interest with the Company and its Subsidiary that would impair their independence.

13. 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, 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 Committees. Regular submission of compliance and internal solvency certificates vouched by the heads of the respective divisions as a mandatory agenda item keeps the Directors abreast of the health of the Company'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 are given on pages 16 to 20.

14. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The Ordinary shares of the Company were transferred from the Colombo Stock Exchange Main Board to the Diri Savi Board with effect from 4th September 2015.

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 2016 (2015 - Rs. 0.50).

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 operates.

18. STATED CAPITAL

The Stated Capital of the Company as at 31st March 2016 was 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.

19. 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) - "Financial 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.

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

20. 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.

21. GOING CONCERN

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

22. DONATIONS

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

23. HUMAN RESOURCES

The Company and the Group continue 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 2016 were 202 and 272 (2015 - 181 and 251) respectively.

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

24. 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 2016.

25. OUTSTANDING LITIGATION

The outstanding litigations related to the Company are shown in note 31.3 to these financial statements.

26. EQUITABLE TREATMENT TO SHAREHOLDERS

The company endeavours at all times to ensure equitable treatment to all shareholders.

27. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen, which would require adjustments to or disclosures in the financial statements, other than those disclosed in note 35 to the financial statements.

28. CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The contingent liabilities and commitments as at 31st March 2016 are given in note 31 to the financial statements.

29. SHARE INFORMATION

Information relating to share trading are given on pages 86 and 87 of this Report.

30. TWENTY MAJOR SHAREHOLDERS WITH COMPARATIVES

The Parent Company, Carson Cumberbatch PLC holds 27,347,485 (2015 - 28,290,958) of the total Ordinary Shares in issue of the Company as at 31st March 2016.

No.	Twenty Major Shareholders as at 31st March	2016		2015	
		No. of shares	%	No. of shares	%
01	Carson Cumberbatch PLC	27,347,485	89.98	28,290,958	93.09
02	Dee Investments (Private) Limited	180,903	0.60	180,903	0.60
03	Mr. M.C.C.K. Rodrigo	145,405	0.48	100,010	0.33
04	Mr. K. C. Vignarajah	131,958	0.43	10,862	0.04
05	Mrs. N. H. Abdul Husein	127,172	0.42	125,500	0.41
06	Mr. H.A. Van Starrex	100,000	0.33	-	-
07	Life Insurance Corporation (Lanka) Limited	80,346	0.26	-	-
08	Mr. H.A. Pieris	70,000	0.23	-	-
09	Waldock Mackenzie Ltd /Hi-Line Towers (Pvt) Ltd	69,833	0.23	-	-
10	Mrs. V.R. Jayasinghe	65,705	0.22	1,500	-
11	Mr. A.M. Weerasinghe	60,000	0.20	-	-
12	People’s Leasing & Finance PLC/ L.P. Hapangama	57,157	0.19	30,537	0.10
13	Mrs. I. Gwyn	55,000	0.18	55,000	0.18
14	Mr. H.A.S. Madanayake	50,000	0.16	-	-
15	Code-Gen International (Private) Limited	50,000	0.16	50,000	0.16
16	Mr. P. Somadasa	44,595	0.15	33,794	0.11
17	Mr. H.W.M. Woodward	42,679	0.14	42,679	0.14
18	Mr. D. Weerawardana	42,231	0.14	40,000	0.13
19	Mr. K.A.S.R. Nissanka	35,000	0.12	35,000	0.12
20	Devi Holdings (Pvt) Ltd	35,000	0.12	-	-

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

31 ANNUAL REPORT

The Board of Directors on 12th May 2016 approved the Company's financial statements together with the reviews which forms part of the Annual Report. The appropriate number of copies of the Annual Report would be submitted to the Colombo Stock Exchange, Sri Lanka Accounting and Auditing Standard Monitoring Board and the Registrar of Companies within the given time frames.

32 ANNUAL GENERAL MEETING

The 5Oth Annual General Meeting of the Company will be held on Wednesday, 15th June 2016 at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala.

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

Signed on behalf of the Board,

(Sgd.)	*(Sgd.)*
D.C.R. Gunawardena	K. Selvanathan
Chairman	Director

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

12th May 2016

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee (RPTRC) of Carson Cumberbatch PLC (CCPLC) was constituted on 1st January 2016.

As provided by the Colombo Stock Exchange Listing Rules, the RPTRC of CCPLC - the Parent Company functions as the RPTRC of the Company.

Composition of the Committee

The Members of the RPTRC are as follows:

1. Mr. V. P. Malalasekera (Chairman) - Non-Executive/Independent Director of CCPLC
2. Mr. F. Mohideen - Non-Executive/ Independent Director of CCPLC
3. Mr. D. C. R. Gunawardena - Non-Executive Director of CCPLC
4. Mr. H. Selvanathan - Executive Director of CCPLC
5. Mr. M. Selvanathan - Executive Director of CCPLC
6. Mr. S. K. Shah - Executive Director of CCPLC

Purpose of the Committee

The objective of the RPTRC is to review all Related Party Transactions (RPTs) of the Listed Companies of the Carsons Group, other than those exempted by the 'Related Party Transactions Compliance Code', prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

Policies and procedures

- The RPTRC reviews all the Related Party Transactions of the Listed Companies of the Carsons Group and where the Committee decides that the approval of the Board of Directors of the respective Companies is necessary to approve a Related Party Transaction, such Board approval is obtained prior to entering into the relevant Related Party Transaction.
- When reviewing a transaction, the RPTRC would decide whether the proposed transaction is carried out on an arm's length basis irrespective of whether recurrent or non-recurrent in nature.
- Reviewing and approval would be either by meeting of members (subject to quorum being present) or by circulation.
- In determining whether to obtain the approval of the Board of Directors for a Related Party Transaction, the RPTRC will take into account, among other factors it deems appropriate, whether the proposed RPTs pose a conflict of interest to the Directors.

The self-declarations from the Directors and Key Management Personnel are obtained for the purpose of identifying parties related to them. Further, the guidelines which senior management must follow in routing Related Party Transactions to the relevant forum, including transaction threshold values and pricing where applicable, have been documented even in the case of once approved recurrent transactions which are of operational nature, which as per the RPT code need not be repeatedly approved if within the broad thresholds.

The RPTRC in discharging its function has introduced processes and periodic reporting by the relevant entities with a view to ensuring that:

- there is compliance with the Code;
- shareholder interests are protected; and
- fairness and transparency are maintained.

The Committee has a criteria for designating Carsons Group Key Management Personnel (KMP). Further, processes have been introduced to obtain annual disclosures from all KMP so designated.

The Committee held its First Meeting on 9th March 2016 with all Members in attendance. The Related Party Transactions of the Company for the period 1st January 2016 to 31st March 2016 have been reviewed by the Members of the RPTRC and the comments and observations of the Committee have been communicated to the Board of Directors of the Company.

(Sgd.)
V.P. Malalasekera
Chairman - Related Party Transactions Review Committee
Carson Cumberbatch PLC

12th May 2016

Audit Committee Report

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

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

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

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

The Committee met the External Auditors, Messrs. KPMG, twice during the year to discuss the audit scope and to deliberate the draft Financial Report and Accounts. The Audit Committee also discussed the draft Financial Report and Accounts, with the External Auditors, without the management being present to foster an unbiased, independent dialogue.

The Audit Committee approved the audit plan for the financial year 2015/2016 and the Group Internal Audit (GIA) carried out 04 audits on the Leisure Sector companies based on the plan.

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

As approved by the Audit Committee, Messrs.KPMG, as part of their regular audit scope has commenced a comprehensive external IT security and process audit covering the entire Carsons Management Services (Private) Limited (Managers to the Company) - IT environment, which extends to the Leisure Sector, as well.

The interim financial statements of Pegasus Hotels of Ceylon PLC have been reviewed by the Audit Committee Members at Audit Committee Meetings, prior to release of same to the Regulatory Authorities and to the shareholders.

The draft financial statements of Pegasus Hotels of Ceylon PLC for the year ended 31st March 2016 were reviewed at a Meeting of the Audit Committee, together with the External Auditors, Messrs. KPMG, prior to release of same to the Regulatory Authorities and to the shareholders. The Audit Committee was provided with confirmations and declarations as required by the Managers, Carsons Management Services (Private) Limited that the said financial statements were prepared in accordance with the Sri Lanka Accounting Standards and the information required by the Companies Act No. 7 of 2007 therein and presented a true and fair view of the Company's state of affairs as at that date and the Company's activities during the year under review.

The Audit Committee has determined that Messrs.KPMG, 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 2017, 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 2016

Financial Calendar

Quarterly Financial Statements		
01st Quarter ended		30th June 2015
Issued to Colombo Stock Exchange on		14th August 2015
02nd Quarter ended		30th September 2015
Issued to Colombo Stock Exchange on		13th November 2015
03rd Quarter ended		31st December 2015
Issued to Colombo Stock Exchange on		12th February 2016
Annual Report for the year ended	-	31st March 2016
50th Annual General Meeting	-	15th June 2016

Independent Auditors' Report

KPMG
(Chartered Accountants)
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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 31st March 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 42 to 83.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the -financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st March 2016, and of its financial performance and 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 Notes 17.10, 20, 32.1.1.(a) to these financial statements. As explained in the said notes, subsequent to the Government acquiring land owned by the Company, Company has submitted a claim of compensation to the Divisional Secretary for the compulsory acquisition of the land, and a receivable of Rs.136,678,321 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

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) In our opinion

- We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
- The financial statements of the Company give a true and fair view of its financial position as at 31st March 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
- The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

Chartered Accountants

12th May 2016

Colombo.

Statement of Profit or Loss and Other Comprehensive Income

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	Group		Company	
		2016	2015	2016	2015
Revenue	11	**582,209**	510,255	**484,709**	425,543
Direct costs		**(318,427)**	(280,629)	**(260,300)**	(229,356)
Gross profit		**263,782**	229,626	**224,409**	196,187
Other income	12	**8,652**	6,289	**6,008**	4,048
Selling and promotional expenses		**(28,410)**	(15,046)	**(25,231)**	(12,398)
Administrative expenses		**(134,847)**	(128,504)	**(110,269)**	(98,937)
Profit from operations	13	**109,177**	92,365	**94,917**	88,900
Finance income	14	**24,520**	19,079	**26,780**	23,447
Finance costs	14	**-**	(1,118)	**-**	(1,118)
Net finance income	14	**24,520**	17,961	**26,780**	22,329
Profit before taxation		**133,697**	110,326	**121,697**	111,229
Income tax expenses	15	**(7,889)**	(8,640)	**(6,002)**	(7,055)
Deferred taxation	15	**(5,133)**	(5,818)	**(5,186)**	(5,442)
Profit for the year		**120,675**	95,868	**110,509**	98,732
Other comprehensive income					
Actuarial loss from valuation of employee benefits	29.2	**(1,485)**	(1,075)	**(1,354)**	(705)
Related tax		**178**	-	**162**	-
Other comprehensive expense for the year		**(1,307)**	(1,075)	**(1,192)**	(705)
Total comprehensive income for the year		**119,368**	94,793	**109,317**	98,027
Earnings per share (Rs.)	16	**3.97**	3.15	**3.64**	3.25

The notes from pages 46 to 83 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	Note	Group 2016	Group 2015	Company 2016	Company 2015
ASSETS					
Non-current assets					
Property, plant and equipment	17	**1,186,133**	1,157,858	**1,154,428**	1,131,813
Intangible assets	18	**115,287**	115,287	**-**	-
Investment in subsidiary	19	**-**	-	**110,223**	110,223
Compensation receivable	20	**136,678**	122,545	**136,678**	122,545
Total non-current assets		**1,438,098**	1,395,690	**1,401,329**	1,364,581
Current assets					
Inventories	21	**16,159**	13,061	**12,720**	9,172
Fair value through profit or loss financial assets	22	**180,146**	-	**180,146**	-
Trade and other receivables	23	**54,985**	46,165	**46,834**	39,055
Cash and cash equivalents	24	**32,976**	135,017	**16,729**	123,071
Total current assets		**284,266**	194,243	**256,429**	171,298
Total assets		**1,722,364**	1,589,933	**1,657,758**	1,535,879
EQUITY AND LIABILITIES					
Equity					
Stated capital	25	**515,170**	515,170	**515,170**	515,170
Capital reserves	26	**675,099**	675,099	**675,099**	675,099
Revenue reserves	27	**377,984**	282,152	**339,440**	252,020
Total equity		**1,568,253**	1,472,421	**1,529,709**	1,442,289
Non-current liabilities					
Deferred tax liability	28	**39,514**	34,559	**38,038**	33,014
Employee benefits	29	**16,450**	12,495	**9,610**	6,739
Total non-current liabilities		**55,964**	47,054	**47,648**	39,753
Current liabilities					
Trade and other payables	30	**93,885**	64,809	**77,825**	48,627
Current tax liabilities		**4,262**	5,649	**2,576**	5,210
Total current liabilities		**98,147**	70,458	**80,401**	53,837
Total liabilities		**154,111**	117,512	**128,049**	93,590
Total equity and liabilities		**1,722,364**	1,589,933	**1,657,758**	1,535,879
Net assets per share (Rs.)		**51.60**	48.45	**50.33**	47.46

The Notes from pages 46 to 83 form an integral part of these financial statements.
I certify that these financial statements are in compliance with the requirements of Companies Act No. 7 of 2007.

(Sgd.)
V.R. Wijesinghe
Financial Controller
Carsons Management Services (Private) Limited

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board on 12th May 2016.

Approved and signed on behalf of the Managers,

(Sgd.)
A.P. Weeratunge
Director
Carsons Management Services (Private) Limited

Approved and signed on behalf of the Board,

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

(Sgd.)
K. Selvanathan
Director

12th May 2016

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 2014	515,170	659,955	15,144	176	202,379	1,392,824
Profit for the year	-	-	-	-	95,868	95,868
Other comprehensive expense for the year	-	-	-	-	(1,075)	(1,075)
Total comprehensive income for the year	-	-	-	-	94,793	94,793
Dividend - 2013/14	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2015	515,170	659,955	15,144	176	281,976	1,472,421
Balance as at 1st April 2015	515,170	659,955	15,144	176	281,976	1,472,421
Super gain tax for the year of assessment - 2013/14*	-	-	-	-	(8,340)	(8,340)
Adjusted balance as at 1st April 2015	515,170	659,955	15,144	176	273,636	1,464,081
Profit for the year	-	-	-	-	120,675	120,675
Other comprehensive expense for the year	-	-	-	-	(1,307)	(1,307)
Total comprehensive income for the year	-	-	-	-	119,368	119,368
Dividend - 2014/15	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2016	515,170	659,955	15,144	176	377,808	1,568,253

Company	Stated capital	Capital reserves		Revenue reserves		Total equity
		Revaluation reserve	Capital accretion reserve	General reserve	Retained earnings	
Balance as at 1st April 2014	515,170	659,955	15,144	176	169,013	1,359,458
Profit for the year	-	-	-	-	98,732	98,732
Other comprehensive expense for the year	-	-	-	-	(705)	(705)
Total comprehensive income for the year	-	-	-	-	98,027	98,027
Dividend - 2013/14	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2015	515,170	659,955	15,144	176	251,844	1,442,289
Balance as at 1st April 2015	515,170	659,955	15,144	176	251,844	1,442,289
Super gain tax for the year of assessment - 2013/14*	-	-	-	-	(6,701)	(6,701)
Adjusted balance as at 1st April 2015	515,170	659,955	15,144	176	245,143	1,435,588
Profit for the year	-	-	-	-	110,509	110,509
Other comprehensive expense for the year	-	-	-	-	(1,192)	(1,192)
Total comprehensive income for the year	-	-	-	-	109,317	109,317
Dividend - 2014/15	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2016	515,170	659,955	15,144	176	339,264	1,529,709

As per the provisions of Part III of the Finance Act, No. 10 of 2015, although Pegasus Hotels of Ceylon PLC, the Company, and Equity Hotels Limited, the subsidiary company, did not become liable to pay super gains tax as stand-alone entities, however the two companies paid Rs. 6.7mn and Rs. 8.3mn respectively as super gain tax on the basis that the Companies are part of the Bukit Darah PLC group, of which the consolidated profit before tax exceeded the threshold as stipulated in the aforesaid Act. According to the Act, the super gain tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1st April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards and hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24th November 2015.

The notes from pages 46 to 83 form an integral part of these financial statements.
Figures in brackets indicate deductions.

Statement of Cash Flow

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	Group		Company	
		2016	2015	2016	2015
Cash flows from operating activities					
Profit before taxation		**133,697**	110,326	**121,697**	111,229
Adjustments for:					
Interest income on placements with banks and government securities	14	**(5,933)**	(6,126)	**(5,141)**	(5,608)
Net change in fair value of fair value through profit or loss financial assets	14	**(4,146)**	-	**(4,146)**	-
Dividend income	14	**-**	-	**(3,085)**	(4,935)
Unwinding of discount on compensation receivable	14	**(14,133)**	(12,639)	**(14,133)**	(12,639)
Interest expenses on bank borrowings	14	**-**	449	**-**	449
Interest expenses on related party borrowings	14	**-**	367	**-**	367
Corporate guarantee charges	14	**-**	302	**-**	302
Depreciation on property, plant and equipment	17	**43,450**	39,415	**39,179**	35,642
(Profit) /loss on disposal of property, plant and equipment		**(812)**	96	**(783)**	75
Provision for employee benefits	29	**3,203**	2,821	**2,107**	1,865
Reversal of provision for impairment of trade receivables		**(921)**	(126)	**(921)**	-
Profit before working capital changes		**154,405**	134,885	**134,774**	126,747
(Increase) / decrease in inventories		**(3,098)**	(225)	**(3,548)**	86
(Increase) / decrease in trade and other receivables		**(7,899)**	1,755	**(6,858)**	(784)
Increase / (decrease) in trade and other payables		**28,977**	9,400	**29,099**	6,664
Cash generated from operations		**172,385**	145,815	**153,467**	132,713
Employee benefits paid	29	**(733)**	(5,464)	**(590)**	(5,109)
Income tax paid		**(17,616)**	(6,647)	**(15,337)**	(4,450)
Net cash generated from operating activities		**154,036**	133,704	**137,540**	123,154
Cash flows from investing activities					
Purchase of property, plant and equipment	17	**(76,356)**	(26,206)	**(66,329)**	(24,717)
Proceeds from disposal of property, plant and equipment		**5,443**	607	**5,318**	349
Investment in fair value through profit or loss financial assets		**(176,000)**	-	**(176,000)**	-
Interest received		**5,933**	6,126	**5,141**	5,608
Dividend received		**-**	-	**3,085**	4,935
Net cash used in investing activities		**(240,980)**	(19,473)	**(228,785)**	(13,825)
Cash flows from financing activities					
Dividend paid		**(15,097)**	(15,080)	**(15,097)**	(15,080)
Loans and borrowings repaid during the year		**-**	(16,446)	**-**	(16,446)
Net amounts settled to related companies including interest		**-**	(20,316)	**-**	(20,316)
Interest paid on bank borrowings		**-**	(449)	**-**	(449)
Net cash used in financing activities		**(15,097)**	(52,291)	**(15,097)**	(52,291)
Net increase / (decrease) in cash and cash equivalents		**(102,041)**	61,940	**(106,342)**	57,038
Cash and cash equivalents at the beginning of the year		**135,017**	73,077	**123,071**	66,033
Cash and cash equivalents at the end of the year	24	**32,976**	135,017	**16,729**	123,071

The notes from pages 46 to 83 form an integral part of these financial statements.

Figures in brackets indicate deductions

Notes to the Financial Statements

1. REPORTING ENTITY

Pegasus Hotels of Ceylon PLC (the 'Company') is a company domiciled in Sri Lanka. The shares of the Company have a primary listing on the Colombo Stock Exchange.

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

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

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

The Group had 272 (2015 - 251) employees at the end of the financial year. The company had 202 (2015 - 181) 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 profit or loss, statement of changes in equity and statement of cash flow together with the notes to the financial statements.

The 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.

These financial statements were authorized for issue by the Board of Directors on 12th May 2016.

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 amortized 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 functional and presentation currency of Company and its subsidiary.

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 in the next financial year are as follows;

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

  The Company and the Group assesses at each reporting date whether there is objective evidence that an asset or portfolio of assets is impaired. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

  In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that reflects the current market assessments of the time value of money and risks specific to the asset. The carrying value of goodwill is reviewed at each reporting date and is written down to the extent that it is no longer supported by probable future benefits. Goodwill is allocated to CGU for the purpose of impairment testing.

- Deferred taxation - utilization of tax losses

  Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management 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 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) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non- financial assets and liabilities.

Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, Group assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels

Notes to the Financial Statements

in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for 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 fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumption made in measuring fair value is included in note 32.6.

f) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

i. Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the group .The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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

ii. Non-controlling interests (NCI)

NCIs are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

However Company owned 100% of the equity of its subsidiary Equity Hotels Limited and hence no non-controlling interest is applicable.

iii. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. 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 has 100% of shares ownership.

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

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, 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 the Statement of Comprehensive Income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value as at the date that control is lost. It is then accounted for 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 translation 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 the financial assets categorized as ‘loan and receivables’ and fair value through profit or loss.

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.

Notes to the Financial Statements

Fair value through profit or loss.

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred.

Financial assets at fair value through profit or loss are measured at fair value and changes there in are recognized in profit or loss.

Fair value through profit or loss comprises Investment in unit trust.

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 recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, compensation receivables 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 and group are recognized 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-recognizes 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 recognized 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

Items of property, plant and equipment are measured at cost/ fair value less accumulated depreciation and any accumulated impairment losses.

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

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

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) to five (5) years in order to ensure the book value reflect the realizable value of such assets, and are depreciated over the remaining useful lives of such assets, wherever applicable.

When an asset is revalued, any increase in the carrying amount is credited 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 reserves 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 capitalized 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 derecognised.

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

Notes to the Financial Statements

with the carrying amount of the property, plant and equipment are recognized net within 'Other Income' in the Statement of profit or loss. 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.

Goodwill is measured at cost less accumulated impairment losses.

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 amortized to the Statement of profit or loss using the straight line method over 3 to 10 years.

iii. Subsequent expenditure

Subsequent expenditure is capitalized 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 recognized in profit or loss as incurred.

iv. Amortization

Except for goodwill, intangible assets are amortized 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

Amortization 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 amortized. 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 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 amortized cost

The Company and the Group considers evidence of impairment for financial assets measured at amortized 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 infinite-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

Notes to the Financial Statements

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 Company of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized 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 carring amount that would have been determined, net of depreciation or amortization, 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 - Employees' Providend Fund and Employees' Trust Fund

A defined contribution plan is a post- employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Group contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense in profit and loss in the periods during which services are rendered by employees

iii. Defined benefit plans

The Group net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in current and prior periods and discounting that amount.

The Calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. Re-Measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognized immediately in OCI. The Group determine the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined liability, taking in to account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

The liability is not externally funded.

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 profit or loss 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.

Notes to the Financial Statements

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 recognised as it accrues in profit or loss, using the effective interest method 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) 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. 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".

5. 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.

Notes to the Financial Statements

6. EVENTS AFTER THE REPORTING PERIOD

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

7. DIVIDENDS ON ORDINARY SHARES

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

8. PRESENTATION

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

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

a) Offsetting Income and Expenses

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

b) Offsetting Assets and Liabilities

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

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

9. SEGMENT REPORTING

An operating segment is a component within the Group and Company that engage in business activities for which it may earn distinguish revenue and expenses for such segment.

The operating results arising for hoteling business of the Group and Company as a whole is reviewed regularly by the Company's Chief Operating Decision Maker to make decisions about resource to be allocated and to assess its performance. Therefore Company has only one segment hence no separate disclosure is given for operating segment.

10. NEW ACCOUNTING STANDARDS NOT EFFECTIVE AT THE REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka has issued the following standards which become effective for annual periods beginning after the current financial year. Accordingly, these standards have not been applied in preparing these financial statements. The group will be adopting these standards when they become effective.

SLFRS 9-Financial Instruments

Summary of the requirements

SLFRS 9, published in July 2014, replaces the existing guidance in LKAS 39 financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

Possible impact on consolidated financial statements

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 9.

SLFRS 15 Revenue from Contracts with Customers

Summary of the requirements

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

Possible impact on consolidated financial statements

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 15. However possible impacts are limited.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	For the year ended 31st March	2016	2015	2016	2015
11.	**Revenue**				
	Revenue analysis (net)				
	Room revenue	**302,836**	259,189	**238,032**	205,839
	Food and beverage revenue	**265,315**	235,710	**232,968**	204,657
	Other revenue	**14,058**	15,356	**13,709**	15,047
		582,209	510,255	**484,709**	425,543
12.	**Other income**				
	Rent income	**4,296**	3,990	**2,190**	2,038
	Club membership income	**2,480**	1,456	**2,480**	1,456
	Profit on disposal of property, plant and equipment	**812**	-	**783**	-
	Sundry income	**1,064**	843	**555**	554
		8,652	6,289	**6,008**	4,048
13.	**Profit from operations**				
	Profit from operations is stated after charging all expenses including the following:				
	Auditors' remuneration				
	- Audit services	**525**	469	**315**	274
	- Audit related services	**115**	51	**70**	51
	- Non-audit services	**260**	-	**260**	-
	Depreciation (note 13.1)	**43,450**	39,415	**39,179**	35,642
	Loss on disposal of property, plant and equipment	**-**	96	**-**	75
	Reversal of provision for impairment of trade receivable	**(921)**	(126)	**(921)**	-
	Donations	**-**	1,057	**-**	912
	Professional service costs (note 13.2)	**820**	481	**713**	374
	Nomination committee fees	**50**	50	**50**	50
	Personnel costs (note 13.3)	**130,795**	123,756	**100,782**	88,284
	Operating lease expenses	**12,617**	12,617	**-**	-
	Support service fees	**7,910**	6,399	**6,059**	5,319
13.1	**Depreciation**				
	Depreciation is included in the statement of profit or loss under the following headings:				
	Direct costs	**35,348**	32,854	**32,027**	29,929
	Administrative expenses	**8,102**	6,561	**7,152**	5,713
		43,450	39,415	**39,179**	35,642

For the year ended 31st March	Group		Company	
	2016	2015	2016	2015
13.2 Professional service cost				
Legal services	370	439	263	332
Valuation services	14	34	14	34
Other services	436	8	436	8
	820	481	713	374
13.3 Personnel costs				
Salaries, wages and other related expenses	116,840	111,444	90,363	79,235
Defined benefit plan cost - Employee benefits	3,203	2,821	2,107	1,865
Defined contribution plan cost - EPF and ETF	10,752	9,491	8,312	7,184
	130,795	123,756	100,782	88,284
The above include:				
Directors' fees	700	650	700	650
Directors' emoluments	-	14,891	-	12,284
	700	15,541	700	12,934
14. Net finance income				
14.1 Finance income				
Interest income on placement with banks and government securities	5,933	6,126	5,141	5,608
Net change in fair value of fair value through profit or loss financial assets	4,146	-	4,146	-
Dividend income	-	-	3,085	4,935
Unwinding of discounting on compensation receivable (note 14.3)	14,133	12,639	14,133	12,639
Gain on foreign exchange transactions	308	314	275	265
	24,520	19,079	26,780	23,447
14.2 Finance cost				
Interest expenses on loans and borrowings				
- On bank borrowings	-	449	-	449
- On related party borrowings	-	367	-	367
Corporate guarantee charges	-	302	-	302
	-	1,118	-	1,118
Net finance income	24,520	17,961	26,780	22,329

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 described in note 32.1.1.a as required by the LKAS - 39, Financial Instruments - Recognition and Measurement.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	For the year ended 31st March	2016	2015	2016	2015
15.	**Income tax expenses**				
15.1	**Current taxation**				
	Current tax expenses (note 15.3)	**8,991**	8,081	**7,206**	7,055
	Dividend tax	**343**	548	**-**	-
	(Over)/under provision for previous years	**(1,445)**	11	**(1,204)**	-
		7,889	8,640	**6,002**	7,055
15.2	**Deferred taxation**				
	On origination and reversal of temporary differences (note 28.1)	**5,133**	5,818	**5,186**	5,442
		13,022	14,458	**11,188**	12,497
15.3	**Reconciliation between the accounting profit and the profit for the tax purposes**				
	Accounting profit before taxation	**133,697**	110,326	**121,697**	111,229
	Aggregate disallowable expenses	**55,797**	53,229	**48,408**	40,637
	Aggregate allowable expenses	**(64,885)**	(48,152)	**(61,027)**	(44,688)
	Notional adjustments arising on application of LKAS/SLFRS	**(14,133)**	(12,337)	**(14,133)**	(12,337)
	Profits exempt from income tax	**(3,085)**	(4,935)	**(3,085)**	(4,935)
	Adjustment due to consolidation of financial statements	**3,085**	4,935	**-**	-
	Interest income	**(5,933)**	(6,126)	**(5,141)**	(5,608)
	Adjusted accounting profit for tax purposes	**104,543**	96,940	**86,719**	84,298
	Interest income	**6,517**	6,663	**5,654**	6,145
	Total statutory income	**111,060**	103,603	**92,373**	90,443
	Utilization of tax losses (notes 15.4)	**(36,134)**	(36,261)	**(32,331)**	(31,655)
	Taxable income	**74,926**	67,342	**60,042**	58,788
	Taxation thereon (note 15.5 a)	**8,991**	8,081	**7,206**	7,055
15.4	**Analysis of tax losses**				
	Tax losses brought forward	**210,206**	246,467	**209,171**	240,826
	Adjustment on finalization of tax liability	**5,597**	-	**2,829**	-
	Utilization of tax losses during the year (note 15.5 b)	**(36,134)**	(36,261)	**(32,331)**	(31,655)
	Tax losses carried forward	**179,669**	210,206	**179,669**	209,171

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% (2015 - 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	2016	2015	2016	2015
Amount used as the numerator				
Profit attributable to the ordinary equity holders of the parent company	**120,675**	95,868	**110,509**	98,732
Amount used as the denominator				
Weighted average number of ordinary shares outstanding during the year (In thousands)	**30,392**	30,392	**30,392**	30,392
Earnings per share (Rs.)	**3.97**	3.15	**3.64**	3.25

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

17. Property, plant and equipment

17.1 Group

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipments	Motor Vehicle	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2016	Total as at 31st March 2015
Cost/valuation											
Balance as at the beginning of the year	504,332	532,772	112,060	125,103	9,124	38,019	12,044	3,860	13,467	**1,350,781**	1,327,475
Additions during the year	-	48,823	5,644	6,280	1,596	16,715	-	3,691	(6,393)	**76,356**	26,206
Disposals during the year	-	-	(750)	(114)	(242)	(119)	(7,475)	(1,575)	-	**(10,275)**	(2,900)
Balance as at the end of the year	504,332	581,595	116,954	131,269	10,478	54,615	4,569	5,976	7,074	**1,416,862**	1,350,781
Depreciation											
Balance as at the beginning of the year	-	33,661	68,611	51,852	7,703	23,153	5,728	2,215	-	**192,923**	155,705
Charge for the year	-	11,027	6,846	15,518	765	5,934	2,544	816	-	**43,450**	39,415
Disposals during the year	-	-	(750)	(52)	(207)	(78)	(3,893)	(664)	-	**(5,644)**	(2,197)
Balance as at the end of the year	-	44,688	74,707	67,318	8,261	29,009	4,379	2,367	-	**230,729**	192,923
Net book value as at the end of the year	504,332	536,907	42,247	63,951	2,217	25,606	190	3,609	7,074	**1,186,133**	1,157,858

17.2 Company

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipments	Motor Vehicle	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2016	Total as at 31st March 2015
Cost/valuation											
Balance as at the beginning of the year	504,332	507,248	97,820	111,567	8,799	28,203	12,044	3,023	13,467	**1,286,503**	1,264,188
Additions during the year	-	40,899	5,177	5,846	1,596	15,706	-	3,498	(6,393)	**66,329**	24,717
Disposals/write off during the year	-	-	(750)	(115)	(242)	(45)	(7,475)	(1,438)	-	**(10,065)**	(2,402)
Balance as at the end of the year	504,332	548,147	102,247	117,298	10,153	43,864	4,569	5,083	7,074	**1,342,767**	1,286,503
Depreciation											
Balance as at the beginning of the year	-	23,063	58,471	42,319	7,703	15,676	5,728	1,730	-	**154,690**	121,026
Charge for the year	-	9,451	6,137	14,622	765	4,984	2,544	676	-	**39,179**	35,642
Disposals during the year	-	-	(750)	(52)	(207)	(33)	(3,893)	(595)	-	**(5,530)**	(1,978)
Balance as at the end of the year	-	32,514	63,858	56,889	8,261	20,627	4,379	1,811	-	**188,339**	154,690
Net book value as at the end of the year	504,332	515,633	38,389	60,409	1,892	23,237	190	3,272	7,074	**1,154,428**	1,131,813

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 as at 31st March 2016	Carrying value of revalued assets as at 31st March 2015
Pegasus Reef Hotel, Wattala.	Freehold land	Market approach	5,250	**504,332**	504,332
	Building	Market approach	307,812	**515,633**	484,185

	Group		Company	
As at 31st March	2016	2015	2016	2015
17.4 Analysis of capital work-in-progress				
Freehold building	**5,768**	12,957	**5,768**	12,957
Equipments	**472**	480	**472**	480
Furniture and fittings	**834**	30	**834**	30
	7,074	13,467	**7,074**	13,467

17.5 The land where the Equity Hotels Limited is located, in Polonnaruwa, is on a 30 year lease from 01st January 1997 to 31st December 2026. Consequent to a request for an extension by the Company, Sri Lanka Tourism Development Authority has agreed to extent lease for another 30 years effective from August 2008. 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	2016	2015	2016	2015
Plant and Machinery	**24,691**	25,442	**17,232**	17,983
Equipment, furniture and fittings	**19,339**	17,258	**13,211**	11,131
Computer equipments	**7,169**	4,917	**7,152**	4,900
	51,199	47,617	**37,595**	34,014

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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 (2015 - 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

The Government of Sri Lanka acquired approximately 1,605 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 14th May 2008 for the public purpose of a fisheries harbour project.

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

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, at the time of acquisition, in the financial statements of 2008/09.

On 15th March 2011, the Sri Lanka Navy had 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. However the requested land will only be provided to Sri Lanka Navy via fresh Supreme Court ruling. Accordingly until the determination of the aforesaid legal steps, the entire land extent in question (353.89 perches) will continue to be accounted in the Statement of Financial Position of the Company under property, plant and equipment at the market value. As at the balance sheet date Company is yet to regain title for the said extent of 353.89 perches of land acquired, which could be done only once the Fisheries Harbour Corporation confirms that all construction work relating to the Fisheries Harbour project is completed, through a fresh motion to the Supreme Court.

Accordingly the carrying value of the said land, (353.89 perches) amounting to Rs. 52,950,000/- (2015 - Rs. 52,950,000/-) as at the reporting date has not been removed from the property, plant and equipment.

As at 31st March	Group 2016	Group 2015	Company 2016	Company 2015
18. Intangible assets				
18.1 Goodwill on consolidation				
Balance as at the beginning of the year	115,287	115,287	-	-
Acquisition during the year	-	-	-	-
Impairment	-	-	-	-
Balance as at the end of the year	115,287	115,287	-	-

18.2 Goodwill is allocated to Equity Hotels Limited which is a cash generating unit (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.

Accordingly there is no indication of an impairment on goodwill on acquisition of Equity Hotels Limited as at 31st March 2016.

18.3 Accounting software included under intangible assets is fully amortized as at 31st March 2016 (2015 - Nil).

As at 31st March	Group 2016	Group 2015	Company 2016	Company 2015
19. Investment in subsidiary				
Investment in subsidiary (note 19.1)	-	-	110,223	110,223
	-	-	110,223	110,223

	No. of shares	Cost as at 31st March 2016	No. of shares	Cost as at 31st March 2015
19.1 Details of investment in subsidiary				
Equity Hotels Limited	685,469	110,223	685,469	110,223
Total investment in subsidiary		110,223		110,223

The company owns 99.99% of the Stated Capital of Equity Hotels Limited, accordingly there is no Non Controlling Interest (NCI) in the Consolidated Financial Statements.

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(All figures in Sri Lankan Rupees thousands)

As at 31st March	Group 2016	Group 2015	Company 2016	Company 2015
20. Compensation receivable				
Balance as at the beginning of the year	**122,545**	109,906	**122,545**	109,906
Unwinding of discount on compensation receivable	**14,133**	12,639	**14,133**	12,639
Balance as at the end of the year	**136,678**	122,545	**136,678**	122,545

20.1 The Government of Sri Lanka acquired approximately 1,605 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 14th May 2008 for the public purpose of a fisheries harbour project. The Divisional Secretary called for claim of compensation in response to which Company submitted a claim of compensation for the compulsory acquisition of the said land on 16th July 2008. The final claim stands at Rs.563mn taking into account the market value of the property, potential economic value lost for hotel expansion and the nuisance value that will be created for hotel operation by the said project. However, as a matter of prudence the Company has accounted for the compensation receivable of Rs. 189.5mn in the financial statements based only on the market value and related costs supported by a professional valuation conducted by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka), Valuer and Consultant.

As at the reporting date, Company has not received any confirmation from the Divisional Secretary on the value determination of the said claim, due to the court case described in note 31.3. In the opinion of the lawyer's the said court case which is the reason for the delay in processing the compensation claim submitted by the Company, may take further 2 to 3 years to reach a finality. If a ruling is made at District Court within such time estimation and ruling is accepted by the losing party then the value determination of the claim would take place. However, further two appeal options are available for both parties at Provincial Civil Appellate Court and to the Supreme Court if either party decided to contest the verdict of the District Court.

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

The amounts recognised in the financial statements represents the amortised cost of the compensation receivable as at the respective reporting dates, based on the assumptions which are more fully described in note 32.1.1.a. An amount of Rs. 14.1mn (2015 - Rs. 12.6mn) has been recognized in the Statement of Profit or Loss on account of unwinding of discount on compensation receivable.

As at 31st March	Group 2016	Group 2015	Company 2016	Company 2015
21. Inventories				
Food	**4,559**	3,098	**3,686**	2,294
Beverage	**3,141**	1,726	**2,407**	1,051
Engineering spares	**1,514**	1,572	**1,278**	1,320
Linen	**2,881**	3,940	**1,700**	2,106
Others	**4,064**	2,725	**3,649**	2,401
	16,159	13,061	**12,720**	9,172

As at 31st March	Group 2016	Group 2015	Company 2016	Company 2015
22. Fair value through profit or loss financial assets				
Investments in Units Trust - unquoted	180,146	-	180,146	-
	180,146	-	180,146	-

Investment in unit trusts - unquoted	Group / Company					
	2016			2015		
As at 31st March	No. of units	Cost	Fair value	No. of units	Cost	Fair value
Guardian Acuity Money Market Fund	12,111,271	151,000	153,813			
Guardian Acuity Money Market Gilt Fund	247,329	25,000	26,333	-	-	-
		176,000	180,146	-	-	-

Valuation of unit trust is based on the unit price published by the Investment Managers as at 31st March.

As at 31st March	Group 2016	Group 2015	Company 2016	Company 2015
23. Trade and other receivables				
Financial				
Trade receivables (note 23.1)	46,849	41,401	40,487	35,200
Other receivables	3,016	1,806	2,006	1,484
Loans given to company officers (note 23.2)	138	156	122	141
	50,003	43,363	42,615	36,825
Non-financial				
Advances and prepaid expenses	4,982	2,802	4,219	2,230
Fair valuation of corporate guarantees	-	-	-	-
	4,982	2,802	4,219	2,230
	54,985	46,165	46,834	39,055
23.1 Trade receivables				
Trade debtors	46,849	42,322	40,487	36,121
Less: Provision for impairment of trade receivables	-	(921)	-	(921)
	46,849	41,401	40,487	35,200
23.2 Loans given to company officers				
Balance as at the beginning of the year	156	512	141	497
Loans granted during the year	1,148	1,222	694	694
Amount recovered during the year	(1,166)	(1,578)	(713)	(1,050)
Balance as at the end of the year	138	156	122	141

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(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	As at 31st March	2016	2015	2016	2015
24.	**Cash and cash equivalents**				
	Cash at bank and in hand	**18,958**	31,092	**16,729**	29,533
	Placements with banking institutions	**14,018**	10,387	**-**	-
	Placements in government securities	**-**	93,538	**-**	93,538
		32,976	135,017	**16,729**	123,071
25.	**Stated capital**				
	Issued and fully paid				
	At the beginning of the year (30,391,538 shares)	**515,170**	515,170	**515,170**	515,170
	At the end of the year (30,391,538 shares)	**515,170**	515,170	**515,170**	515,170
26.	**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

26.1 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 an asset will be offset against the previous increase for the same asset which was credited to the revaluation reserve. A further decline over and above the revaluation surplus is recognized as an expense in the Statement of Profit or Loss. A subsequent increase of 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 Profit or Loss.

26.2 Capital accretion reserve

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

		Group		Company	
	As at 31st March	2016	2015	2016	2015
27.	**Revenue reserves**				
	General reserve	**176**	176	**176**	176
	Retained earnings	**377,808**	281,976	**339,264**	251,844
		377,984	282,152	**339,440**	252,020

27.1 General reserves

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

As at 31st March	Group 2016	Group 2015	Company 2016	Company 2015
28. Deferred tax liability				
Balance as at the beginning of the year	34,559	28,741	33,014	27,572
Charge for the year (note 28.1)	4,955	5,818	5,024	5,442
Balance as at the end of year	39,514	34,559	38,038	33,014
28.1 Charge for the year				
The amounts recognized in the statement of profit or loss are as follows;				
Property, plant and equipment	1,765	1,278	1,828	1,339
Employee benefits	(297)	189	(182)	304
Tax losses	3,665	4,351	3,540	3,799
	5,133	5,818	5,186	5,442
The amount recognized in the statement of other comprehensive income is as follows;				
Employee benefits	(178)	-	(162)	-
	(178)	-	(162)	-
Provision for the year	4,955	5,818	5,024	5,442
28.2 Deferred tax assets				
Tax effect on employee benefit	1,974	1,499	1,153	809
Tax effect on tax losses	21,560	25,225	21,560	25,100
Total deferred tax assets	23,534	26,724	22,713	25,909
28.3 Deferred tax liability				
Tax effect on property, plant and equipment	63,048	61,283	60,751	58,923
Total deferred tax liabilities	63,048	61,283	60,751	58,923
Net deferred tax liability	39,514	34,559	38,038	33,014
29. Employee benefits				
29.1 The movement in the liability recognized in the statement of financial position is as follows;				
Balance as at the beginning of the year	12,495	14,063	6,739	9,278
Provision for the year (note 29.2)	4,688	3,896	3,461	2,570
Payments made during the year	(733)	(5,464)	(590)	(5,109)
Balance as at the end of the year	16,450	12,495	9,610	6,739

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(All figures in Sri Lankan Rupees thousands)

As at 31st March	Group		Company	
	2016	2015	2016	2015
29.2 Provision for the year				
The amounts recognized in the Statement of Profit or Loss is as follows;				
Current service cost	**1,953**	1,415	**1,433**	937
Interest cost	**1,250**	1,406	**674**	928
	3,203	2,821	**2,107**	1,865
The amount recognized in the statement of other comprehensive income are as follows;				
Actuarial losses	**1,485**	1,075	**1,354**	705
	1,485	1,075	**1,354**	705
Provision for the year	**4,688**	3,896	**3,461**	2,570

The Employee benefits as at 31st March 2016 amounting to Rs. 9,609,812/- and Rs. 16,449,741/- (2015 - Rs. 6,739,100/- and Rs. 12,495,402/-) for the Company and the Group respectively are estimated 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	10.5% p.a. (2015 - 10.00 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 Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below,

As at 31st March	Group		Company	
	2016	2015	2016	2015
1% increase in discount rate	**(1,753)**	(1,389)	**(684)**	(490)
1% decrease in discount rate	**588**	395	**778**	556
1% increase in salary escalation rate	**645**	438	**810**	578
1% decrease in salary escalation rate	**(1,823)**	(1,442)	**(725)**	(518)

29.4 The employee benefit obligation has not been externally funded.

As at 31st March	Group 2016	Group 2015	Company 2016	Company 2015
30 Trade and other payables				
Financial				
Trade payables	**39,515**	18,243	**35,539**	14,034
Other payables	**20,643**	17,421	**14,200**	10,399
	60,158	35,664	**49,739**	24,433
Non financial				
Deposits and advances	**10,461**	9,257	**8,741**	7,793
Provisions and accrued expenses	**23,266**	19,888	**19,345**	16,401
	33,727	29,145	**28,086**	24,194
	93,885	64,809	**77,825**	48,627
31. Commitment and contingencies				
31.1 Capital commitments				
Approved and contracted for	**731**	31,406	**731**	31,406

31.2 Financial commitments

The Company and the Group do 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 court process 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. Since the crystallization of the contingent liability is subject to the ruling of the District Court case followed by the available appeal process thereafter and the subsequent value determination of the claim by the Government valuer, said contingent liability cannot be quantified.

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

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(All figures in Sri Lankan Rupees thousands)

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 appointed Carsons Management Services (Private) Limited, the management company, to develop and monitor 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 policies 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. The 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, investments in units trusts 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 of credit risk at the end of the reporting period was as follows.

	Group	
As at 31st March	2016	2015
Compensation receivable (note 20)	**136,678**	122,545
Fair value through profit or loss financial assets (note 22)	**180,146**	-
Trade and other receivables (note 23)	**50,003**	43,363
Cash and cash equivalents (note 24)	**32,976**	135,017
	399,803	300,925

a) **Compensation receivable**

As disclosed in note 20.1, the Company has accounted Rs. 189.5mn 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 based on a professional valuation conducted by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka), Valuer and Consultant. Even though the full claim was filed taking in to consideration potential economic value lost for hotel expansion and the nuisance value that will be created for hotel operation by the said project, the compensation receivable was booked based on market valuation and related costs on prudency.

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 stage. Even if a ruling is made at District Court, a further two appeal options are available for both parties at Provincial Civil Appellate Court 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 cases have come to a finality.

Considering the pattern in which similar proceedings / events were resolved, the Company took a view that it will take up to 8-10 years to bring the Court case to a conclusion, at the time of initial recognition.

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

Expected timing of cash flows Year 2018

Discount rate used The weighted average deposit rate (WADR) at the date of acquisition (11.5%)

This treatment is required as per the provision of LKAS 39 - Financial Instruments - Recognition and Presentation.

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Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

b) **Fair value through profit or loss financial assets - investment in unit trusts**

The Company has invested in Unit Trusts, Guardian Acuity Fixed Income Fund and in Guardian Acuity Fixed Income Gilt Fund.

These investments are carried at their fair values; being the net asset value of the funds at each reporting date. The funds comprise fixed income earning instruments at a given point in time, with due consideration for liquidity, which will enable to realise its carrying values with a minimum loss in value. Further, these funds are regulated in such a way that the fund carry adequate assets in highly liquid form, generally 5% of the net assets value, which will ensure customer withdrawals are settled promptly.

A due evaluation process has been carried out by the Company prior to these investments, to assess their ability to repay, in the event the Company wishes to withdraw, within the existing regulatory framework.

c) **Trade and other 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, delivery terms and conditions are offered. Credit limits are established for each customer, which represents the maximum open amount that cant be offered 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 customer or tour operator, and also evaluate to identify the 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 prepayment basis.

The Group establishes an allowance for impairment that represent 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	2016	2015
Corporate customers	**10,141**	6,428
Tour operators	**35,164**	33,863
Others	**1,544**	1,110
	46,849	41,401

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	2016	2015
1–30 days	**25,353**	23,950
31–90 days	**18,525**	15,332
91–120 days	**872**	1,387
121 above	**2,099**	732
	46,849	41,401

No allowance for impairment has been made in respect of trade and other receivables, as at the year end (2015 - Rs. 0.92mn).

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.

d) Cash and cash equivalents

The Group held cash and cash equivalents of Rs. 33mn as at 31st March 2016 (2015: Rs.135mn), which represents the 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.

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 of financial liabilities at the end of the reporting period.

31st March 2016	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							
Trade payables	39,515	39,515	39,515	-	-	-	-
Other payables	20,643	20,643	20,643	-	-	-	-
	60,158	60,158	60,158	-	-	-	-

31st March 2015	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							
Trade payables	18,243	18,243	18,243	-	-	-	-
Other payables	17,421	17,421	17,421	-	-	-	-
	35,664	35,664	35,664	-	-	-	-

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

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

32.2.2 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; placements with Banking institutions and in government securities in order to meet its contractual obligations during the normal course of its operations. As at the reporting date, the Group's Cash and cash equivalents' amounted to Rs. 33mn (2015 - Rs. 135mn)

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. 2.5mn as at 31st March 2016.

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 which will affect the Group's income or the value of its 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 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 of the Group. 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

As at the reporting date no financial assets / liabilities exposed to variable rates of interest, hence the group exposure to interest rate risk is not material as at the reporting date.

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.

	Group	
As at 31st March	2016	2015
Variable rate instruments		
Financial assets	-	93,538
Financial liabilities	-	-
	-	93,538
Fixed rate instruments		
Financial liabilities	-	-
	-	93,538

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.

	Profit / (loss)	
Group	1% Increase	1% Increase
31st March 2016		
Variable rate instruments	-	-
31st March 2015		
Variable rate instruments	935	(935)

32.4 Accounting classifications and fair values

Financial instruments are measured either at fair value or amortised cost. The "summary of significant accounting policies" describes how the classes of financial instruments are measured, and how the relevant 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.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

32.5 Fair value vs carrying amounts

31st March 2016	Trading	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	-	136,678	-	-	136,678	-
Fair value through profit or loss financial assets	180,146	-	-	-	-	180,146	180,146
Trade and other receivables	-	-	50,003	-	-	50,003	50,003
Cash and cash equivalents	-	-	32,976	-	-	32,976	32,976
	180,146	-	219,657	-	-	399,803	399,803
Trade and other payables	-	-	-	-	49,765	60,158	60,158
	-	-	-	-	49,765	60,158	60,158

31st March 2015	Trading	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	-	122,545	-	-	122,545	122,545
Trade and other receivables	-	-	43,363	-	-	43,363	43,363
Cash and cash equivalents	-	-	135,017	-	-	135,017	135,017
	-	-	300,925	-	-	300,295	300,295
Loans and borrowings	-	-	-	-	-	-	-
Trade and other payables	-	-	-	-	35,664	35,664	35,664
	-	-	-	-	35,664	35,664	35,664

32.6 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows.

Level 1 : Availability of quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 : Use of inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 : Use of inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
As at 31st March 2016				
Fair value through profit or loss financial assets	180,146	-	-	180,146
	180,146	-	-	180,146
As at 31st March 2015				
Fair value through profit or loss financial assets	-	-	-	-
	-	-	-	-

There were no transfers between Level 1, Level 2 and Level 3 during the financial period under review (2015 - Nil).

33. Related party Transactions

The Company carries out transactions in the ordinary course of its business on an arm's length basis with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS 24) - "Related party disclosures ", the details of which are reported below.

33.1 Parent and ultimate controlling party

In the opinion of the Directors, Carson Cumberbatch PLC is the parent company of Pegasus Hotels of Ceylon PLC and Bukit Darah PLC is the ultimate parent and controlling entity 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 directly or indirectly. Accordingly, the Directors of the Company, (including executive and non-executive directors), Resident Manager of the Company (Hotel) and Director - Finance of Managers and Secretaries, Carsons Management Services (Private) Limited have been classified as Key Management Personnel of the Company.

	Group		Company	
As at 31st March	2016	2015	2016	2015
33.2.1 Key management personnel compensation				
Short-term employee benefits	**700**	12,238	**700**	9,631
Post-employment benefits	**-**	-	**-**	-
Termination benefits	**-**	3,262	**-**	3,262
Non-cash benefits	**-**	41	**-**	41
Other long-term benefits	**-**	-	**-**	-
	700	15,541	**700**	12,934

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

33.3 Group entities

	% equity interest	
Name of the subsidiary	2016	2015
Equity Hotels Limited	**99.9%**	99.9%

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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		Company	
			2016	2015	2016	2015
Parent company						
Carson Cumberbatch PLC	H. Selvanathan D.C.R. Gunawardena	Interest on short-term advances obtained	-	367	-	367
		Settlements made on short-term advances provided	-	19,949	-	19,949
Subsidiary						
Equity Hotels Limited	D.C.R. Gunawardena	Reimbursement of expenses received	-	-	667	5,510
		Dividend received	-	-	3,085	4,935
Fellow subsidiaries						
Carsons Management Services (Private) Limited (CMSL)	H. Selvanathan K. Selvanathan	Reimbursement of expenses paid	1,931	22,721	1,419	22,721
		Computer charges	222	150	150	150
		Secretarial fees	504	450	403	360
		Support Service Fee	7,910	6,399	6,059	5,319
		Internal audit services	1,669	1,866	1,669	1,866

- Related company lending (including short - term advances) have been charged interest at AWPLR+1%.
- Support service fee and other expenses charged are based on the respective services provided by CMSL as per the service agreements signed between companies on an arm's length basis.

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

Company	Purpose	Outstanding balance	
		2016	2015
Equity Hotels Limited	Corporate guarantee on overdraft facility from Commercial Bank of Ceylon PLC	-	-

As at 31st March	Company 2016	Company 2015
34. Dividend per share		
Dividend paid	**15,196**	15,196
Dividend proposed*	**15,196**	15,196
Dividend per share	**0.50**	0.50

*The proposed dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting of the Company and according to the Sri Lanka Accounting Standard (LKAS 10) - "Events after the reporting period", the liability on the proposed dividend has not been provided for in the financial statements.

35. 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/- (2015 - Rs.0.50) per ordinary share for the year ended 31st March 2016 amounting to Rs.15,195,769/- (2015 - 15,195,769 /=) which is to be approved at the forthcoming Annual General Meeting of the Company. 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 2016.

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

36. 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.

Five Year Summary

(All figures in Sri Lankan Rupees thousands)

	Group				
For the year ended / As at 31st March	2016	2015	2014	2013	2012
Trading Results					
Revenue	**582,209**	510,255	452,205	493,184	425,975
Profit from operations	**109,177**	92,365	67,913	151,487	131,205
Net finance income / (cost)	**24,520**	17,961	7,419	6,687	4,759
Profit from operations after finance cost	**133,697**	110,326	75,332	158,174	135,964
Income taxation	**(13,022)**	(14,458)	(8,776)	(16,211)	(15,231)
Profit for the year	**120,675**	95,868	66,556	141,963	120,733
Other comprehensive income / (expense) for the year	**(1,307)**	(1,075)	-	-	-
Total comprehensive income for the year	**119,368**	94,793	66,556	141,963	120,733
Shareholders' Funds					
Stated Capital	**515,170**	515,170	515,170	515,170	404,241
Reserves	**1,053,083**	957,251	877,654	827,469	700,702
Shareholders' funds	**1,568,253**	1,472,421	1,392,824	1,342,639	1,104,943
Assets Employed					
Property, plant and equipment	**1,186,133**	1,157,858	1,171,770	1,147,402	1,079,292
Intangible assets	**115,287**	115,287	115,287	115,287	115,287
Compensation Receivable	**136,678**	122,545	109,906	98,441	88,264
Non Current assets	**1,438,098**	1,395,690	1,396,963	1,361,130	1,282,843
Current assets	**284,266**	194,243	134,009	144,370	150,141
Current liabilities	**(98,147)**	(70,458)	(87,466)	(111,632)	(277,066)
Working capital	**186,119**	123,785	46,543	32,738	(126,925)
Assets employed	**1,624,217**	1,519,475	1,443,506	1,393,868	1,155,918
Non-current liabilities					
Loans and borrowings	**-**	-	(7,878)	(16,446)	(25,014)
Employee benefits	**(39,514)**	(12,495)	(14,063)	(10,465)	(8,280)
Deferred tax liability	**(16,450)**	(34,559)	(28,741)	(24,318)	(17,681)
Total non-current liabilities	**(55,964)**	(47,054)	(50,682)	(51,229)	(50,975)
Net assets	**1,568,253**	1,472,421	1,392,824	1,342,639	1,104,943
Profitability Ratios					
Profit margin (%)	**21**	19	15	29	28
Return on shareholders' funds (%)*	**8**	7	5	11	11
Liquidity Ratios					
Current ratio (times)	**2.90**	2.76	1.53	1.29	(1.85)
Debt equity (%)	**-**	-	2.61	5.70	19.86
Investor Ratios					
Earnings per share (Rs.)**	**3.97**	3.15	2.19	4.68	4.39
Dividend per share (Rs.)	**0.50**	0.50	0.50	0.50	0.50
Net assets per share (Rs.)	**51.60**	48.45	45.83	44.18	40.40
Market price per share (Rs.)	**31.50**	41.00	37.00	36.90	38.00
Dividend yield (%)	**1.59**	1.22	1.35	1.36	1.32
Dividend payout (%)	**12.59**	15.87	22.83	10.68	11.39
Hotel Operations					
Occupancy (%)	**60**	49	47	58	59

Notes

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

**Profit attributable to shareholders of the company divided by the weighted average number of ordinary shares outstanding.

Statement of Value Added

(All figures in Sri Lankan Rupees thousands)

As at 31st March	2016		2015	
Revenue	582,209		510,255	
Other income including finance income	33,172		25,368	
Cost of materials and services bought from outside	(293,176)		(248,357)	
	322,205		287,266	
Distributed as follows:		%		%
To employees				
as remuneration	130,795	41	123,756	43
To government				
as taxation*	7,889	2	8,640	3
To providers of capital				
as dividend	15,196	5	15,196	5
as interest and other charges	-	-	1,118	0
Retained in the business				
as deferred taxation	4,955	2	5,818	2
as notional adjustments on LKAS / SLFRS	14,441	4	12,651	4
as depreciation	43,450	13	39,415	14
as profit for the year (adjusted for dividends)	105,479	33	80,672	28
	322,205	100	287,266	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

(All figures in Sri Lankan Rupees thousands)

1. Stock Exchange Listing

Pegasus Hotels of Ceylon PLC is a public quoted Company, the Ordinary Shares of which are listed on the Diri Savi Board of the Colombo Stock Exchange of Sri Lanka.

The Ordinary Shares of the Company were transferred from the Colombo Stock Exchange Main Board to the Diri Savi Board with effect from 4th September 2016.

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

2. Ordinary Shareholders

Number of Shareholders

As at 31st March	2016	2015
Number of Shareholders	**2,515**	2,336

2.2 Distribution and Composition of Shareholders

The number of shares held by Non - Residents as at 31st March 2016 was 126,520 (2015 - 128,966) which amounts to 0.42% (2015 - 0.42%) of the total number of Ordinary Shares.

Distribution of Shares	Residents			Non - Residents			Total		
	No. of share holders	No. of shares	%	No. of share holders	No. of shares	%	No. of share holders	No. of shares	%
1 - 1,000	2,256	317,834	1.05	19	5,105	0.02	2,275	322,939	1.07
1001 - 10,000	181	593,892	1.95	2	6,236	0.02	183	600,128	1.97
10,001 - 100,000	49	1,420,369	4.67	3	115,179	0.38	52	1,535,548	5.05
100,001 - 1,000,000	4	585,438	1.93	-	-	-	4	585,438	1.93
Above 1,000,000	1	27,347,485	89.98	-	-	-	1	27,347,485	89.98
Total	2,491	30,265,018	99.58	24	126,520	0.42	2,515	30,391,538	100.00

Categories of Shareholders	As at 31st March 2016		
	No. of Shareholders	No. of Shares	%
Individuals	2,439	2,238,204	7.37
Institutions	76	28,153,334	92.63
Total	2,515	30,391,538	100.00

3. Market performance - Ordinary shares

For the year ended 31st March	2016	2015
As at 31st March (Rs.)	**31.50**	41.00
Highest (Rs.)	**48.00**	49.00
Lowest (Rs.)	**25.00**	35.30
Value of shares traded (Rs.)	**63,386,914**	60,363,858
No. of shares traded	**1,563,399**	1,383,256
Volume of transactions (Nos.)	**1,589**	2,130

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. 957,333,447/- as at 31st March 2016 (2015 - Rs. 1,246,053,058/-).

5. Public Holding

The percentage of Ordinary Shares held by public as at 31st March 2016 was 10.01 % (2015 - 6.90%) and the number of Public Shareholders were 2,512 (2015 - 2,333)

6. Dividend

The Directors have recommended a first & final dividend of Rs. 0.50 per Ordinary Share for the year ended 31st March 2016 (2015 - Rs. 0.50 per share).

7. Value of the properties - Land and building

Location	2016 Extent (in hectares)	2016 Number of Buildings	Market Value 2016 Rs.'000	Date of professional valuation
Pegasus Reef Hotel, Wattala	5.45	1	1,019,965	31st March 2012
Equity Hotels Limited, Polonnaruwa (lease hold land)	6.03	1	21,274	31st March 2012

8. Number of Employees

The number of employees at the end of the year was 202 and 272 (2015 - 181 and 251) for the Company and the Group respectively.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the FIFTIETH Annual General Meeting of PEGASUS HOTELS OF CEYLON PLC will be held on Wednesday, 15th day of June 2016 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 2016, 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 Article 72, 73 and 74 of the Articles of Association of the Company.
4. To re-elect Mr. K. Selvanathan as a Director in terms of Article 68 of the Articles of Association of the Company.
5. 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 76 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."
6. 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 2016

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 4.45 p.m. on 13th day of June 2016.
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. Registration will be from 2.00 p.m to 3.30 p.m.
6. 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

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,
Hariharan Selvanathan	or failing him,
Sega Nagendra	or failing him,
Mahendra Dayananda	or failing him,
Wijemuni Asoka Anandalal De Zoysa Gunasekera	or failing him,
Krishna Selvanathan	

As *my/our proxy to attend at the 50th Annual General Meeting of the Company to be held on Wednesday the 15th day of June 2016 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 2016, 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 2016, 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-elect Mr. K. Selvanathan as a Director in terms of Article 68 of the Articles of Association of the Company.		
5.	To re-appoint Mr. S. Nagendra who is over Seventy years of age as a Director of the Company.		
6.	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 Sixteen.

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 authorised officer on behalf of the corporation.

The Directors may, but shall not be bound to, require evidence of the authority of any such attorney or authorised officer.

4. In terms of Article 50 of the Articles of Association of the Company :

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

5. To be valid the completed form of proxy should be deposited at the Registered Office of the Company situated at No. 61, Janadhipathi Mawatha, Colombo 1 not later than 4.45 p.m. on 13th June 2016.

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.The Company was transferred from the Main Board to Diri Savi Board w.e.f. 04th September 2015.

Parent Company
In the opinion of the Directors, Carson Cumberbatch PLC is the Parent Company of Pegasus Hotels of Ceylon PLC and Bukit Darah PLC is the Ultimate Parent and Controlling entity of Pegasus Hotels of Ceylon PLC.

Directors
Chandima Gunawardena (Chairman)
Mano Selvanathan (Resigned w.e.f. 15th November 2015)
Hari Selvanathan
Sega Nagendra
Mahendra Dayananda
Krishna Selvanathan (Appointed w.e.f. 15th November 2015)
Asoka De Z. Gunasekera (Will step down from the Board at the conclusion of the AGM)

Alternate Director
K.C.N. Fernando (Ceased to be Alternate Director to Mr. M. Selvanathan w.e.f 15th November 2015).

Place of Business
Santha Maria Mawatha, Wattala.

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

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
Pegasus Hotels of Ceylon PLC
H. Jayasinghe
K. Gunathilaka
M. Munasinghe
R. Jayawickrama
D. Fernando
N. Jayakody
M. Abeywickrama
L. Waidyakumara

Equity Hotels Limited
T. Ganeshan
S. Ekanayake
H. Nandasena
M. Tennekoon

Hotel Website
www.pegasusreefhotel.com

Corporate Website
www.carsoncumberbatch.com

Designed & produced by
emagewise
Printed by Printage (Pvt) Ltd

www.pegasusreefhotel.com