Relax, Recharge and Back to Business

Pegasus Hotels of Ceylon PLC
A Carson Cumberbatch Company

Annual Report 2016/ 2017


The Fishery

Relax, Recharge and Back to Business

Much like our mythological namesake, "Pegasus" Reef Hotel offers an experience that takes you far above the norm.

A short drive from the airport and the commercial capital, Pegasus Reef Hotel provides ease of access and a tranquil, secluded setting that deftly combines business with pleasure and convenience with the utmost comfort.

During the year under review, Pegasus Reef Hotel underwent a significant renovation; this investment in the property ensures that guests enjoy a tropical retreat that features luxurious accommodations, delightful fine dining experiences, and the full complement of amenities required for a range of elegant events, from business functions to weddings.

It's just everything you need to Relax, Recharge and get back to Business.

Contents

Financial Highlights - Group

(All figures in Sri Lankan Rupees thousands)	2017	2016
Revenue	543,200	582,209
Gross Profit	208,758	261,669
Profit from operations	16,722	109,177
Profit before taxation	43,998	133,697
Profit for the year	41,543	120,675
Earnings per share (Rs.)	1.37	3.97
Dividend per share (Rs.)	0.50	0.50
Total assets	2,426,223	1,722,364
Shareholders' Equity	2,200,222	1,568,253
Net assets per share (Rs.)	72.40	51.60
Financial ratios		
Gross profit (%)	38	45
Net profit (%)	8	21
Return on equity (%)	2	8
Current ratio (times)	1.09	2.9
Market price per share (Rs.)	32.50	31.50
Occupancy (%)	47	60

Rs. **543** Mn
Revenue

Rs. **2,426** Mn
Group Total Assets

Rs. **16.7** Mn
Operating Profit

Sri Lanka seems to be gearing up to embrace a more developed tourist market going forward...

Chairman's Statement

"During the year, Pegasus Reef hotel invested over Rs. 230 Mn in an extensive room refurbishment programme incorporating modern enhancements embedding new features to 81 of its 140 rooms."

Dear Shareholder,

It is with pride I report, on behalf of the Board of Directors, that Pegasus Hotels of Ceylon PLC concluded an eventful year, demonstrating sustained strength and resilience in its performance. I am pleased to present to you, the Annual Report and Consolidated Audited Financial Statements of the group for the financial year ended 31st March 2017 at this 51st Annual General Meeting of your Company.

Overall, the Sri Lankan Leisure Industry dynamics continue to remain favourable. With an ambitious visitor arrival target of 4 Mn to be reached by 2020 set by the Government, the country seems to be gearing up to embark on a more developed tourism journey going forward. At present, though efforts are taken to actively promote Sri Lanka across favourite tourist markets, I believe there is further room for improvement. Being an island with abundant resources, providing a plethora of opportunities to target and promote niche segments in achieving a greater influx of tourists through distinctive positioning as a prime tourist attraction in the world should not be that difficult. Developing human capital and related infrastructure to provide enhanced service standards and a safe and quality tourist destination may be a harder target but all too vital in this journey.

At this juncture where the industry is enjoying strong fundamentals, I believe there are certain important concerns to be addressed as well. Indeed, the competition is intensifying across the industry with a large number of graded rooms being pumped in to the market at a fast pace. In an environment characterised by such stiff competitiveness, it is distressing to see the unregulated informal tourism sector still enjoying unfair advantages. While the Government's decision to impose mandatory minimum standards on such accommodation is commendable, I hope to see the fast and smooth implementation of such decisions in the foreseeable future. Adding to the challenges, the industry indeed experiences high labour cost amid lack of skilled staff, hence development of adequate human capital in the country is essential to satiate the growing industry demand.

Against the aforestated bigger picture, it is vital to focus on what your hotels have achieved during the year.

PEGASUS REEF HOTEL

During the year, Pegasus Reef hotel invested over Rs. 230 Mn in an extensive room refurbishment programme incorporating modern enhancements embedding new features to 81 of its 140 rooms. The project which reached successful completion after an approximate construction period of six months was primarily initiated to introduce a modern experience, in an effort to make the hotel stand out and be the guests' preferred choice of stay in its niche market. Hence, for the fiscal year under review, the hotel operated with only 40 rooms for an approximate period of six months, where the refurbishment activities were subtly carried out during the off-peak season with minimal disruptions to the routine operations of the hotel.

As extensions to the room refurbishment, your hotel witnessed the kitchen area getting upgraded in an effort to optimize cost efficiencies and a small meeting room being added to complement the growing banquet business of the Pegasus Reef Hotel.

Given the numerous upgrading activities taking place, your hotel's performance for the financial year 2016/17 is all the more noteworthy. The hotel recorded a turnover of Rs. 442. 6 Mn for the year, rallied by a strong Food and Beverage income primarily stemming from the impressive banquet performance. Notably, the up-market sea-food restaurant "The Fishery" strode to a successful growth period, with a blend of unique cuisines on offer. Hotel occupancy for the year based on the rooms which were operational during the year averaged at 62% while the average room rates observed a marginal increase. This was as a result of change in occupancy mix due to the fact that hotel was not promoted to its mainstay segment, the travel agents, during the refurbishment period, as adequate rooms couldn't be provided to meet the demand.

Driven by the higher F&B revenue and commitment to maintain strict cost disciplines, Pegasus Reef observed a net profit of Rs. 31.1 Mn, even in the backdrop of aforementioned room closure for 6 months. It is important to note that your hotel operated at a minimal finance cost by utilising the accumulated cash reserves for the refurbishment, which will facilitate to maintain the hotel's competitiveness in tougher market conditions ahead. Further, during the room refurbishment, your hotel maintained the monthly average service charges to the staff at the expense of the hotel by topping-up the difference, demonstrating its strong recognition of staff welfare.

GIRITALE HOTEL

Your 40 room property at scenic Giritale witnessed another satisfactory year of operational performance with an average occupancy of 63%, in the midst of a challenging competitive environment. Following the completion of a successful extensive room refurbishment at Pegasus Reef Hotel, we intend to gradually provide a facelift to the rooms at Giritale hotel in order to improve the hotel's competitiveness, service standards and thus the brand image.

The consolidated revenue from both hotels totalled to Rs. 543.2 Mn while the consolidated net profits amounted to Rs. 41.5 Mn for the financial year 2016/17.

In spite of a capital-intensive year, the Board of Directors has proposed a First and Final dividend of Rs. 0.50 per share for the year ended 31st March 2017 for shareholders' approval.

As I write, headwinds of competition remain challenging amid tough operating conditions. Specifically, there is a steep increase in room supply visible in and around Colombo, where most of the star-class hotels are offering rates as low as USD 75-80, hence going forward Pegasus Reef hotel would be operating in such an environment identified with intense price competition. Yet, I believe, the outlook of the tourism industry for the coming years is promising, where we could possibly observe moderate growth across the industry.

To conclude, on behalf of the Board, I wish to express our heartfelt gratitude to our shareholders, our guests, suppliers, and the community at large, for the encouraging support extended throughout the year. I seize this opportunity to express a profound thank you to my fellow Board members, the members of the Audit Committee, Remuneration Committee, Nomination Committee and the Related Party Transactions Review Committee for their invaluable counsel, support and guidance during the year. Meanwhile, I would also like to thank Mr. Asoka Gunasekera who stepped down from the Board with effect from 15th June 2016, for the unwavering support rendered throughout. I wish him all the success in his future endeavours. Also, a very warm welcome to Mr. S. R. Mather who joined the Board with effect from 01st July 2016. In addition, I believe a special mention is due of the staff teams of both the hotels, without whom our seamless performance would not have been possible.

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

Colombo
15th May 2017

Management Discussion & Analysis

In spite of a more cautious looking operating environment and notwithstanding the intensifying competition across the leisure industry, we remain agile and responsive to market conditions.

Management Discussion & Analysis

INDUSTRY SNAPSHOT

So far, the post-war boom of the Sri Lankan Tourism has been noteworthy to say the least. From just over 430,000 tourist arrivals registered in 2008, the country was able to successfully surpass yet another milestone of 2 Mn tourists by end of 2016. Demonstrating a steady growth of 14% in visitor arrivals during the past year, Sri Lanka continued to shine as one of the hotspots in the region for leisure tourism. Nevertheless, increased efforts in adding novel elements to promote Sri Lanka beyond a traditional leisure destination are needed and thankfully is on the rise albeit gradually.

2016 was yet another eventful year for the Sri Lankan Tourism. Western Europeans persevered in their dominance, constituting 31% of the total arrivals to the country, yet the East-Asian market, mainly comprising Chinese visitors expanded at a faster pace. Specifically, Chinese arrivals increased by an impressive 26%.

Certainly, Sri Lankan tourism indicates tremendous growth potential. Earnings from Tourism too grew by a commendable 18% during 2016 to stand at USD 3.5 Bn. Also, in January 2017, the country was recognised as one of the most fashionable destinations to visit, by the Vogue Magazine, which is further exciting news. In terms of infrastructure, the runway upgrade and airport refurbishment could possibly allow more flights both in size and numbers to the country in the days ahead. Increased number of hotels are being built in all regions of the country in anticipation of a booming tourist market. The climate for tourism in the country undoubtedly looks warm and welcoming.

On top of all that, well-arranged digital marketing aiming the major markets in Western Europe and global campaigns coupled with customised destination marketing could further boost the country's renowned status for tourism. Further, improved international flight connectivity plans of the Government

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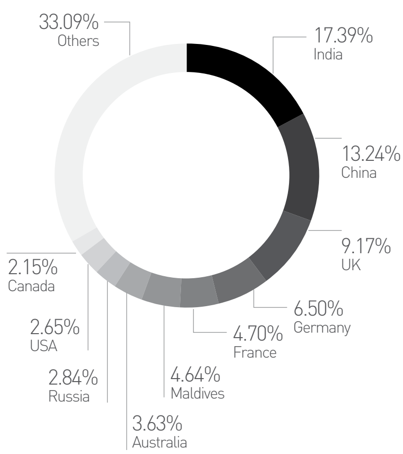
to key destinations could also facilitate more visitor arrivals. With the recent submission of "Tourism Vision 2017-25" to the country's Cabinet Committee on Economic Management, we expect Sri Lanka to be revitalised as a favourite tourist destination in the South Asian region, through more effective policies and strategies.

However, there are several challenges to be dealt with beforehand. First and foremost, the informal tourism sector in the country should be appropriately regulated and unlicensed ventures should not be allowed to operate freely, in order to ensure better service standards for the tourists. Sadly, as of now, a substantial amount of room inventory in Sri Lanka belongs to the informal segment thus crowding out the formal segment. On top of that, substantial amount of graded rooms are yet to be added to the available room pipeline of Sri Lanka over the next 2-3 year time horizon, mostly focusing on the capital city of Colombo. All of this hints that days of vigorous competition and intense pricing pressure are ahead, for the industry as a whole and thus creating a vicious cycle.

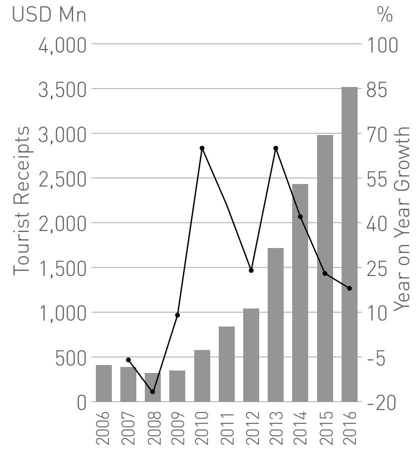
We appreciate the Government's decision to implement minimum criteria for specified tourist services such as guest houses, tourist shops, independent tourist restaurants, spas, healthcare centers and apartment centers, which will ensure fair play across the industry. Further, being a country enriched in diversity, marketing could very well be effectively focused on specific segments such as ethnic tourism, sports tourism, rural tourism and spiritual tourism etc. Furthermore, attracting the right spenders to the country remains vital as ever, in order to complement the variety of high quality offerings that the country has to offer.

Visitor Breakdown in 2016 %



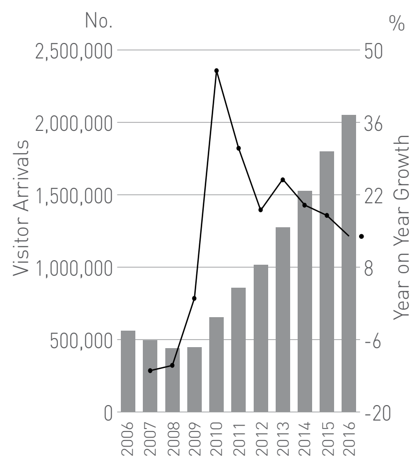
Source : Based on data published by Sri Lanka Tourism Development Authority

Official Tourist Receipts 2006-2016



Source : Based on data published by Sri Lanka Tourism Development Authority

Visitor Arrivals 2006-2016



Source : Based on data published by Sri Lanka Tourism Development Authority

Management Discussion & Analysis

"Pegasus Reef Hotel completed its planned renovations in a less disruptive manner on the hotel's operational bottom line than anticipated."

OPERATIONAL REVIEW

Pegasus Reef Hotel

In an effort to optimise returns and drive our value propositions for the guests, much felt room refurbishment commenced in the month of June 2016. Consequently, the hotel only operated with 29% of the total room capacity for approximately six months of the current financial year. Newly modernized 81 rooms are envisaged to provide a luxurious experience to our valued guests. The hotel is now fully operational, with the newly refurbished rooms having a range of new amenities, introducing a touch of elegance to the rooms.

The next phase of the renovation followed in the line of changes to the hotel's meeting spaces, where a small–sized meeting conference room was added, to complement the growing MICE (Meetings, Incentives, Conferencing, Exhibitions) business. Also, the kitchen area of the hotel witnessed several upgrades in an effort to enhance the efficiency of the kitchen operations.

The refurbishment efforts reflect our overriding commitment to extend the highest quality of service, products and amenities in our hotel and we are excited to realise the prospects of the above refurbishments in the coming years.

Mainly due to the impact of refurbishment, the performance of the hotel for the financial year under consideration scaled down, managing an average occupancy of 62% based on the available rooms during the year. This on total rooms of the hotel, had been operational, would amount only to 42% occupancy in comparison to 59% occupancy in the corresponding period. Nonetheless, average room rates of the hotel observed an increase of 9% in comparison to the corresponding period, mainly due to the change in occupancy mix, as the hotel was not promoted to its mainstay yet low-margin travel agent business during the room refurbishment period.

Despite the reduction in room revenue as aforesaid due to the refurbishment programme, income streams from food and beverage continued to be strong. The booming MICE segment continued to contribute positively to the hotel's performance for the year under review. Hotel's aggressive promotional campaigns were very much instrumental for this growth resulting in a notable increase in special functions and day conferences registered during the year under review. Particularly, the revenue from day conferences held in the fiscal year under review increased by a notable 22% whilst revenue from other functions witnessed a steady growth of 46% against the same period of previous year.

The up-market sea-food restaurant "The Fishery" which opened during the fiscal year 15/16, also made significant headway during the year under review. Food revenue from the Fishery boosted by 59% being the first full year of operations. The Fishery has already won the hearts of many tourists and local visitors alike due to the excellent cuisines and the service standards embodied in this distinctive restaurant.

Giritale Hotel

Situated in a picturesque location, enriched with natural splendour and surroundings of cultural importance, Giritale Hotel is uniquely positioned to benefit from increased tourist arrivals. During the year, the hotel continued to attract its frequent visitors, owing to the magnificent view and the tranquil atmosphere combined with personalised service on board.

Thus encouraged in an attempt to further enhance the hotel standards and provide a modern facelift to the current 40 rooms, we hope to initiate a refurbishment programme in the future. Through such an initiative, we aspire to ensure a sustained influx of visitors to the hotel and we believe our competitiveness could be vigilantly maintained and improved into the future.

During the current year, Giritale hotel saw an occupancy of 63%, against 64% witnessed in the previous year, where we witnessed a marginal reduction in local tourists mainly due to the ongoing road construction activities in Dambulla.

FINANCIAL REVIEW

Company

Pegasus Reef Hotel completed its planned renovations in a less disruptive manner on the hotel's operational bottom line than anticipated. The hotel only operated with 40 rooms for an approximate period of six months as further 19 rooms were kept closed during the refurbishment period to accommodate speedy completion of the refurbishment activities and to ensure less disturbance to the in-house guests. Yet, it is remarkable that the hotel was able to reach operational profit break-even, even when confronted with a suppression of operational room capacity. The hotel recorded a revenue of Rs. 442.6 Mn in comparison to Rs. 484.7 Mn in the previous year, which is a mere decline of 9% YoY in this year's context.

Income streams from Food and Beverage increased by 4% year on year. The steady F&B revenue in 2017, in spite of aforementioned room closure, was strongly supported by our robust banqueting business in tandem with the higher revenue from the seafood restaurant, "The Fishery".

Direct costs of the hotel grew at a similar pace to that of Food and Beverage revenue, to reach Rs. 274.2 Mn for the year under consideration, resulting in a Gross Profit of Rs. 168.4 Mn. The sale of salvaged items from the room refurbishment resulted in a loss on disposal of property, plant and equipment of Rs. 19.3 Mn during the year under review, included in the other operating expenses. Selling and promotional expenditure for the year remained flat at Rs. 20.4 Mn. whilst administrative expenditure rose by 14% during the course of the year to reach Rs. 127.9 Mn. This was largely due to the additional staff recruited to new service areas in order to provide a better offering to the hotel's clientele as well as owing to the topping-up of lost service charges to the staff during the period of the refurbishment at the hotel's expense .

The refurbishment activities were entirely funded through the accumulated operational cash reserves. As a result, the hotel managed to maintain near zero finance costs even whilst incurring over Rs. 230 Mn on refurbishment activities. Being a low geared entity, Pegasus Reef hotel is well positioned to absorb the intensifying competition and still remain on profitable grounds. In spite of aforementioned capital expenditure, Directors propose a first and final dividend of Rs. 0.50 per share for the year ended 31st March 2017.

Pegasus Reef Hotel concluded the year with a profit after tax of Rs. 31.1 Mn which is a reduction of 72% in comparison to the financial year 15/16, primarily due to the dip in room revenue stemming from refurbishment activities amply elaborated elsewhere in this review. In addition, the hotel observed a gain from revaluation of Rs. 531 Mn for the year under consideration which further boosted the Balance Sheet.

Following the extensive refurbishment, the hotel's monthly depreciation charge would increase by approximately Rs.1.4 Mn in the forthcoming period.

Group

Aggregate revenues incorporating the performance of the Giritale hotel for the year stood at Rs. 543.2 Mn, portraying a year on year decline of 7%. This was mainly driven by the room renovation at the Pegasus Reef hotel and marginally due to drop in occupancy witnessed by the Giritale hotel in the midst of external disturbances such as the impact from the airport closure and the road constructions as explained earlier. To overcome this challenge special promotional activities were carried out by Giritale Hotel to achieve its occupancy targets yet experiencing a drop in average room rates during the period under review. Further, promotional activities employed by the group have enabled an increase in weddings and special events during the period under review, which in turn has strengthened the group's F&B income streams.

The increase in selling and promotional expenses during the year largely relates to the participation of trade fairs held overseas as well as the well-focused marketing campaigns targeting the special events as well as the sea food restaurant. Furthermore, owing to the higher staff related cost at Pegasus Reef hotel as elaborated above, the group administration expenditure observed a year on year increase of 15%. Consequently group operating profits for the year under consideration, dropped by 85%, to stand at Rs.16.7 Mn.

However, profit for the period ended 31st March 2017, though supported mainly by the unwinding of discounting of compensation receivable amounting to Rs. 15.7 Mn and affected by the factors mentioned, slipped by 66% against the previous year, to reach Rs. 41.5 Mn.

LOOKING AHEAD

In spite of a more cautious looking operating environment and notwithstanding the intensifying competition across the leisure industry, we remain agile and responsive to market conditions. We believe the year ahead will be challenging in terms of competition, specifically with an escalating room supply and heavy price discounting already being witnessed in the Colombo region. Hence, we expect moderate growth for the industry during the forthcoming period. Maintaining stringent cost control and conducting innovative promotional campaigns are important priorities as we step in to the new financial year.

Carsons Management Services (Private) Limited
Managers

15th May 2017

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 and 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.

SEGA NAGENDRA

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

He is the Senior Director & Financial Consultant of CML-MTD Construction Ltd., and the Executive Chairman of Travelserv Ltd., Travelon Ltd and Travelon Management Services Ltd. He is also Chairman and Director of several Public listed and Private Companies.

He was a Past President of Skal International Colombo (International Association of Travel and Tourism Professionals), Sri Lanka Pakistan Business Council and the Chartered Management Institute- UK, Sri Lanka Branch. He was a Past Secretary of Skal International, Asian Area Region and Past President and present Council Member of the Pacific Asia Travel Association (Sri Lanka Chapter) and the Sri Lanka - Benelux Business Council.

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

Sega Nagendra is a 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.

He is also a Trustee of Sri Arunachalswara Kovil - Mutwal, Sri Siththi Vinayagar Temple – Kochchikade and the Sir Ponnambalam Arunachalam Trust.

MAHENDRA DAYANANDA

Mahendra Dayananda is an Independent Non-Executive Director of Bukit Darah PLC and Nestle Lanka PLC and 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 Honorary Consul for the Republic of Benin in Sri Lanka.

ASOKA DE ZOYSA GUNASEKERA

(Stepped down with effect from 15th June 2016)

Asoka De Zoysa Gunasekera was a Director of Pegasus Hotels of Ceylon PLC and Guardian Capital Partners PLC. He 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 Club 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

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.

SUJENDRA RANJANAN MATHER

(Appointed w.e.f. 01st July 2016)

Sujendra Ranjanan Mather is currently the Managing Director of York Street Partners Pvt Ltd. (YSP), a boutique Investment Banking firm based in Sri Lanka. Prior to co-founding YSP, he has had 12 years of international Investment Banking and Corporate Finance experience working with Houlihan Lokey Howard & Zukin, John Keells Holdings PLC and Deloitte & Touche Corporate Finance in the US, Sri Lanka and Singapore respectively.

He has successfully managed and lead several billion dollars of Mergers & Acquisitions, Fund Raising, Restructuring and Strategic Advisory transactions in the North America and Asia Pacific regions across the Consumer, Retail, Real Estate, Hospitality, Infrastructure, Technology, Mining and Financial Services sectors. He has acted both as a key strategic advisor to CEO's and entrepreneurs as well as a principal investor throughout his career.

He is also a board member of a number of publicly listed and private companies in Sri Lanka. In addition, Sujendra sits on the National Agenda Committee of the Ceylon Chamber of Commerce for 'Finance and Capital'.

Sujendra received a B.A. in Economics-Mathematics from Claremont McKenna College in California, USA.

SUBSIDIARY COMPANY – EQUITY HOTELS LIMITED

CHANDIMA GUNAWARDENA

(Refer under the 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 Limited and 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.

http://www.carsoncumberbatch.com/investor_information/annual_reports_2016_2017/pegasus-hotels-annual-report-2016-17

Risk Management

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

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

Key responsibilities

BOARD OF DIRECTORS

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

AUDIT COMMITTEE

- Consider adequacy of risk management and internal control framework
- Receive and review risk management reports/dash board/risk register
- Receive and review reports from internal and external auditors

MANAGEMENT TEAM

- Define and set risk appetite and consider new and emerging risks
- Develop / monitor suitable action plans to mitigate/manage risks
- Consider actions to improve risk management processes
- Provide representations 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. • Maintain value and standard of the hotels through regular refurbishments and training and development of employees. • Develop and monitor comprehensive business plans. • Diversification of revenue base.
Liquidity Risk	Inability to raise funds or effect payments when required.	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, if required.
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.

Risk	Impact	Risk rating	Risk response & strategies
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 the 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 financial assets / liabilities that were exposed to variable rates of interest are not significant, 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 carries out regular reviews on internal control systems and processes and recommends process improvements, if shortcomings are noted.
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.

Risk Management

Risk	Impact	Risk rating	Risk response & strategies
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 identify and set 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 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 2017.

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 15th May 2017.

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 provide an overall assessment of the business performance of the Company and the Group and its future developments.

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

4. FINANCIAL STATEMENTS

The consolidated financial statements which comprise of the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flow, Statement of Changes in Equity and Notes to the Financial Statements of the Company and the Group for the year ended 31st March 2017 are set out on pages 40 to 81. These financial statements do comply with the requirements of the Companies Act, No. 07 of 2007.

4.1. Revenue

The Company and the Group generated revenue of Rs. 442.6 mn and Rs. 543.2 mn (2016 - Rs. 484.7 mn and Rs. 582.2 mn). A detailed analysis of the revenue for the period is given in note 11 to the financial statements.

4.2. Financial results and appropriations

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

(In Rupees thousands) For the year ended 31st March	Group 2017	Group 2016	Company 2017	Company 2016
Profit for the year	41,543	120,675	31,147	110,509
Other comprehensive income/(expense) for the year	1,250	(1,307)	340	(1,192)
Total comprehensive income for the year	42,793	119,368	31,487	109,317
Retained earnings as at the beginning of the year	377,808	281,976	339,264	251,844
Super gain tax for the year of assessment - 2013/14	-	(8,340)	-	(6,701)
Adjusted retained earnings as at the beginning of the year	377,808	273,636	339,264	245,143
Retained earnings before appropriations	420,601	393,004	370,751	354,460
Dividend	(15,196)	(15,196)	(15,196)	(15,196)
Retained earnings as at the end of the year	405,405	377,808	355,555	339,264

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

4.3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are given on pages 44 to 55.

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'.

A revaluation was performed as at 31st March 2017 by an independent professional valuer Mr. S. Sivaskantha, F. I. V (Sri Lanka) of Perera Sivaskantha and Company, incorporated Valuers, based on which a revaluation gain on free hold land and buildings was recognized in the financial statements to the value of Rs.530.8 mn and Rs.630.3 mn for the Company and the Group respectively, during the year.

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	2017	2016	2017	2016
Property, plant and equipment	261,024	76,356	258,017	66,329

4.6. Reserves

As at 31st March 2017, the Group's total reserves stood at Rs. 1,685.1 mn (2016 - Rs. 1,053.1 mn) comprising capital reserves of Rs. 1,279.5 mn (2016 - 675.1 mn) and revenue reserves of Rs. 405.6 mn (2016 - 378 mn).

The total reserves of the Company as at 31st March 2017 stood at Rs. 1,547.7 mn (2016 - 1,014.5 mn) comprising Capital Reserves of Rs. 1,191.9 mn (2016 - Rs. 675.1 mn) and Revenue Reserves of Rs. 355.7 mn (2016 - Rs. 339.4 mn). Details are shown in the Statement of Changes in Equity on page 42.

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 Independent Auditors' Report.

According to the Companies Act No. 07 of 2007 and the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Directors are required to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the performance 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,
- A Statement of Profit or Loss and Other Comprehensive Income of the Company, 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 Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

The Directors are responsible for ensuring that the Company and the Group maintain sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company and the Group in order to ensure that its financial statements have been prepared and presented in accordance with the Sri Lanka Accounting and Auditing standards Act No. 15 of 1995 and meet with the requirements of the Companies Act No.07 of 2007.

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

These financial statements have been prepared on a going concern basis since the Directors are of the view that the Company has adequate resources to continue in operation in the foreseeable future from the date of approving these financial statements.

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

6. INTERESTS REGISTER

The Company maintains the Interests Register conforming to the provisions of the Companies Act No. 07 of 2007.

All Directors have made declarations as provided for in Section 192(2) of the Companies Act aforesaid.

The relevant details as required by the Companies Act No. 07 of 2007 have been entered in the Interests Register during the year under review.

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

6.1. Remuneration of Directors

Directors' remuneration for the financial year ended 31st March 2017 is given in note 13 to the financial statements, on page 57.

6.2. Directors' interest in contracts and shares

Directors' interests in contracts of the Company are disclosed in note 34 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 34 and the Directors of the Company did not have any interests in ordinary shares of the Company during the period from 1st April 2016 to 31st March 2017.

7. 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.

7.1. Changes in Directorate

Mr. S. R. Mather was appointed to the Board as a Non – Executive/ Independent Director w.e.f. 01st July 2016.

Mr. W. A. A. De Z. Gunasekera, Non – Executive/ Independent Director stepped down from the Board on 15th June 2016, following the conclusion of the Annual General Meeting in terms of Article 71 (e) of the Articles of Association of the Company.

7.2. Director to retire by rotation

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

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

7.3. 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. S. R. Mather retires from the Board and being eligible offers himself for re-election.

7.4. Appointment of Directors who are 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 and Mr. M. Dayananda who are over 70 years of age be re-appointed as Directors of the Company for a further period of one year from the conclusion of the Annual General Meeting and the age limit stipulated in section 210 of the Companies Act No. 07 of 2007 shall not be applicable to them.

8. 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).

8.1. Board of Directors

The following Directors held office during the period under review and their brief profiles are given on pages 16 to 17 of the Annual Report.

Directors	Executive/ Non-Executive/ Independent
Mr. D. C. R. Gunawardena (Chairman)	Non-Executive
Mr. H. Selvanathan	Executive
Mr. S. Nagendra*	Non-Executive/ Independent
Mr. W. A. A. De Z. Gunasekera (Stepped down w.e.f 15th June 2016)	Non-Executive/ Independent
Mr. M. Dayananda **	Non-Executive/ Independent
Mr. K. Selvanathan	Executive
Mr. S. R. Mather (Appointed w.e.f. 01st July 2016)	Non-Executive/ Independent

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 15th May 2017, 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, (The ultimate parent Company of Pegasus Hotels of Ceylon PLC) since he is not directly involved in the management of the Company.

8.2. 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	Meetings Attended (out of four)
Mr. D.C.R. Gunawardena (Chairman)	4/4
Mr. H. Selvanathan	3/4
Mr. S. Nagendra	4/4
Mr. M. Dayananda	4/4
Mr. W. A. A. De Z. Gunasekera (Stepped down w.e.f. 15th June 2016)	1/4
Mr. K. Selvanathan	3/4
Mr. S. R. Mather (Appointed w.e.f. 01st July 2016)	3/4

8.3. 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

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

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

Reporting and Responsibilities

The Committee Chairman reports 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 57 of the Annual Report. Executive Directors are not compensated for their role on the Board.

8.4. 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 34 to 35 of this Annual Report.

8.5. 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.

During the year, the Committee recommended to the Board that Mr. S. R. Mather be appointed to the Board as a Non – Executive/ Independent Director. This recommendation was accepted by the Board.

8.6. Related Party Transactions Review Committee

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 33 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 Related Party Transactions Review Committee Meetings.

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

The Directors declare in terms of the requirements of the Listing Rules of the Colombo Stock Exchange that the transactions carried out by the Company with its Related Parties during the year ended 31st March 2017, did not exceed 10% of Equity or 5% of the Total Assets of the Company as at 31st March 2017.

The details of the Related Party Transactions are given in note 34 on page 79 to 80 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 2017.

- 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 2017.

8.7. 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 Forms 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

9. INDEPENDENT AUDITORS

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

A sum of Rs. 315,000/- and Rs. 525,000/- (2016 - Rs. 315,000/- and Rs. 525,000/-) were paid to them by the Company and the Group respectively as audit fees for the year ended 31st March 2017. In addition to the above, the auditors were paid Rs. 70,000/- and Rs. 115,000/- (2016 - Rs. 70,000/- and Rs. 115,000/-) as professional fees for audit related services for the Company and the Group respectively. Further, no payments were made by the Company and the Group during the year on non - audit services. (2016 – 260,000)

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.

9.1. Auditors' Relationship or any interest with the Company

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

9.2 Independent Auditors' Report

The Independent Auditors' Report on the financial statements is given on page 39 of this Report.

10. 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 Committee. Regular submission of compliance and internal solvency certificates vouched by the Heads of the respective divisions as a mandatory agenda item keeps the Directors abreast of the position of the Company's and the Group's resource base and governance requirements.

This allows the Board to have total control of the fulfillment of governance requirements by providing opportunity to take timely preventive action in case of potential deterioration of status quo. More detailed description of the risk management strategies of the Company and the Group are given on pages 18 to 22.

11. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the year.

12. 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 2017 (2016 - Rs. 0.50).

13. SOLVENCY TEST

Taking in to 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 said distribution. The Company's Auditors, M/s KPMG, Chartered Accountants have issued a Certificate of Solvency confirming same.

14. STATED CAPITAL

The Stated Capital of the Company as at 31st March 2017 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.

15. DEEMED CAPITAL CONTRIBUTION

The Parent Company, Carson Cumberbatch PLC, on behalf of the Company, had provided a Corporate Guarantee to Commercial Bank of Ceylon PLC in 2005, 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/- was included in the "Stated Capital", being 'Deemed capital contribution' arising from the said transaction at each of the reporting dates. This loan was fully settled by the Company in 2014.

16. 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.

17. GOING CONCERN

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

18. DONATIONS

There were no donations made during the year ended 31st March 2017 (2016 - Nil).

19. ENVIRONMENTAL PROTECTION

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

20. 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 its 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 2017 were 187 and 257 (2016 - 202 and 272) respectively.

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

21. 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 2017.

22. OUTSTANDING LITIGATIONS

The outstanding litigations related to the Company are shown in note 33.3 to these financial statements.

23. EQUITABLE TREATMENT TO SHAREHOLDERS

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

24. 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 37 to the financial statements.

25. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The contingent liabilities and commitments as at 31st March 2017 are given in note 33 to the financial statements.

26. SHARE INFORMATION

Information relating to share trading are given on pages 84 and 85 of this Report.

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

27. TWENTY MAJOR SHAREHOLDERS WITH COMPARATIVES

The Parent Company, Carson Cumberbatch PLC holds 27,347,485 (2016 - 27,347,485) of the total Ordinary Shares in issue of the Company as at 31st March 2017.

No.	Twenty Major Shareholders as at 31st March	2017 No. of shares	2017 %	2016 No. of shares	2016 %
01	Carson Cumberbatch PLC A/C No.2	27,347,485	89.98	27,347,485	89.98
02	Mr. M.C.C.K. Rodrigo	188,729	0.62	145,405	0.48
03	Dee Investments (Pvt) Ltd	180,903	0.60	180,903	0.60
04	Mr. K.C. Vignarajah	174,114	0.57	131,958	0.43
05	Mrs. V.R. Jayasinghe	121,603	0.40	65,705	0.22
06	Mr. H.A. Van Starrex	100,000	0.33	100,000	0.33
07	Mrs. N.H. Abdul Husein	93,500	0.31	127,172	0.42
08	Mr. H.A. Pieris	70,000	0.23	70,000	0.23
09	Mr. A.M. Weerasinghe	57,500	0.19	60,000	0.20
10	People's Leasing & Finance PLC/L.P. Hapangama	57,157	0.19	57,157	0.19
11	Mrs. I. Gwyn	55,000	0.18	55,000	0.18
12	Mr. H.A.S. Madanayake	50,000	0.16	50,000	0.16
13	Code-Gen International Pvt Ltd	50,000	0.16	50,000	0.16
14	Mr. D. Weerawardana	45,023	0.15	42,231	0.14
15	Mr. P. Somadasa	43,597	0.14	44,595	0.15
16	Mr. D.F.G. Dalpethado	43,086	0.14	1	0.00
17	Mr. H.W.M. Woodward	42,679	0.14	42,679	0.14
18	Miss G.T. Daryanani	41,071	0.14	24,549	0.08
19	Mr. H. Tirathdas	40,322	0.13	24,262	0.08
20	Mr. K.C. Jayawardene	35,292	0.12	24,060	0.08

28. ANNUAL REPORT

The information provided herein is in pursuance of the requirements of the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

The Board of Directors have approved the Financial Statements of the Company together with the reviews which forms part of the Annual Report on 15th May 2017.

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

29. ANNUAL GENERAL MEETING

The 51st Annual General Meeting of the Company will be held on Thursday, the 15th day of June 2017 at 3.30 p.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala.

The notice of the Annual General Meeting is on page 86 of the Annual Report.

Signed on behalf of the Board,

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

(Sgd.)
K. Selvanathan
Director

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

15th May 2017

Report of the Related Party Transactions Review Committee

As provided by the Colombo Stock Exchange Listing Rules, the Related Party Transactions Review Committee (RPTRC) of Carson Cumberbatch PLC (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

MEETINGS OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

CCPLC-RPTRC held Three (03) Meetings during the financial year to discuss matters relating to the Company.

The attendance of the Members of the Committee was as follows:

Meetings attended (out of 03)	
Mr.V.P. Malalasekera	03
Mr.F. Mohideen	03
Mr.D.C.R. Gunawardena	03
Mr.H. Selvanathan	02
Mr.M. Selvanathan	02
Mr.S.K. Shah	03

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' (RPT 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 quarterly disclosures from all KMPs so designated.

The Related Party Transactions of the Company for the period 1st April 2016 to 31st March 2017 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

Colombo
15th May 2017

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.

The Audit Committee consists of the following Members :

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 five (05) Meetings during the financial year to discuss matters relating to the Company and the attendance of the Members of the Audit Committee was as follows :

Meetings attended (out of 05)	
Mr.Vijaya Malalasekera (Chairman)	04
Mr.Chandima Gunawardena	04
Mr.Faiz Mohideen	05

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 2016/2017 and the Group Internal Audit (GIA) carried out 03 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 recommended by the Board and approved by the Audit Committee, IT consultancy division of Messrs. KPMG, has completed during the year a comprehensive external IT security and process audit covering the IT environment of Carsons Management Services (Private) Limited (Managers to the Company), which covers the centralized IT services provided to the Leisure Sector, as well. This exercise facilitated Carsons Management Services (Private) Limited to obtain IAO/IEC 27001:2013 certification in November 2016.

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 2017 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 2018, 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

Colombo
15th May 2017

Financial Statements

Financial Calendar

Financial Year end	31st March 2017
51st Annual General Meeting to be held on	15th June 2017
ANNOUNCEMENT OF RESULTS	
Interim Financial Statements published In terms of the Listing Rules of the Colombo Stock Exchange	
First Quarter ended 30th June 2016	12th August 2016
Second Quarter ended 30th September 2016	15th November 2016
Third Quarter ended 31st December 2016	14th February 2017
DIVIDEND DECLARATION	
First & Final Dividend for the Financial year ended 31st March 2016	12th May 2016

Independent Auditors' Report

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

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
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Internet : www.kpmg.com/lk

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 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 40 to 81.

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 2017, 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, Government had acquired certain portions of land belonging to the Company. 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.152,396,328 has been recognized in the financial statements under non-current assets which relates to 1,251 perches. 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. Further, although the Supreme Court had ruled that the balance 353.89 perches should be returned back to the company on completion of the fisheries harbor project, as explained in note 17.10, company is yet to regain title to the said extent of Land.

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 2017, 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.

KPMG

Chartered Accountants
15th May 2017
Colombo.

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

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

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACMA (UK)

Statement of Profit or Loss and Other Comprehensive Income

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
For the year ended 31st March	Note	2017	2016	2017	2016
Revenue	11	543,200	582,209	442,612	484,709
Direct costs		(334,442)	(320,540)	(274,171)	(262,413)
Gross profit		208,758	261,669	168,441	222,296
Other income	12	8,633	8,652	5,593	6,008
Selling and promotional expenses		(23,912)	(24,015)	(20,364)	(21,204)
Administrative expenses		(157,496)	(137,129)	(127,915)	(112,183)
Other operating expenses		(19,261)	-	(19,261)	-
Profit from operations	13	16,722	109,177	6,494	94,917
Finance income	14	27,315	24,520	25,792	26,780
Finance costs	14	(39)	-	(39)	-
Net finance income	14	27,276	24,520	25,753	26,780
Profit before taxation		43,998	133,697	32,247	121,697
Income tax expenses	15	(1,112)	(7,889)	328	(6,002)
Deferred taxation	15	(1,343)	(5,133)	(1,428)	(5,186)
Profit for the year		41,543	120,675	31,147	110,509
Other comprehensive income					
Actuarial gain / (loss) from valuation of employee benefits	29.2	1,420	(1,485)	386	(1,354)
Revaluation of property, plant and equipment	17	630,324	-	530,836	-
Related tax	28.1	(26,122)	178	(14,060)	162
Other comprehensive Income / (expense) for the year		605,622	(1,307)	517,162	(1,192)
Total comprehensive income for the year		647,165	119,368	548,309	109,317
Earnings per share (Rs.)	16	1.37	3.97	1.02	3.64

The Notes from pages 44 to 81 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

Statement of Financial Position

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
For the year ended 31st March	Note	2017	2016	2017	2016
ASSETS					
Non-current assets					
Property, plant and equipment	17	2,010,067	1,186,133	1,880,024	1,154,428
Intangible assets	18	115,287	115,287	-	-
Investment in subsidiary	19	-	-	110,223	110,223
Compensation receivable	20	152,396	136,678	152,396	136,678
Total non-current assets		2,277,750	1,438,098	2,142,643	1,401,329
Current assets					
Inventories	21	22,007	16,159	18,440	12,720
Fair value through profit or loss financial assets	22	-	180,146	-	180,146
Trade and other receivables	23	84,957	54,985	76,352	46,834
Cash and cash equivalents	24	41,509	32,976	5,224	16,729
Total current assets		148,473	284,266	100,016	256,429
Total assets		2,426,223	1,722,364	2,242,659	1,657,758
EQUITY AND LIABILITIES					
Equity					
Stated capital	25	515,170	515,170	515,170	515,170
Capital reserves	26	1,279,471	675,099	1,191,921	675,099
Revenue reserves	27	405,581	377,984	355,731	339,440
Total equity		2,200,222	1,568,253	2,062,822	1,529,709
Non-current liabilities					
Deferred tax liability	28	66,979	39,514	53,526	38,038
Employee benefits	29	16,021	16,450	10,483	9,610
Loans and borrowings	30	6,550	-	-	-
Total non-current liabilities		89,550	55,964	64,009	47,648
Current liabilities					
Trade and other payables	31	135,110	93,885	115,622	77,825
Current tax liabilities		1,286	4,262	151	2,576
Bank overdraft	24	55	-	55	-
Total current liabilities		136,451	98,147	115,828	80,401
Total liabilities		226,001	154,111	179,837	128,049
Total equity and liabilities		2,426,223	1,722,364	2,242,659	1,657,758
Net assets per share (Rs.)		72.40	51.60	67.87	50.33

The Notes from pages 44 to 81 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 15th May 2017.

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

15th May 2017

Statement of Changes in Equity

(All figures in Sri Lankan Rupees thousands)

Group		Capital reserves		Revenue reserves		Total equity attributable to equity holders of the parent company
	Stated capital	Revaluation reserve	Capital accretion reserve	General reserve	Retained earning	
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
Balance as at 1st April 2016	515,170	659,955	15,144	176	377,808	1,568,253
Profit for the year	-	-	-	-	41,543	41,543
Other comprehensive income for the year	-	604,372	-	-	1,250	605,622
Total comprehensive income for the year	-	604,372	-	-	42,793	647,165
Dividend - 2015/16	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2017	515,170	1,264,327	15,144	176	405,405	2,200,222
Company						
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
Balance as at 1st April 2016	515,170	659,955	15,144	176	339,264	1,529,709
Profit for the year	-	-	-	-	31,147	31,147
Other comprehensive income for the year	-	516,822	-	-	340	517,162
Total comprehensive income for the year	-	516,822	-	-	31,487	548,309
Dividend - 2015/16	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2017	515,170	1,176,777	15,144	176	355,555	2,062,822

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 Gain Tax as stand-alone entities, the two companies paid Rs. 6.7 mn and Rs. 1.6 mn respectively as Super Gain Tax on the basis that the said 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 44 to 81 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Statement of Cash Flow

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
For the year ended 31st March	Note	2017	2016	2017	2016
Cash flows from operating activities					
Profit before taxation		43,998	133,697	32,247	121,697
Adjustments for:					
Interest income on placement with banks and government securities	14	(3,673)	(5,933)	(1,830)	(5,141)
Net change in fair value of fair value through profit or loss financial assets	14	(7,662)	(4,146)	(7,662)	(4,146)
Dividend income	14	-	-	(370)	(3,085)
Unwinding of discount on compensation receivable	14	(15,718)	(14,133)	(15,718)	(14,133)
Interest expenses on bank borrowings	14	39	-	39	-
Depreciation on property, plant and equipment	17	45,318	43,450	41,233	39,179
Loss / (profit) on disposal of property, plant and equipment		19,261	(812)	19,261	(783)
Provision for employee benefits		3,758	3,203	2,616	2,107
Provision made / (reversal of provision) for impairment of trade receivables		923	(921)	594	(921)
Profit before working capital changes		86,244	154,405	70,410	134,774
(Increase) / decrease in inventories		(5,848)	(3,098)	(5,720)	(3,548)
(Increase) / decrease in trade and other receivables		(30,895)	(7,899)	(30,112)	(6,858)
Increase / (decrease) in trade and other payables		41,130	28,977	37,702	29,099
Cash generated from operations		90,631	172,385	72,280	153,467
Employee benefits paid	29	(2,767)	(733)	(1,357)	(590)
Income tax paid		(4,088)	(17,616)	(2,097)	(15,337)
Net cash generated from operating activities		83,776	154,036	68,826	137,540
Cash flows from investing activities					
Purchase of property, plant and equipment	17	(261,024)	(76,356)	(258,017)	(66,329)
Proceeds from disposal of property, plant and equipment		2,835	5,443	2,763	5,318
Disposal of / (Investment in) fair value through profit or loss financial assets		187,808	(176,000)	187,808	(176,000)
Interest received		3,673	5,933	1,830	5,141
Dividend received		-	-	370	3,085
Net cash used in investing activities		(66,708)	(240,980)	(65,246)	(228,785)
Cash flows from financing activities					
Dividend paid		(15,101)	(15,097)	(15,101)	(15,097)
Loans and borrowings obtained during the year		6,550	-	-	-
Interest paid on bank borrowings		(39)	-	(39)	-
Net cash used in financing activities		(8,590)	(15,097)	(15,140)	(15,097)
Net increase / (decrease) in cash and cash equivalents		8,478	(102,041)	(11,560)	(106,342)
Cash and cash equivalents at the beginning of the year		32,976	135,017	16,729	123,071
Cash and cash equivalents at the end of the year	24	41,454	32,976	5,169	16,729

The Notes from pages 44 to 81 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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 257 (2016 - 272) employees at the end of the financial year. The company had 187 (2016 - 202) 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 15th May 2017.

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 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.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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 wherever 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.

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.

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 reporting date, the Company and the Group holds the financial assets categorized as 'loan and receivables'. (2016 - loans 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.

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

Notes to the Financial Statements
(All figures in Sri Lankan Rupees thousands)

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 expired.

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 a significant part of an item of property, plant and equipment has 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 that the book value reflects the realizable value of such assets, and such values 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 equipment's	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 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 intangible assets category 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 increase the future economic benefits embodied in the specific asset to which it relate. All other expenditure, including expenditure on internally generated goodwill and brands, are 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.

vi. Inventories

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

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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;

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 include 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 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 carrying 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' Provident 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 of actuarial gains and losses are recognized immediately in OCI. The Group determines 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 a 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

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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 recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company and the Group. The Company and the Group does not recognize contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain. In the acquisition of subsidiaries by the group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

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.

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 realisation 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 recognised 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 judgments about future events. New information may become available that causes the Company and the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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.

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 engages in business activities for which it may earn distinguish revenue and expenses for such segment.

The operating results arising for hoteliering 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 the Company has only one segment hence, no separate disclosure is given for the 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.

SLFRS 16 – 'Leases'

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet fiancé leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019. The Group is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

Notes to the Financial Statements
(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	For the year ended 31st March	2017	2016	2017	2016
11	**REVENUE**				
	Revenue analysis (net)				
	Room revenue	249,988	302,836	187,691	238,032
	Food and beverage revenue	279,464	265,315	241,454	232,968
	Other revenue	13,748	14,058	13,467	13,709
		543,200	582,209	442,612	484,709
12	**OTHER INCOME**				
	Rent income	4,400	4,296	2,295	2,190
	Club membership income	2,798	2,480	2,798	2,480
	Profit on disposal of property, plant and equipment	-	812	-	783
	Sundry income	1,435	1,064	500	555
		8,633	8,652	5,593	6,008
13	**PROFIT FROM OPERATIONS**				
	Profit from operations is stated after charging all expenses including the following:				
	Auditors' remuneration				
	- Audit services	525	525	315	315
	- Audit related services	115	115	70	70
	- Non-audit services	-	260	-	260
	Depreciation (note 13.1)	45,318	43,450	41,233	39,179
	Loss on disposal of property, plant and equipment	19,261	-	19,261	-
	Provision made / (reversal of provision) for impairment of trade receivables	923	(921)	594	(921)
	Professional service costs (note 13.2)	961	820	823	713
	Nomination committee fees	50	50	50	50
	Personnel costs (note 13.3)	157,140	130,795	123,893	100,782
	Operating lease expenses	494	494	-	-
	Support service fees	6,942	7,910	5,533	6,059
13.1	Depreciation				
	Depreciation is included in the statement of profit or loss under the following headings:				
	Direct cost	36,065	35,348	32,812	32,027
	Administrative expenses	9,253	8,102	8,421	7,152
		45,318	43,450	41,233	39,179

		Group		Company	
	For the year ended 31st March	2017	2016	2017	2016
13.2	Professional Service costs				
	Legal services	563	370	425	263
	Valuation services	53	14	53	14
	Other services	345	436	345	436
		961	820	823	713
13.3	Personnel costs				
	Salaries, wages and other related expenses	140,063	116,840	110,759	90,363
	Defined benefit plan cost - Employee benefits	3,758	3,203	2,616	2,107
	Defined contribution plan cost - EPF and ETF	13,319	10,752	10,518	8,312
		157,140	130,795	123,893	100,782
	The above include:				
	Directors' fees	750	700	750	700
	Directors' emoluments	-	-	-	-
		750	700	750	700
14	**NET FINANCE INCOME**				
14.1	Finance income				
	Interest income on placement with banks and government securities	3,673	5,933	1,830	5,141
	Net change in fair value of fair value through profit or loss financial assets	7,662	4,146	7,662	4,146
	Dividend income	-	-	370	3,085
	Unwinding of discounting on compensation receivable (note 14.3)	15,718	14,133	15,718	14,133
	Gain on foreign exchange transactions	262	308	212	275
		27,315	24,520	25,792	26,780
14.2	Finance cost				
	Interest expenses on loans and borrowings				
	- On bank borrowings	39	-	39	-
		39	-	39	-
	Net finance income	27,276	24,520	25,753	26,780

Notes to the Financial Statements
(All figures in Sri Lankan Rupees thousands)

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 Sri Lanka Accounting Standard LKAS - 39, Financial Instruments - Recognition and Measurement.

		Group		Company	
	For the year ended 31st March	2017	2016	2017	2016
15	**INCOME TAX EXPENSES**				
15.1	Current taxation				
	Current tax expenses (note 15.3)	2,500	8,991	333	7,206
	Dividend tax	41	343	-	-
	(Over)/under provision for previous years	(1,429)	(1,445)	(661)	(1,204)
		1,112	7,889	(328)	6,002
15.2	Deferred taxation				
	On origination and reversal of temporary differences (note 28.1)	1,343	5,133	1,428	5,186
		1,343	5,133	1,428	5,186
		2,455	13,022	1,100	11,188
15.3	Reconciliation between the accounting profit and the profit for the tax purposes				
	Accounting profit before taxation	43,998	133,697	32,247	121,697
	Aggregate disallowable expenses	78,839	55,797	71,514	48,408
	Aggregate allowable expenses	(93,348)	(64,885)	(89,074)	(61,027)
	Notional adjustments arising on application of LKAS/ SLFRS	(15,718)	(14,133)	(15,718)	(14,133)
	Profits exempt from income tax	-	-	(370)	(3,085)
	Tax loss incurred during the year	3,231	-	-	-
	Interest income	(3,673)	(5,933)	(1,830)	(5,141)
	Adjusted profit from operations for tax purposes	13,329	104,543	(3,231)	86,719
	Interest income	3,857	6,517	1,830	5,654
	Total Statutory Income	17,186	111,060	1,830	92,373
	Utilization of tax losses (notes 15.4)	(641)	(36,134)	(641)	(32,331)
	Taxable income	16,545	74,926	1,189	60,042
	Taxation thereon (note 15.5 a)	2,500	8,991	333	7,206

For the year ended 31st March	Group 2017	Group 2016	Company 2017	Company 2016
15.4 Analysis of tax losses				
Tax losses brought forward	179,669	210,206	179,669	209,171
Tax loss incurred during the year	3,231	-	3,231	-
Adjustment on finalization of tax liability	666	5,597	666	2,829
Utilization of tax losses during the year (note 15.5 b)	(641)	(36,134)	(641)	(32,331)
Tax losses carried forward	182,926	179,669	182,926	179,669

15.5 Income tax provisions applicable

(a) In terms of Section 46 of the Inland Revenue Act, No. 10 of 2006 and amendments thereto, operational profits of hotels are subject to income tax at 12%. Other income are subject to tax at the standard rate of 28%. Accordingly operational profits of the Company and its subsidiary are liable to income tax at 12% and other income at the rate of 28%.

(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% (2016 - 12%) for the Company and the Group.

16 EARNINGS PER SHARE

Earnings per share is calculated on the profit attributable to the shareholders of Pegasus Hotels of Ceylon PLC over the weighted average number of ordinary shares outstanding, as required by Sri Lanka Accounting Standard (LKAS 33) - "Earnings per share".

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

For the year ended 31st March	Group 2017	Group 2016	Company 2017	Company 2016
Amount used as the numerator				
Profit attributable to the ordinary equity holders of the parent company	41,543	120,675	31,147	110,509
Amount used as the denominator				
Weighted average number of ordinary shares outstanding at the beginning of the year (In thousands)	30,392	30,392	30,392	30,392
Earnings per share (Rs.)	1.37	3.97	1.02	3.64

Notes to the Financial Statements
(All figures in Sri Lankan Rupees thousands)

17 PROPERTY, PLANT AND EQUIPMENT

17.1

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipment	Motor Vehicle	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2017	Total as at 31st March 2016
Group											
Cost/valuation											
Balance as at the beginning 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
Additions during the year	-	175,988	94	43,085	1,617	37,211	-	857	2,172	261,024	76,356
Revaluation	414,056	216,268	-	-	-	-	-	-	-	630,324	-
Adjustment on revaluation	-	(56,811)	-	-	-	-	-	-	-	(56,811)	-
Disposal/write off during the year	-	(15,688)	-	(20,356)	(83)	(6,878)	-	(1,027)	-	(44,032)	(10,275)
Balance as at the end of the year	918,388	901,352	117,048	153,998	12,012	84,948	4,569	5,806	9,246	2,207,367	1,416,862
Depreciation											
Balance as at the beginning of the year	-	44,688	74,707	67,318	8,261	29,009	4,379	2,367	-	230,729	192,923
Charge for the year	-	13,084	7,122	14,703	1,190	8,061	190	968	-	45,318	43,450
Adjustment on revaluation	-	(56,811)	-	-	-	-	-	-	-	(56,811)	-
Disposal/write off during the year	-	(961)	-	(14,835)	(83)	(5,545)	-	(512)	-	(21,936)	(5,644)
Balance as at the end of the year	-	-	81,829	67,186	9,368	31,525	4,569	2,823	-	197,300	230,729
Net book value as at the end of the year	918,388	901,352	35,219	86,812	2,644	53,423	-	2,983	9,246	2,010,067	1,186,133

17.2

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipment	Motor Vehicle	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2017	Total as at 31st March 2016
Company											
Cost/valuation											
Balance as at the beginning 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
Additions during the year	-	175,434	-	43,032	1,617	36,650	-	639	645	258,017	66,329
Revaluation	414,056	116,780	-	-	-	-	-	-	-	530,836	-
Adjustment on revaluation	-	(42,790)	-	-	-	-	-	-	-	(42,790)	-
Disposal/write off during the year	-	(15,688)	-	(20,356)	(83)	(6,878)	-	(883)	-	(43,888)	(10,065)
Balance as at the end of the year	918,388	781,883	102,247	139,974	11,687	73,636	4,569	4,839	7,719	2,044,942	1,342,767
Depreciation											
Balance as at the beginning of the year	-	32,514	63,858	56,889	8,261	20,627	4,379	1,811	-	188,339	154,690
Charge for the year	-	11,237	6,511	14,121	1,190	7,229	190	755	-	41,233	39,179
Adjustment on revaluation	-	(42,790)	-	-	-	-	-	-	-	(42,790)	-
Disposal/write off during the year	-	(961)	-	(14,835)	(83)	(5,545)	-	(440)	-	(21,864)	(5,530)
Balance as at the end of the year	-	-	70,369	56,175	9,368	22,311	4,569	2,126	-	164,918	188,339
Net book value as at the end of the year	918,388	781,883	31,878	83,799	2,319	51,325	-	2,713	7,719	1,880,024	1,154,428

17.3 During the year freehold land and buildings of the Company and the Group were revalued by an independent professional valuer Mr. S. Sivaskantha, F.I.V. (Sri Lanka) of Perera Sivaskantha & Company, Incorporated valuers, on the basis of Market Approach. The details of carrying values of the 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 2017	Carrying value of revalued assets 2016
Pegasus Reef Hotel, Wattala.	Freehold land	Market approach	5,250	918,388	504,332
	Building	Market approach	528,117	781,883	515,633
Equity Hotels Limited, Giritale	Building	Market approach	20,592	119,469	21,274

	Group		Company	
As at 31st March	2017	2016	2017	2016
17.4 Analysis of Capital work-in-progress				
Freehold building	7,803	5,768	6,276	5,768
Equipment	597	472	597	472
Furniture and fittings	846	834	846	834
	9,246	7,074	7,719	7,074

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	2017	2016	2017	2016
Plant & Machinery	25,864	24,691	17,258	17,232
Equipment, furniture and fittings	28,736	19,339	16,316	13,211
Computer equipment	7,409	7,169	7,384	7,152
	62,009	51,199	40,958	37,595

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

No borrowing costs were capitalized during the year on property, plant and equipment (2016 - Nil) of the Company and the Group.

Notes to the Financial Statements
(All figures in Sri Lankan Rupees thousands)

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 the disclosure 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, of the Company or 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 6th November 2008, the said land is to be returned to the Company on the completion of the construction work of the fisheries harbour project. In September 2016 the Company filed a Motion in the Supreme Court to obtain an order for the divestiture of title of the 353.89 Perches of land, as allowed for by the Supreme Court in its original order made in November 2008. However on 18.10.2016 Supreme Court decided that no further orders can be made by the Supreme Court on this matter since the same does not fall within its legal realm. Accordingly, the appropriate remedy available to the Company would be through the Court of Appeal which action is presently under consultation with legal counsel. As at the balance sheet date Company is yet to regain title for the said extent of 353.89 perches of land acquired.

The market value of the net land extent (1,251 perches) as at the date of acquisition amounting to Rs.187,800,000/- has been removed from the value of the freehold land classified under the property, plant, and equipment in the Statement of Financial Position of the Company. The removal of the said land has been accounted for as a disposal of an asset, in the financial statements of 2008/09 and the related compensation receivable is recorded as a non current assets as disclosed in note 20 to the financial statements.

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 can only be provided to Sri Lanka Navy via a fresh 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.

Accordingly the carrying value of the said land, (353.89 perches) amounting to Rs. 52,950,000/- was not removed from the property, plant and equipment at the time of the acquisition. Hence this land was included in the revaluation of hotel property carried out during the year, which enhanced the carrying value of same to Rs 105,900,000/- subsequent to the revaluation.

		Group		Company	
	As at 31st March	2017	2016	2017	2016
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.

Accordingly there is no indication of an impairment on goodwill on acquisition of Equity Hotels Limited as at 31st March 2017.

18.3 Accounting software included under intangible assets is fully amortized as at 31st March 2017 (2016 - Nil).

	Group		Company	
As at 31st March	2017	2016	2017	2016
19 INVESTMENT IN SUBSIDIARY				
Investment in subsidiary (note 19.1)	-	-	110,223	110,223
	-	-	110,223	110,223

As at 31st March	No. of shares	Cost as at 31st March 2017	No. of shares	Cost as at 31st March 2016
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.

	Group		Company	
As at 31st March	2017	2016	2017	2016
20 COMPENSATION RECEIVABLE				
Balance as at the beginning of the year	136,678	122,545	136,678	122,545
Unwinding of discount on compensation receivable	15,718	14,133	15,718	14,133
Balance as at the end of the year	152,396	136,678	152,396	136,678

Notes to the Financial Statements
(All figures in Sri Lankan Rupees thousands)

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.563 mn taking into account the market value of the property, potential economic value lost for hotel expansion and the nuisance value that will be created for hotel operation by the said project. However, as a matter of prudence the Company has accounted for the compensation receivable of Rs.189.5 mn in the financial statements based only on the market value of the said land 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 33.3. 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 1 to 2 year to reach a finality. If a ruling is made at District Court within such time estimation and the 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.15.7 mn (2016 - Rs.14.1 mn) has been recognized in the Statement of Profit or Loss on account of unwinding of discount on compensation receivable.

		Group		Company	
	As at 31st March	**2017**	**2016**	**2017**	**2016**
21	**INVENTORIES**				
	Food	4,397	4,559	3,518	3,686
	Beverage	3,487	3,141	2,685	2,407
	Engineering spares	4,282	1,514	4,075	1,278
	Linen	5,782	2,881	4,544	1,700
	Others	4,059	4,064	3,618	3,649
		22,007	16,159	18,440	12,720
22	**FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS**				
	Investment in Unit Trusts - unquoted	-	180,146	-	180,146
		-	180,146	-	180,146

	Group / Company					
As at 31st March	2017			2016		
	No. of units	Cost	Fair value	No. of units	Cost	Fair value
Investment in unit trusts - unquoted						
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 investments in unit trusts are based on the unit prices published by the Investment Managers as at 31st March.

		Group		Company	
	As at 31st March	2017	2016	2017	2016
23	**TRADE AND OTHER RECEIVABLES**				
	Financial				
	Trade receivables (note 23.1)	72,208	46,849	64,723	40,487
	Other receivables	5,690	3,017	4,850	2,007
	Loans given to company officers (note 23.2)	195	137	149	121
		78,093	50,003	69,722	42,615
	Non-financial				
	Advances and prepaid expenses	6,864	4,982	6,630	4,219
		6,864	4,982	6,630	4,219
		84,957	54,985	76,352	46,834
23.1	Trade receivables				
	Trade debtors	73,131	46,849	65,317	40,487
	Less: Provision for impairment of trade receivables	(923)	-	(594)	-
		72,208	46,849	64,723	40,487

Notes to the Financial Statements
(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	As at 31st March	2017	2016	2017	2016
23.2	Loans given to company officers				
	Balance as at the beginning of the year	137	156	121	141
	Loans granted during the year	1,159	1,147	703	693
	Settlements during the year	(1,101)	(1,166)	(675)	(713)
	Balance as at the end of the year	195	137	149	121
24	**CASH AND CASH EQUIVALENTS**				
	Cash at bank and in hand	7,283	18,958	5,224	16,729
	Placements with banking institutions	34,226	14,018	-	-
	Total cash and cash equivalents	41,509	32,976	5,224	16,729
	Bank overdraft	(55)	-	(55)	-
	Net cash and cash equivalents for the cash flow statement purpose	41,454	32,976	5,169	16,729
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 RESERVES**				
	Revaluation reserve	1,264,327	659,955	1,176,777	659,955
	Capital accretion reserve	15,144	15,144	15,144	15,144
		1,279,471	675,099	1,191,921	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 of 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 as an 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	2017	2016	2017	2016
27 REVENUE RESERVES				
General reserve	176	176	176	176
Retained earnings	405,405	377,808	355,555	339,264
	405,581	377,984	355,731	339,440

27.1 General reserves

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

	Group		Company	
As at 31st March	2017	2016	2017	2016
28 DEFERRED TAX LIABILITY				
Balance as at the beginning of the year	39,514	34,559	38,038	33,014
Charge for the year (note 28.1)	27,465	4,955	15,488	5,024
Balance as at the end of year	66,979	39,514	53,526	38,038
28.1 Charge for the year				
The amounts recognized in the statement of profit or loss are as follows;				
Property, plant and equipment	1,853	1,765	1,970	1,828
Employee benefits	(119)	(297)	(151)	(182)
Tax losses	(391)	3,665	(391)	3,540
	1,343	5,133	1,428	5,186
The amounts recognized in the statement of other comprehensive income are as follows;				
Employee benefits	170	(178)	46	(162)
Revaluation of property, plant and equipment	25,952	-	14,014	-
	26,122	(178)	14,060	(162)
Charge for the year	27,465	4,955	15,488	5,024

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	As at 31st March	2017	2016	2017	2016
28.2	**Deferred tax assets**				
	Tax effect on employee benefits	1,923	1,974	1,258	1,153
	Tax effect on tax losses	21,951	21,560	21,951	21,560
	Total deferred tax assets	23,874	23,534	23,209	22,713
28.3	**Deferred tax liability**				
	Tax effect on property , plant and equipment	90,853	63,048	76,735	60,751
	Total deferred tax liabilities	90,853	63,048	76,735	60,751
	Net deferred tax liability	66,979	39,514	53,526	38,038

		Group		Company	
	As at 31st March	2017	2016	2017	2016
29	**EMPLOYEE BENEFITS**				
29.1	The movement of the liability recognized in the statement of financial position is as follows;				
	Balance as at the beginning of the year	16,450	12,495	9,610	6,739
	Provision for the year (note 29.2)	2,338	4,688	2,230	3,461
	Payments made during the year	(2,767)	(733)	(1,357)	(590)
	Balance as at the end of the year	16,021	16,450	10,483	9,610
29.2	**Provision for the year**				
	The amounts recognized in the Statement of Profit or Loss are as follows;				
	Current service cost	2,079	1,953	1,655	1,433
	Interest cost	1,679	1,250	961	674
		3,758	3,203	2,616	2,107
	The amount recognised in the statement of other comprehensive income is as follows;				
	Actuarial (gains) / losses	(1,420)	1,485	(386)	1,354
		(1,420)	1,485	(386)	1,354
	Provision for the year	2,338	4,688	2,230	3,461

"The Employee benefits as at 31st March 2017 amounting to Rs. 10,483,455/- and Rs. 16,021,181/- (2016 - Rs. 9,609,812/- and Rs. 16,449,741/-) 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 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 — 11.5% p.a. (2016 - 10.5% p.a)
- Rate of pay increase — 8%-15% p.a. (2016 - 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,

	Group		Company	
As at 31st March	**2017**	**2016**	**2017**	**2016**
1% increase in discount rate	(1,098)	(1,753)	(782)	(684)
1% decrease in discount rate	997	588	714	778
1% increase in salary escalation rate	1,072	645	759	810
1% decrease in salary escalation rate	(1,184)	(1,823)	(841)	(725)

29.4 The employee benefit obligation has not been externally funded.

30 LOANS AND BORROWINGS

		Group		Company	
	As at 31st March	**2017**	**2016**	**2017**	**2016**
30.1	Non-current liabilities				
	Bank loans	6,550	-	-	-
		6,550	-	-	-

Notes to the Financial Statements
(All figures in Sri Lankan Rupees thousands)

Group	Currency	Interest rate	Year of maturity	2017 Face value	2017 Carrying amount	2016 Face value	2016 Carrying amount
30.2 Details of long-term borrowings							
Sampath Bank	LKR	12%-16.5%	2025	6,550	6,550	-	-
				6,550	6,550	-	-

Equity Hotels Limited secured a long-term loan amounting to Rs. 14 mn from Sampath Bank PLC at 12% rate of interest, under a scheme of funding provided by "ADB (SME) credit line, to part finance refurbishment and purchase of furniture and other equipment for Giritale Hotel in Polonnaruwa.

An interest rate of AWPLR +2.5% p.a., with a floor rate of 16.5% p.a., will be charged until refinance is received or in the event that project fails to qualify under the ADB credit scheme. The Loan is to be repaid in 71 equal monthly instalments after a grace period of 18 months from the date of the first disbursement.

As at 31st March 2017 Equity Hotels Limited has drawn Rs. 6.5 mn from the above loan.

31 TRADE AND OTHER PAYABLES

As at 31st March	Group 2017	Group 2016	Company 2017	Company 2016
Financial				
Trade payables	64,911	39,515	57,932	35,539
Other payables	25,248	20,643	18,153	14,200
	90,159	60,158	76,085	49,739
Non financial				
Deposits and advances	14,568	10,461	12,941	8,741
Provisions and accrued expenses	30,383	23,266	26,596	19,345
	44,951	33,727	39,537	28,086
	135,110	93,885	115,622	77,825

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 risk 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 of 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 to credit risk at the end of the reporting period was as follows.

	Group	
As at 31st March	**2017**	**2016**
Compensation receivable (note 20)	152,396	136,678
Fair value through profit or loss financial assets (note 22)	-	180,146
Trade and other receivables (note 23)	78,093	50,003
Cash and cash equivalents (note 24)	41,509	32,976
	271,998	399,803

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

a) Compensation receivable

As disclosed in note 20, the Company has accounted Rs.189.5 mn as compensation receivable from the Government of Sri Lanka, on account of the land acquisition referred to therein, which is based on the market value of the property 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 which relates only to the land on prudency.

A certain individual has filed a land action case in District Court of Negombo (as disclosed in note 33.3) in 2006 which is still under hearing stage. Even if a ruling is made at District Court, 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 case has 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 due to the appeal process above referred.

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 (AWDR) at the date of acquisition (11.5%)

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

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

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

These investments were carried at their fair values; being the net asset value of the funds. 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 can 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	**2017**	**2016**
Corporate customers	11,644	10,141
Tour operators	55,174	35,164
Others	5,773	1,544
	73,131	46,849

Impairment of trade receivables

The aging of trade receivables at the end of the reporting period was as follows,

	Group	
As at 31st March	**2017**	**2016**
1–30 days	15,129	25,353
31–90 days	53,190	18,525
91–120 days	3,889	872
121 days above	923	2,099
	73,131	46,849

A provision of Rs. 0.9 mn has been made as impairment in respect of trade receivables, as at the year end (2016 - Nil).

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. 41.5 mn as at 31 March 2017 (2016: Rs.33 mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AAA(lka) to AA–(lka), based on Fitch Ratings.

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

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

32.2 Liquidity risk

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

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

		Contractual cash flows					
31st March 2017	**Carrying amount**	**Total**	**2 months or less**	**2-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial liabilities							
Trade payables	64,911	64,911	64,911	-	-	-	-
Other payables	25,248	25,248	25,248	-	-	-	-
Loans and borrowings	6,550	6,550	-	-	-	6,550	-
Bank overdraft	55	55	55	-	-	-	-
	96,764	96,764	90,214	-	-	6,550	-

		Contractual cash flows					
31st March 2016	**Carrying amount**	**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	-	-	-	-

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.

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. 41.5 mn (2016 - Rs. 33 mn)

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

The Group has approved and unused overdraft facility amounting to Rs. 52.5 mn as at 31st March 2017.

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 Group reviews 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	**2017**	**2016**
Variable rate instruments		
Financial liabilities	(55)	-
	(55)	-
Fixed rate instruments		
Financial assets	34,226	-
Financial liabilities	(6,550)	-
	27,231	-

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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)	
	Increase by	Decrease by
As at 31st March	1%	1%
31st March 2017		
Variable rate instruments	1	(1)
31st March 2016		
Variable rate instruments	-	-

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.

32.5 Fair value vs carrying amounts

As at 31st March 2017	Trading	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable		-	152,396	-	-	152,396	152,396
Fair value through profit or loss financial assets		-	-	-	-	-	-
Trade and other receivables		-	78,093	-	-	78,093	78,093
Cash and cash equivalents		-	41,509	-	-	41,509	41,509
			271,998	-	-	271,998	271,998
Trade and other payables		-	-	-	90,159	90,159	90,159
			-	-	90,159	90,159	90,159

32.5 Fair value vs carrying amounts

As at 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	136,678
Fair value through profit or loss financial assets	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	-	-	219,657	219,657
Trade and other payables	-	-	-	-	60,158	60,158	60,158
	-	-	-	-	60,158	60,158	60,158

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 2017				
Property, plant and equipment - Land and Buildings	-	-	1,819,740	1,819,740
	-	-	1,819,740	1,819,740
As at 31st March 2016				
Fair value through profit or loss financial assets	180,146	-	-	180,146
	180,146	-	-	180,146

There were no transfers in between Level 1, Level 2 and Level 3 during the financial period under review (2016 - Nil)

Notes to the Financial Statements
(All figures in Sri Lankan Rupees thousands)

Valuation techniques and significant unobservable inputs

The following table depicts the valuation techniques used in measuring level 3 fair values, as well as the significance unobservable inputs used.

The fair value of property was determined by an external independent property valuer with appropriate and recognised professional qualifications and recent experience in the location and category of the properties being valued.

The fair value measurements of all the properties have been categorised as Level 3 fair value, based on the input to the valuation technique used.

Company	Location	Valuation technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
Pegasus Reef Hotel - Land	Wattala	Market approach	Market value of land (Price per Perch). Valuer has used a range of prices for respective lands based on their recently transacted cost. Current market conditions and the comparable property prices have been used for the valuation.	The estimated fair value would increase/(decrease) if – Market value per perch was higher (lower)
Pegasus Reef Hotel - Building Equity Hotels Limited - Building	Wattala Giritale	Contractor's Method: The contractor's method works on the basis that a property's value can be equated to its cost. Valuer assess the cost of the building if it would have constructed in current year, and deduct margin for usage of the property-based on their year of construction.	Construction cost per square feet of a building. Depreciation rate for the usage of assets.	Cost per square feet was higher (lower) Depreciation rate for usage lower (higher)

	Group		Company	
As at 31st March	2017	2016	2017	2016
33 COMMITMENTS AND CONTINGENCIES				
33.1 Capital commitments				
Approved and contracted for	-	731	-	731

33.2 Financial commitments

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

33.3 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.

34 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.

34.1 Parent and ultimate controlling entity

In the opinion of the Directors, Carson Cumberbatch PLC is the parent company of Pegasus Hotels of Ceylon PLC and Bukit Darah PLC is the ultimate parent and controlling entity of Pegasus Hotels of Ceylon PLC.

34.2 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), have been classified as Key Management personnel of the Company.

	Group		Company	
For the year ended 31st March	**2017**	**2016**	**2017**	**2016**
34.2.1 Key management personnel compensation				
Short-term employee benefits	750	700	750	700
Post-employment benefits	-	-	-	-
Termination benefits	-	-	-	-
Non-cash benefits	-	-	-	-
Other long-term benefits	-	-	-	-
	750	700	750	700

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

34.3 Group entities

	% equity interest	
Name of the subsidiary	**2017**	**2016**
Equity Hotels Limited	99.9%	99.9%

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

34.4 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	
			2017	2016	2017	2016
Subsidiary						
Equity Hotels Limited	D.C.R. Gunawardena	Reimbursement of expenses received	-	-	997	667
		Dividend received	-	-	370	3,085
Fellow subsidiaries						
Carsons Management services (Private) Limited (CMSL)	H. Selvanathan	Reimbursement of expenses paid	1,196	1,931	687	1,419
	K. Selvanathan	Computer charges	222	222	150	150
		Secretarial fees	512	504	411	403
		Support Service Fee	6,870	7,910	5,533	6,059
		Internal audit services fee	2,743	1,669	1,841	1,669
Millers Brewery Limited		Purchase of a marquee	1,410	-	1,410	-

Related company lending (including short - term advances) have been charged interest at AWPLR+1%, if any.

Support service fee and other expenses charged are based on the respective services provided by CMSL as per the service agreements signed between the companies on an arm's length basis.

As at 31st March	Company 2017	Company 2016
35 DIVIDEND PER SHARE		
Dividend paid	15,196	15,196
Dividend propose*	15,196	15,196
Dividend per share (Based on propose dividend)	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.

36 COMPARATIVE FIGURES

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

Classification of expenses

Considering the nature of the transactions credit card commission and revenue commission expenses have been reclassified under the administration expenses and direct costs respectively. Accordingly the comparative figures have been reclassified to provide a better presentation as required by LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. Accordingly the Financial statement impact is given below.

	Group			Company		
	Direct costs	Selling and promotional expenses	Administrative expenses	Direct costs	Selling and promotional expenses	Administrative expenses
As previously reported in the published financial statements of year ended 31st March 2016	318,427	28,410	134,847	260,300	25,231	110,269
Adjustments made on expenses	2,113	(4,395)	2,282	2,113	(4,027)	1,914
Adjusted balance in the published financial statements of 31st March 2017	320,540	24,015	137,129	262,413	21,204	112,183

37 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 (2016 - Rs. 0.50) per ordinary share for the year ended 31st March 2017 amounting to Rs. 15,195,769 /- (2016 - 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 2017.

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

38 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	**2017**	**2016**	**2015**	**2014**	**2013**
Trading Results					
Revenue	543,200	582,209	510,255	452,205	493,184
Profit from operations	16,722	109,177	92,365	67,913	151,487
Net finance income / (cost)	27,276	24,520	17,961	7,419	6,687
Profit from operations after finance cost	43,998	133,697	110,326	75,332	158,174
Income taxation	(2,455)	(13,022)	(14,458)	(8,776)	(16,211)
Profit for the year	41,543	120,675	95,868	66,556	141,963
Other comprehensive income / (expense) for the year	605,622	(1,307)	(1,075)	-	-
Total comprehensive income for the year	647,165	119,368	94,793	66,556	141,963
Shareholders' Funds					
Stated capital	515,170	515,170	515,170	515,170	515,170
Reserves	1,685,052	1,053,083	957,251	877,654	827,469
Shareholders' funds	2,200,222	1,568,253	1,472,421	1,392,824	1,342,639
Assets Employed					
Property, plant and equipment	2,010,067	1,186,133	1,157,858	1,171,770	1,147,402
Intangible assets	115,287	115,287	115,287	115,287	115,287
Compensation receivable	152,396	136,678	122,545	109,906	98,441
Non current assets	2,277,750	1,438,098	1,395,690	1,396,963	1,361,130
Current assets	148,473	284,266	194,243	134,009	144,370
Current liabilities	(136,451)	(98,147)	(70,458)	(87,466)	(111,632)
Working capital	12,022	186,119	123,785	46,543	32,738
Assets employed	2,289,772	1,624,217	1,519,475	1,443,506	1,393,868
Non-current liabilities					
Loans and borrowings	(6,550)	-	-	(7,878)	(16,446)
Deferred tax liability	(66,979)	(39,514)	(34,559)	(28,741)	(24,318)
Employee benefits	(16,021)	(16,450)	(12,495)	(14,063)	(10,465)
Total non-current liabilities	(89,550)	(55,964)	(47,054)	(50,682)	(51,229)
Net assets	2,200,222	1,568,253	1,472,421	1,392,824	1,342,639
Profitability Ratios					
Profit margin (%)	8	21	19	15	29
Return on shareholders' funds (%)*	2	8	7	5	11
Liquidity Ratios					
Current ratio (times)	1.09	2.90	2.76	1.53	1.29
Debt equity (%)	0.30	-	-	2.61	5.70
Investor Ratios					
Earnings per share (Rs.)**	1.37	3.97	3.15	2.19	4.68
Dividend per share (Rs.)	0.50	0.50	0.50	0.50	0.50
Net assets per share (Rs.)	72.39	51.60	48.45	45.83	44.18
Market price per share (Rs.)	32.50	31.50	41.00	37.00	36.90
Dividend yield (%)	1.54	1.59	1.22	1.35	1.36
Dividend payout (%)	36.50	12.59	15.87	22.83	10.68
Hotel Operations					
Occupancy (%)	47	60	49	47	58

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	2017		2016	
Revenue	543,200		582,209	
Other income including finance income	35,948		33,172	
Cost of materials and services bought from outside	(316,673)		(293,176)	
	262,475		322,205	
Distributed as follows:		%		%
To employees				
as remuneration	157,140	60	130,795	41
To government				
as taxation*	1,112	-	7,889	2
To providers of capital				
as dividend	15,196	6	15,196	5
as interest and other charges	39	-	-	-
Retained in the business				
as deferred taxation	1,343	1	4,955	2
as notional adjustments on LKAS / SLFRS	15,980	6	14,441	4
as depreciation	45,318	17	43,450	13
as profit for the year (adjusted for dividends)	26,347	10	105,479	33
	262,475	100	322,205	100

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

* Excluding Value Added Tax

Information to Shareholders and Investors

1. STOCK EXCHANGE LISTING

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

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

2. ORDINARY SHAREHOLDERS

2.1 Number of Shareholders

As at 31 st March	2017	2016
Number of Shareholders	2,704	2,515

2.2 Distribution and Composition of Shareholders

The number of shares held by Non - Residents as at 31st March 2017 was 128,520 (2016 - 126,520) which amounts to 0.42% (2016 - 0.42%) of the total number of Ordinary Shares.

Distribution of Shares	Residents			Non Residents			Total		
	No. of shareholders	No. of Shares	%	No. of shareholders	No. of Shares	%	No. of shareholders	No. of Shares	%
1 - 1,000	2,440	317,042	1.0432	19	5,105	0.0168	2,459	322,147	1.0600
1001 - 10,000	189	612,076	2.0140	3	8,236	0.0271	192	620,312	2.0411
10,001 - 100,000	45	1,321,066	4.3468	3	115,179	0.3790	48	1,436,245	4.7258
100,001 - 1,000,000	4	665,349	2.1893	-		-	4	665,349	2.1893
Above 1,000,000	1	27,347,485	89.9839	-		-	1	27,347,485	89.9839
Total	2,679	30,263,018	99.58	25	128,520	0.42	2,704	30,391,538	100.00

	As at 31st March 2017		
Categories of Shareholders	No. of Shareholders	No. of Shares	%
Individuals	2,627	2,378,186	7.83
Institutions	77	28,013,352	92.17
Total	2,704	30,391,538	100.00

3. MARKET PERFORMANCE - ORDINARY SHARES

For the year ended 31st March	2017	2016
As at 31st March (Rs.)	32.50	31.50
Highest (Rs.)	41.50	48.00
Lowest (Rs.)	27.50	25.00
Value of shares traded (Rs.)	17,156,229	63,386,914
No. of shares traded	487,766	1,563,389
Volume of transactions (Nos.)	1,096	1,589

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. 987,724,985/- as at 31st March 2017 (2016 - Rs. 957,333,447/-).

5. PUBLIC HOLDING

The percentage of Ordinary Shares held by public as at 31st March 2017 was 10.01% (2016 - 10.01%) and the number of Public Shareholders were 2,701 (2016 - 2,512).

The Company is in compliance with Minimum Public Holding requirements in respect of Diri Savi Board as per Directive No.SEC/LEG/16/11/13 dated 17th November 2016 of the Securities and Exchange Commission of Sri Lanka.

6. DIVIDEND

The Directors have recommended a first & final dividend of Rs. 0.50 per Ordinary share for the year ended 31st March 2017 (2016 - Rs. 0.50 per share)

7. VALUE OF THE PROPERTIES - LAND AND BUILDING

Location	2017 Extent (in hectares)	2017 Number of Buildings	Market value 2017 Rs.'000	Date of professional valuation
Pegasus Reef Hotel, Wattala	5.45	1	1,700,271	31st March 2017
Equity Hotels Limited, Polonnaruwa (Building)	6.03	1	119,468	31st March 2017

8. NUMBER OF EMPLOYEES

The number of employees at the end of the year was 187 and 257 (2016 - 202 and 272) for the Company and the Group respectively.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the FIFTY FIRST Annual General Meeting of PEGASUS HOTELS OF CEYLON PLC will be held on Thursday, the 15th day of June 2017 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 2017, together with the Report of the Auditors thereon.

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

3. To re-elect Mr. D. C. R. Gunawardena, who retires by rotation in terms of Article 72, 73 and 74 of the Articles of Association of the Company.

4. To re-elect Mr. S. R. Mather 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. 7 of 2007 shall not be applicable to Mr. S. Nagendra who is 77 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 Mr. M. Dayananda as a Director of the Company who is Seventy years of age and to consider and if deemed fit to pass the following resolution :

   "IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act No. 7 of 2007 shall not be applicable to Mr. M. Dayananda who is 70 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."

7. 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
15th May 2017

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 2017.

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.

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,
Krishna Selvanathan	or failing him,
Sujendra Ranjanan Mather	

as *my/our proxy to attend at the 51st Annual General Meeting of the Company to be held on Thursday, the 15th day of June 2017 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 2017, together with the Report of the Auditors thereon.		
2	To declare a dividend of 0.50 per share as a first and final dividend for the financial year ended 31st March 2017, as recommended by the Directors.		
3	To re-elect Mr. D.C.R. Gunawardena who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.		
4	To re-elect Mr. S.R. Mather 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 Mr. M. Dayananda who is Seventy years of age as a Director of the Company		
7	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. 07 of 2007 and to authorize the Directors to determine their remuneration.		

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

....
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.

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy after filling in legibly your full name and address, and 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 2017.

PLEASE FILL IN THE FOLLOWING DETAILS.

Name : ....

Address : ....

....

Jointly with : ....

Share folio no. : ....

Corporate Information

NAME OF THE COMPANY

Pegasus Hotels of Ceylon PLC

(A Carson Cumberbatch Company)

COMPANY REGISTRATION NO

PQ 40

LEGAL FORM

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

PARENT COMPANY AND CONTROLLING ENTITY

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)

Hari Selvanathan

Sega Nagendra

Mahendra Dayananda

Krishna Selvanathan

Asoka De Z. Gunasekera
(Stepped down w. e. f. 15th June 2016)

Sujendra Mather
(Appointed w.e.f. 01st July 2016)

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. Kurera

D. Fernando

S. Nayanananda

P. Samarakoon

J. Jayakody

D. Senarathe

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

PEGASUS REEF

the city resort that's just right!

www.pegasusreefhotel.com