Delight

PEGASUS REEF
the city resort that's just right!

Pegasus Hotels of Ceylon PLC
A Carson Cumberbatch Company

Annual Report 2018/ 2019

Delight

At Pegasus Hotels, we make every effort to delight your senses from the moment you walk in through our doors. Our hospitality and unique offerings combine to create joyous moments for you – from our comforable accommodation, relaxing surroundings, mouthwatering dishes and exceptional service to the perfect ambience that caters to any occasion. These serve as the perfect balance of elements that induce happiness and laughter, helping you to celebrate even the simpler things in life.

That's why, at Pegasus Hotels, we can promise moments of endless delight, both now and in the years to come.

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Financial Highlights - Group

(All figures in Sri Lankan Rupees thousands)	2019	2018
Revenue	677,550	684,841
Gross Profit	256,399	275,743
Profit from operations	44,058	81,240
(Loss) / profit before taxation	(83,775)	108,942
(Loss) / profit for the year	(92,289)	84,328
Earnings / (loss) per share (Rs.)	(3.04)	2.77
Dividend per share (Rs.)	0.55	0.55
Total assets	2,395,526	2,408,791
Shareholders' Equity	1,925,318	2,034,167
Net assets per share (Rs.)	63.35	66.93
Financial ratios		
Gross profit (%)	38	40
Net (loss) / profit (%)	(14)	12
Return on equity (%)	(5)	4
Current ratio (times)	1.22	1.76
Market price per share (Rs.)	24.00	28.00

Rs. 677 mn
Revenue

Rs. 2,395 mn
Group Total Assets

Rs. 44 mn
Operating Profit

Chairman's Statement

"We have seen a rise in patrons at Pegasus Reef, which can be predominantly attributed to the improvement of the hotel property and service standards through regular investments"

Dear Shareholder,

A warm welcome to the 53rd Annual General Meeting of Pegasus Reef Hotels of Ceylon PLC. It is my pleasure and privilege to present to you on behalf of the Board of Directors, the annual report and financial statements for the year ended 31st March 2019. As I reflect on the past financial year, I am proud of what we have achieved considering the challenging hotel industry dynamics in the country.

I will not dwell upon the shocking events of Easter Sunday, which upended the Sri Lankan hospitality dream at this point, but would defer to review the previous year that unfolded.

Looking back at the concluded financial year, I believe the competitiveness and the price war in the hospitality industry will continue to intensify regardless of our country's heightened prominence and attractiveness as a tourist hotspot in the Indian Ocean. Tourist arrivals made progress at a reasonable pace of 7% growth, yet we saw uncertainty creeping in towards the second half of the year with political dilemmas marring the backdrop. Our main markets, India grew moderately during 2018, whilst China declined marginally. However, it was invigorating to observe the upturn in European arrivals subsequent to the industry authorities' targeted efforts and promotional campaigns towards these key markets. All in all, it is commendable that for the calendar year 2018, official tourist receipts to our country increased by 12% to USD 4,381 mn. More importantly, the tourism industry aided a 8% increase in country's direct and indirect employment, trickling its benefits down to the entire economic activities of the country.

However, inevitably, these positive demand factors led to the stimulation of far greater competition. I trust that at present, the room count in the graded accommodation continues to rise, albeit at a slower pace in comparison to the unregulated and unregistered guesthouses, bungalows, unclassified hotels and rented homes and apartments. More specifically, even with a steady average tourist stay of approximately 10 nights being maintained over the recent years, its positive impact has regrettably leaked out to these unregulated accommodation. This concept of informal accommodation has been swirling high up in terms of popularity, mostly driven by the online platforms

"Growing competition from other hotels and emerging standalone halls alike, necessitated an investment into modernising the banquet hall facilities"

and promotions. Therefore, I feel it's the opportune time to introduce firm regulations to license the informal sector, which would possibly uplift overall industry standards whilst regulating the quality, price and more importantly the guest safety. Such regulations would further serve to strengthen the monitoring mechanisms of the industry, where I trust that informal sector should also be monetary contributors to the development of the industry infrastructure in some form, ideally through payment of taxes, which would in return advance the growth of the country's tourism.

Our Business and Operations

The year under review saw us achieve considerable progress on your hotels in terms of maintaining the key business priorities. Compared to the country's total graded establishments' average occupancy of 73% for the calendar year 2018, Pegasus Reef managed to achieve 66% occupancy for the year under review, which is commendable given that your hotel is mostly patronised as a transit property wherein which the majority of the guests record a stay of less than 24 hours. This is also in the backdrop of the trend that budget travelers especially, are increasingly circumventing the transit hotels due to easy expressway access and other transportation facilities to inner cities, allowing for relatively shorter stays within the city limits, if at all. Nevertheless, we have seen a rise in patrons at Pegasus Reef, which can be predominantly attributed to the improvement of the hotel property and service standards through regular investments.

Upon observing the pricing dynamics in the year under review, in spite of the substantial LKR depreciation, the Average Room Rate did not display a corresponding strong show across the industry. This was essentially due to the frequent heavy price undercutting strategies undertaken by operators in order to bridge the unfairly cheap rates offered by the small to medium scale lodges in the city. Yet the Sri Lankan Rupee depreciation managed to stimulate a relatively less but vital YoY growth of 6% in the hotel's Average Room Rate.

Pegasus Reef's overall MICE business growth was sluggish during the year. We realise this is partly due to the competition within the region, which became increasingly fierce primarily for weddings and partly due to the overall dull sentiment observed in the business conference segment as well. As such, growing competition from other hotels and emerging standalone halls alike, necessitated an investment into modernising the banquet hall facilities in order to ensure that "Pegasus remains the favourite" among our guests. Thus, we have committed over Rs. 90 mn towards the refurbishment of the main banquet hall. Also, the closure of the Pegasus Reef's banquet hall for 2 months of the discussed year due to the refurbishment highlighted above, further impacted the group MICE revenue. Going forward, your hotel will be uniquely positioned to deliver guest needs with a modern banquet hall, an adequately spaced out garden and a relaxing beach, all within the hustle and bustle of the city.

Meanwhile, during the concluded year, 21 rooms, of the 40 room scenic Giritale hotel property embraced a modern appearance to its rooms opening out to the beautiful landscape of the Giritale Tank. As we have previously emphasised, during this exercise, the shutting down of 32 rooms to accommodate a 21-room refurbishment project which spanned over one half of the discussed financial year, dragged down the subsidiary performance drastically. This impact is reflected in the Group's top line which declined by 1% during the year to reach Rs. 677.6 mn, while Pegasus Reef standalone revenue was recorded at Rs. 631.3 mn, noting an increase of 8% over the corresponding year.

On an additional matter, pertaining to Pegasus Reef Hotel's claim of compensation in respect of the 353.89 perches of mangrove land, we

Chairman's Statement

"Your hotels continue to operate in rapidly challenging industry conditions with margin squeezing arising from the competition amongst the uphill battle towards survival"

have been awarded a compensation of Rs. 5.46 mn in contrast to our claim of Rs. 159 mn. Therefore, on prudency basis we have provided an impairment of Rs. 145.2 mn for the balance land extent, where the compensation will be awarded only upon completion of the land case filed in the District Court of Negombo, which is currently at the hearing stage. The said impairment adjustment completely distorts the financial performance for the financial year ended 31st March 2019. However, we expect a better compensation award for the balance land acquired since substantial component of the said balance land was not entirely mangrove land.

Industry Challenges

It is my view that the hospitality industry requires further groundwork in terms of grooming professional and technically skilled staff in order to deliver the right service and quality standards. Shortage of skilled staff has been a major point of concern over the recent past for all hotels, which has unavoidably driven up the staff costs. Furthermore, continuous cost increases and the Sri Lankan rupee depreciation have become major concerns in sustaining profitability. Ever increasing construction cost continue to pressurise cash flows, augmented by depreciation and repair and maintenance charges. In addition, supportive infrastructure such as uninterrupted power and water supply is required in order to eliminate unnecessary operational hindrances and additional costs on top of the already hefty cost base.

Just as we entered the new financial year, I am deeply perturbed by the heartless terrorist attacks faced by the country and I wish to express my extreme sadness and solidarity towards all our men, women and children who were affected. While this type of activity is not acceptable in any form to the economy and specifically the overall hospitality industry, the tourism market has already shown signs of deterioration with substantial cancellations, where the short to medium term outlook remains uncertain and challenging for the graded hotels which have already faced many challenges. This is unfortunate at a time when the country was gradually emerging as a welcoming tourist destination following decades of civil war, with world renowned travel guide book publishers such as "Lonely Planet" preeminently recognising Sri Lanka as the best country in the world to visit in 2019. Yet we have miserably failed to capitalise on the above upbeat of Sri Lankan tourism, which certainly calls for the government, and other authorities to more seriously consider revitalising the country's security. Hence, the country should invest in safety and modern surveillance systems without further hesitation, in the interest of ensuring and safeguarding the utmost security of the people in order to restore the confidence in our travelers and bounce back.

Dividends and CAPEX

In terms of the dividends declared for the concluded year, our consistent dividend payout approach has been maintained, wherein an interim dividend of Rs.0.55 per share was declared and paid. In spite of the extensive capital commitments, your dividend payout based on the adjusted net profit of the Company for the impairment provision was at 23%. This flow of dividend is maintained whilst conducting necessary improvements to the property with the delivery of consistent quality to the guests in mind. As the years unfold, we would need to invest in more capital projects at both hotels. Meanwhile, the group finance expense saw an increase primarily due to room refurbishment at Giritale. Particularly, the Giritale Hotel had to factor in considerable debt for its hotel improvements, which will be challenging to service, given that we should always stay low geared to face possible turbulences amidst our industry's great sensitivity to global and local security concerns and economic downturns.

Future Landscape

At this juncture, your hotels continue to operate in rapidly challenging industry conditions with margin squeezing arising from the competition amongst the uphill battle towards survival. At present, it is difficult to comment on when we can expect a possible rebound in tourism. Firstly, as I emphasised above, in order to diminish the mounting concern over the terrorism and security matters which results in a negative ripple effect to our industry, all the necessary action plans need to be promptly implemented in order to ascertain a sound business environment for the hospitality market in the country. Meanwhile, we aim to improve the flow of revenue to your hotels by tapping into different market segments with new attractive offerings. We would continue to safeguard shareholder value by continuously improving your business properties and facilities into the coming years while ensuring safety, service and other quality standards. We are committed to delighting our guests at all times, offering value adding differential experiences in our long term journey of becoming sustainable value adding hotels.

I wish to thank and appreciate the continued support, loyalty and the confidence and trust we have received across from our valued shareholders, clients, suppliers, general community and all our stakeholders. A big thank you to all my fellow Board members, the members of the Audit Committee, Remuneration Committee, Nomination Committee and the Related Party Transactions Review Committee for their valuable insights. Finally yet most importantly, I am gratified by our employees at both hotels who work hard day and night to deliver a delightful hotel experience.

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

Colombo
08th May 2019

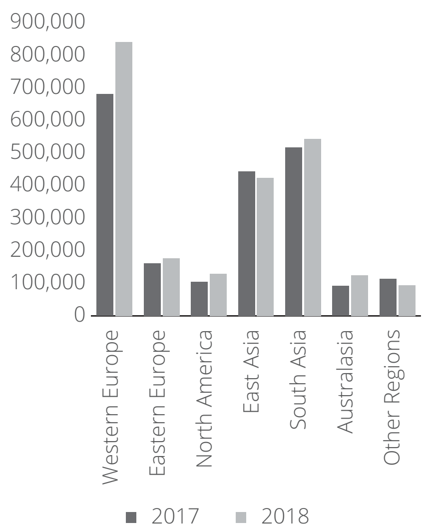
Management Discussion & Analysis

Management Discussion & Analysis

“ As an emerging tourism hotspot, we should attempt to boost our tourism by promising and delivering exemplary quality and service consistently, leaving the travelers with pleasant experiences and lasting memories of their stays”

Having crossed 2.3 mn tourist arrivals in calendar year 2018, the Sri Lankan Hospitality industry recorded a fair performance during the concluded year amid concerns of economic slowdown in major tourist markets such as China. India, our major tourist market contributor, exhibited a relatively moderate growth rate of 10% compared to new emerging markets. Explicitly, European and Australasian markets were at the forefront with promising double-digit growth, supported by targeted country-focussed and web-based promotions conducted by the Sri Lanka Tourism Promotion Bureau as per the Tourism Strategic Plan 2017-2020. Increased direct flights between Sri Lanka and Australia, has also facilitated more Australian tourist traffic to the country. As such, with numerous destination-specific marketing efforts, we started noticing a rise in high spending tourist destinations during the concluded period. With over 75% of the tourists who visited the country during the past years being leisure travelers, both average stay and average spend per tourist have followed a stable trend mainly over the past 05-year period, with a CAGR of 2%.

Region-wise Tourist Arrivals - 2017 vs. 2018



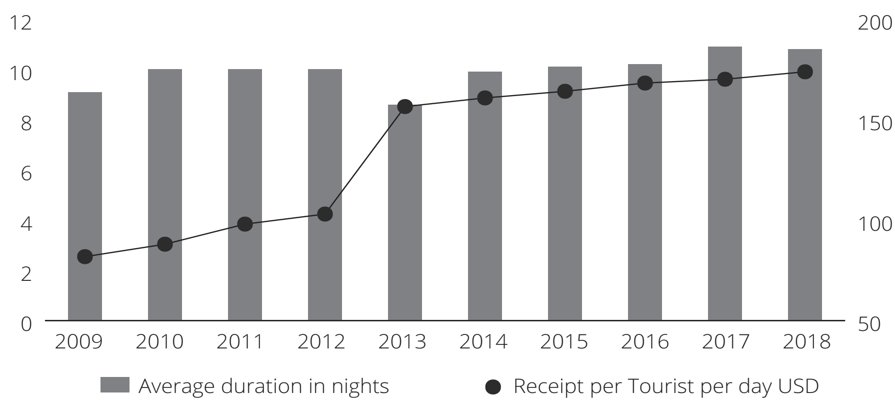
Source: Based on the data extracted from Sri Lanka Tourism Development Authority and Central Bank of Sri Lanka

Tourist Arrivals by Country

	2017	2018	YoY change	% of Total Arrivals in 2017	% of Total Arrivals in 2018
India	384,628	424,887	10%	18%	18%
China	268,952	265,965	-1%	13%	11%
UK	201,879	254,176	26%	10%	11%
Germany	130,227	156,888	20%	6%	7%
Australia	81,281	110,928	36%	4%	5%
France	97,282	106,449	9%	5%	5%
Maldives	79,371	76,108	-4%	4%	3%
USA	57,479	75,308	31%	3%	3%
Russia	59,191	64,497	9%	3%	3%
Netherlands	51,148	57,160	12%	2%	2%
Canada	46,896	52,681	12%	2%	2%
Japan	44,988	49,450	10%	2%	2%

Source: Based on the data extracted from Sri Lanka Tourism Development Authority and Central Bank of Sri Lanka

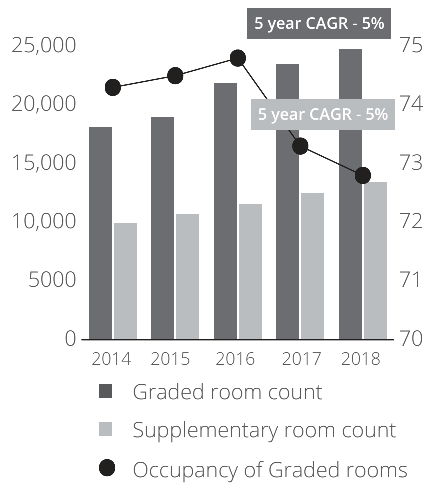
Average Stay vs. Tourist Receips



Source: Based on the data extracted from Sri Lanka Tourism Development Authority and Central Bank of Sri Lanka

Drawing from published statistics, within the past five years, the country's graded accommodation and supplementary accommodation have both expanded with a CAGR of 5%, multiplying the competition in the hotel market space. The Colombo district showcased a room inventory of more than 7,000 rooms as of December 2018, which is the highest compared to any other district, as per the data from the Sri Lanka Tourism Development Authority. Such an influx of new rooms in turn has negated occupancy growth across graded rooms over the recent years, where 2016 annual occupancy of 74.8% has reduced to 72.8% by 2018. Furthermore, during the period from November 2010-December 2018, Sri Lanka Tourism Development Authority has granted final approval for 18,760 rooms in totality, out of which 6,815 rooms are still under construction, which will further stretch the competition in the industry in the upcoming days.

Graded and Non-Graded Room supply vs. Graded room Occupancy



Source: Based on the data extracted from Sri Lanka Tourism Development Authority

As an emerging tourism hotspot, we should attempt to boost our tourism by promising and delivering exemplary quality and service consistently, leaving the travelers with pleasant experiences and lasting memories of their stays, thus ensuring repeated visits. True that peer-to-peer accommodation networks have facilitated more tourist traffic to the country, yet initiatives for formalising the informal sector is necessary. Every

Management Discussion & Analysis

"With the Colombo skyline becoming more dynamic with modern new hotels gaining foothold, as a graded hotel, it is essential for your Company to reserve a certain level of funds for capital commitments"

accommodation in the industry should be fairly exposed to the scrutiny of the tax and regulatory authorities, in order to create a level playing field for competition. This is specifically in the view that genuine tax payers who greatly contribute towards boosting tourism through high quality investments are ultimately left at a disadvantage over the more informal stays who escape the tax net. Even in the MICE category, Pegasus Reef as a genuine tax registered entity finds itself in a despairing situation when faced with the challenge of the significantly lower rates offered by some of the standalone banquet operators. Therefore, the government together with industry authorities should implement measures to eliminate possible tax evasion from any type of informal establishments, and enable such collected funds to be meaningfully utilised for the industry's infrastructure development in the future.

On an extremely sad note, it was tragic to witness a series of devastating terrorist attacks in the country, at the onset of the new financial year, affecting the local and tourist communities alike. This incident brought about unexpected instability to the economy and towards the country's hospitality industry, which was excitedly gaining gradual popularity across the world. As a result, a large number of hotel booking cancellations and travel advisories issued against Sri Lanka by certain countries have already led to a considerable downturn in hotel occupancies. This would likely continue into the upcoming months of the ongoing financial year. In this case, Government's prompt action within a short span is required to extend recovery support to the travel and tourism sector. However, a country's safety and security should be of the utmost priority, and needs to be preserved at any cost. Security of both formal and informal hospitality accommodation also needs to be addressed systematically and carefully with minimal hindrance to the guests, since safety has become a must-win battle across the industry in expediting its forward moment. Whilst a peaceful travelling environment should co-exist to enjoy the splendour and experiences the country affords, the quality and service of overall tourism related infrastructure in the country and other support services should simultaneously improve in order to notch up our offerings to be in line with other regional peers.

Operational and Financial Progress

Pegasus Reef Hotel

With the Colombo skyline becoming more dynamic with modern new hotels gaining foothold, as a graded hotel, it is essential for your Company to reserve a certain level of funds for capital commitments on a regular basis in order to enhance the overall guest experience, service standards, and operational flexibility. Hence, in the recent years, from FY14 - FY19, the hotel has spent over Rs. 530 mn as capital investments, funded via organic cash flows of the Company. Such long term spending was allocated for the development of the property whilst maintaining stable dividends at a reasonable payout and importantly maintaining a zero gearing level. This strategy should facilitate flexibility amid challenging operational environments whilst being profitable in the short term and enhancing the shareholder value in the long term. For the year under consideration, dividend payout based on the adjusted net profit for any non-cash impairment charges, stood at a reasonable 23%.

Pegasus Reef Hotel-Dividend Payout & Capital Expenditure

Financial Year	Net Profit (Adjusted) Rs. '000	Dividend Payout	Capital Expenditure Rs. '000
FY14	70,468	22%	60,092
FY15	98,732	15%	24,717
FY16	110,509	14%	66,329
FY17	31,147	49%	258,017
FY18	80,864	21%	45,837
FY19	73,111	23%	77,576

Notwithstanding incurring such capital expenditure during the past years, further development needs of the hotel's facilities keep emerging. For instance, within the ongoing financial year, possible improvements to our main restaurant would be considered. In addition, to remain competitive in the industry, we realise the need to refurbish the remaining rooms of the hotel, which were not refurbished during the financial year 2016/17, in the upcoming financial years. As a part of the ongoing human resource initiatives towards enhancing staff well-being and ensuring smooth operations, we also recognise the importance of constructing a staff quarters building on the recently acquired land of the hotel at some point in the future.

Amid the challenges and competitive operational dynamics discussed above, for the twelve months ended 31st March 2019, Pegasus Reef managed to secure 66% occupancy, satisfactorily up from the 62% observed in the preceding year, predominantly marked by increased visitor numbers from the tour operators and the blossoming online segment. This was made possible through active marketing efforts, both local and overseas. Optimisation of the online business segment enabled more revenue to the hotel which has been one of our top priority areas over the past few years. Primarily supported by substantial currency depreciation, the hotel's Average Room Rate saw an improvement of 6% YoY, a much lower rate compared to the exchange rate impact, wherein which the Sri Lankan Rupee depreciated by 13% during the course of the year under consideration. Thus, the room revenue secured a growth of 12% YoY while the overall food and beverage revenue tagged along, registering a growth of 3% YoY.

"The group's strategy of remaining low-geared by retaining cash via fund placements for future expansion plans remains extremely valid considering the current onerous industry conditions"

Yet, our strong MICE business could not deliver on its true potential due to the overall dull market conditions attributable to functions and increased competition diluting the wedding business. The impact of unexpected bad weather in the months of June and July was also detrimental to the growth of the day outings and special functions market. More importantly, the closure of the main banquet hall of the hotel to accommodate refurbishment activities as discussed below during the final 2 months of the financial year affected the revenue flow from the MICE business to the hotel.

With the recent growth in MICE business and increased glamour and sophistication being sought after, the MICE market has fast-tracked in terms of becoming wider and competitive. It is worth noting that even the

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"We are now preparing to welcome our enthusiastic guests, who seek out the nature and tranquility overlooking the scenic Giritale Tank"

aforementioned standalone banquet operators seem to be increasingly wanting a nibble of market share. In this market backdrop, we have recognised the importance of enhancing our MICE facilities to strengthen our offering, leveraging on Pegasus Reef's strong brand name in the banquet market. Hence, with the lapse of five years following the last banquet hall modification of Pegasus Reef, we have committed Rs. 98 mn during the year under review to carry out an all-inclusive refurbishment to the main banquet hall and improvements to the banquet kitchen.

In addition to essential capital commitments, operational cost arrangements too are getting tight with time. The two-way impact of the rupee depreciation was noted here, where while it was positive for the room rate growth, it also created a substantial adverse impact to the cost base, impacting both operational cost as well as capital expenditure. Meanwhile, our efforts and commitment to maintain quality standards by adhering to ISO certifications pertaining to the Food Safety Management System (ISO 22000:2005) the Good Manufacturing Practice, Environmental Management System (ISO 14001:2015) and Occupational Health & Safety (OHSAS 18001:2007) are attached with additional costs with respect to maintenance and compliance. Yet we consider these to be our utmost priority in ensuring we deliver quality to our guests.

Pertaining to other matters of the hotel, subsequent to the Balance Sheet date, we received an official notification pertaining to our claim of compensation in respect of a land extent of 353.89 perches. The aforementioned property is a mangrove land adjoining the hotel and the newly constructed Dikkowita fisheries harbor, which was initially expected to be returned to the Company upon the completion of fisheries harbour project, which would have served as a green belt between the hotel and the said fisheries harbour. On 30th September 2016, the Company filed a Motion in the Supreme Court to obtain an order for the divestiture of title of this 353.89 perches of land, as allowed for by the Supreme Court in its original order made in November 2008. However, at the hearing of the Company's Motion, the Supreme Court directed that no further divesture will be made by the Supreme Court. Following our subsequent inquiry, the Divisional Secretary informed us that the said

353.89 perches of land under discussion would also be utilised for the fisheries harbour project and therefore called for a claim of compensation in response to which the Company submitted a claim of compensation on 26th October 2017.

According to the notification we received from the Divisional Secretary, the Company has been awarded Rs. 5,459,500/- in relation to our claim of Rs. 159,325,500/- for this land. The Company is provided the option to appeal within 21 days which the company will exercise. The compensation claim for the balance land of 1,251 perches is yet to be announced until the conclusion of the ongoing land action case in the District Court of Negombo, which is still in the hearing stage. However, as a matter of prudency, the company decided to make a provision for the Compensation receivable of Rs. 189.5 mn recorded in the books based on the criteria of compensation awarded for the aforesaid 353.89 perches. Accordingly, the Company made a provision of Rs. 145.2 mn for the year ended 31st March 2019. However, the substantial component of balance land under compensation claim is not mangrove land, hence we expect a better compensation than the amount awarded for the said 353.89 of mangrove land. The said provision of Rs. 145.2 mn caused to substantially understate the financial performance of the Company. Eliminating the impact of the provision on impairment as mentioned above, the Group recorded an adjusted consolidated net profit of Rs. 52.9 mn for the year under review.

Reflecting on the major routine cost items, direct costs of the hotel on a standalone basis for the year increased by 7% YoY to stand at Rs. 372.5 mn. As the reasons for such an increase, the food and beverage costs increased by 2% YoY, in line with revenue, while the repair and maintenance expenses increased by 57% YoY to reach Rs. 19.2 mn, owing to critical operational improvements required in the kitchen, cold room and other equipment. However, the room costs were controlled through well-planned cost curtailing efforts. The total payroll related costs recognised under direct costs observed an increase of 12% to reach Rs. 61.6 mn for the year concluded while the total payroll cost accounted in the Profit and Loss Statement amounted to Rs. 154.8 mn compared to FY18, with an YoY increase of 8%. Notably, due to the dearth of professionally skills and technically competent staff, during the year, the hotel on boarded a full time in-house training manager to ensure continuous learning and skilled development in a bid to further enhance the service delivery of the hotel. Also, during the concluded year, we incurred Rs. 25 mn on a kitchen refurbishment including the staff cafeteria as a means of further improving the food hygiene standards, whilst enabling possible cost efficiencies into the future.

The total depreciation expense of the hotel stood at Rs. 58.1 mn vs. the Rs. 59.2 mn reported in the previous financial year. Capitalisation of the Rs. 98 mn banquet hall project would be fully effective from the ongoing financial year, which would increase the total depreciation expense going forward, accentuated by other planned refurbishment activities.

For the 12 months under review, the hotel registered a gross profit of Rs. 258.7 mn, which denotes a YoY increase of 8%. Due to the previous year's other income recognising a property plant and equipment disposal gain, the current year's other income showed a dip of 17% to reach Rs. 6.2 mn. In the meantime, the administration expenses of the hotel increased by 9% to reach Rs. 163.7 mn. This was partly owing to a general increase in operational expenses in addition to an increase in payroll related cost as mentioned above.

Sales and marketing expenses of the hotel noted an increase of 48% YoY or an absolute increase of Rs. 9.95 mn to reach Rs. 30.7 mn. Of this, Rs. 4.3 mn was on account of provision made for a doubtful debt. A further Rs. 5.3 mn was freshly incurred in the year to firm up the platform for online business in addition to the routine promotional campaigns and foreign visits run by the hotel as mentioned above.

Accordingly, with the incorporation of the above-discussed impairment charges, the hotel recorded a loss after tax of Rs. 72.1 mn for the financial year 2018/2019 compared to a profit after tax of Rs. 80.9 mn in the previous year. However, after eliminating the impact of the above accounting entry

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for impairment provision, the hotel's net profit stands at Rs. 73.1 mn, which is a YoY reduction of 9.5% due to the absence of unwinding of discounting on compensation receivable of Rs. 17.5 mn recognised in the previous year.

Giritale Hotel

As previously mentioned, with the 21-room refurbishment at Giritale Hotel, which was carried out for over 6 months during the year under review, the subsidiary's financial performance for the year was negatively impacted due to the necessitated closure of a total of 32 rooms to facilitate the room refurbishment without disturbing the guests. We are now preparing to welcome our enthusiastic guests, who seek out the nature and tranquility overlooking the scenic Giritale Tank.

Going forward the hotel plans to model itself as an all-around convenient accommodation for natural comfort, relaxation and hospitality by delighting the guests, while also offering a variety of adventurous excursions and experiences in the surrounding region. With this, we aim to attract a diverse local and foreign clientele segments to the hotel - varying from foreigners to local families to corporates and outbound groups. Also, in the short to medium term, we would gradually aspire to improve the supporting infrastructure and auxiliary facilities of the hotel since the hotel requires considerable long-term investment in terms of improving the guest experience and general service standards.

Group Performance

For the financial year ended 31st March 2019, consolidated group revenue was reported at Rs. 677.6 mn depicting a YoY decline of 1% due to the above mentioned scaled down operation arising from the room refurbishment activities of Giritale Hotel and the closure of the Pegasus Reef is main banquet hall for 2 months during the year under review for refurbishment purposes. Furthermore, payment of the full service charge, at the expense of the hotel, to the staff of the Giritale Hotel during the closure of 32 rooms too contributed to the relative increase in staff related expenses at group level. Stemming from the topline drop and due to increased costs as discussed above, Group-operating profit stood at Rs. 44.1 mn, which is a YoY decline of 46%.

Incremental depreciation from essential refurbishment initiatives have continued to drag the group EBIT over the recent years. However, as highlighted above, continuous investment remains a necessity in order to overcome the aggressive competition and remain up-to-date in terms of delighting our customer base. Therefore, it is expected that further refurbishments and upgradements of the hotel facilities would continue to exert pressure on the group EBIT into the upcoming financial years.

EBIT vs EBITDA

	Group			Company		
Rs '000	EBIT	Depreciation	EBITDA	EBIT	Depreciation	EBITDA
FY2019	44,058	62,826	106,885	70,474	58,118	128,592
FY2018	81,240	64,085	145,325	75,414	59,238	134,652
FY2017	16,722	45,318	62,040	6,494	41,233	47,727
FY2016	109,177	43,450	152,627	94,917	39,179	134,096
FY2015	92,365	39,415	131,780	88,900	35,642	124,542

Finance cost of the group increased from Rs. 1.26 mn to Rs. 5.1 mn against the backdrop of the facilitation of increased borrowings for the room refurbishment at Giritale Hotel as well as for the banquet hall project of Pegasus Reef Hotel. The group's strategy of remaining low-geared by retaining cash via fund placements for future expansion plans remains extremely valid considering the current onerous industry conditions in order to avoid any crisis situations. However, it should be noted that the Giritale Hotel's standalone gearing level has seen a substantial increase with a total long-term debt of Rs. 65.2 mn and a bank overdraft of Rs.19.2 mn as of 31st March 2019, given the inadequacy of cash flow generation at Giritale Hotel to fund such capital projects.

We foresee that the upcoming months would be challenging for our hotels with the disturbed market conditions, which is already characterised by heavy discounting strategies employed by the industry, as a means of survival. Furthermore, the growing inventory of room supply, both formal and informal would continue to be challenging on the bottom line growth of the hoteliers.

Ensuring safety is a pre-requisite to gradually allow the Sri Lankan tourism to re-emerge and unveil its untapped potential. Moreover, industry fundamentals need to be examined and further strengthened through opening up of new tourism avenues and offerings in the country. Strengthening the transport and related infrastructure systems and verifying the overall service and quality standards of the Sri Lankan hospitality industry through thoughtfully drafted regulations remain important to ensure a heightened quality offering for our visitors.

While expecting a gradual rebound in the present strenuous industry conditions, with a long-term focus our hotels would continue to grow, vigilantly targeting emerging clientele segments and their needs, strengthening our online business, while orderly improving our facilities and delighting our guests through a focused service. We will continue to strive forward despite the presented adversity.

Carsons Management Services (Private) Limited

Managers
08th May 2019

Directors Profiles

MR. D. C. R. 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.

MAHENDRA DAYANANDA

Mahendra Dayananda is an Independent Non-Executive Director of Pegasus Hotels of Ceylon PLC, Bukit Darah PLC and Nestle Lanka PLC and was a former Non - Executive Director of Delmege Ltd and Chairman of Lewis Brown & Company Ltd. An expert on the Tea Industry and 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.

KRISHNA SELVANATHAN

Director, Carsons Management Services (Pvt) Ltd, is the CEO of Guardian Fund Management Limited and serves as a Board Member of other investment sector companies within the Ceylon Guardian Group. He also serves as a Director of Lion Brewery (Ceylon) PLC and Pegasus Hotels of Ceylon PLC.

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

SUJENDRA MATHER

Sujendra Ranjanan Mather is currently Co-Head of Investment Banking at Asia Securities Advisors Pvt Ltd. He has had over 15 years of International Investment Banking and Corporate Finance experience working with Houlihan Lokey Howard & Zukin (US), John Keells Holdings PLC (Sri Lanka), YSP Advisors (Sri Lanka) and Deloitte & Touche Corporate Finance (Singapore).

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.

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

VIBATH WIJESINGHE

Vibath Wijesinghe is the Director - Finance 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 20 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.

SEGA NAGENDRA (stepped down from the Board w.e.f. 14.06.2018)

Sega Nagendra, Retired Senior Director of Carson Cumberbatch PLC and several of its subsidiaries and Associate Companies.

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). 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). Past President Sri Lanka Pakistan Business Council , Past President ,Sri Lanka Benelux Business Council. Past President Chartered Management Institute- UK, Sri Lanka Branch.

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 also the Past Chairman of The Colombo Club.

Sega Nagendra is a Companion of the Chartered Management Institute, U.K., and was awarded the CMI Life Time Achievement Winner for 2017 by the Chartered Management Institute, UK, Sri Lanka Branch .He is also a Master of Business Administration U.K. and Fellow of the Institute of Certified Professional Managers - Sri Lanka.

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

Risk Management

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

In implementing the business plan, the Company has embodied enterprise risk management to its business activities. The risk management process supports;

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

Enterprise Risk Management Process

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, riots, act of terrorism and civil commotions 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 2019.

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 8th May 2019.

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 2019 are set out on pages 48 to 95. 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. 631.3 mn and Rs. 677.5 mn (2018 - Rs. 586.7 mn and Rs. 684.8 mn). A detailed analysis of the revenue for the period is given in note 11 to the financial statements.

4.2. Financial results and appropriations

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

(In Rupees thousands)	Group		Company	
For the year ended 31st March	**2019**	**2018**	**2019**	**2018**
Profit/(Loss) for the year	(92,289)	84,328	(72,096)	80,864
Other comprehensive income/ (expense) for the year	155	340	(34)	294
Total comprehensive income / (expense) for the year	(92,134)	84,668	(72,130)	81,158
Retained earnings as at the beginning of the year	458,219	405,405	404,859	355,555
Retained earnings before appropriations	366,085	490,073	332,729	436,713
Forfeited dividends	-	57	-	57
Dividends	(16,715)	(31,911)	(16,715)	(31,911)
Retained earnings as at the end of the year	349,370	458,219	316,014	404,859

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 52 to 67. During the year the Company adopted SLFRS 15, SLFRS 9 and the required disclosures are given in notes to the financial statements.

4.4. Property, plant and equipment

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

4.4.1. Market value of freehold properties

The Company and the Group has recognized the carrying value of its land and building in the Statements of Financial Position at revalued amounts in accordance with Sri Lanka Accounting Standard (LKAS 16) - 'Property, Plant and Equipment'.

During the financial year ended 31st March 2017, a revaluation gain was recognized on freehold land to the value of Rs. 630.3 mn, based on a professional valuation performed by an independent professional valuer Mr. S. Sivaskantha, F.I.V. (Sri Lanka) of Perera Sivaskantha & Company, Incorporated valuers.

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	2019	2018	2019	2018
Property, plant and equipment	188,999	49,300	77,576	45,837

4.6. Reserves

As at 31st March 2019, the Group's total reserves stood at Rs. 1,410 mn (2018 - Rs. 1,519 mn) comprising capital reserves of Rs. 1060.6 mn (2018 - 1,060.6 mn) and revenue reserves of Rs. 349.5 mn (2018 - 458.4 mn).

The total reserves of the Company as at 31st March 2019 stood at Rs. 1,289.2 mn (2018 - 1,378.1 mn) comprising Capital Reserves of Rs. 973.1 mn (2018 - Rs. 973.1 mn) and Revenue Reserves of Rs. 316.2 mn (2018 - Rs. 405.0 mn). Details are shown in the Statement of Changes in Equity on page 50.

5. STATEMENT OF DIRECTORS RESPONSIBILITIES

The responsibilities of the Directors in relation to the financial statements are detailed in the following paragraphs, whilst the responsibilities of the Auditors are set out in the 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 2019 is given in note 13 to the financial statements, on page 69.

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 2018 to 31st March 2019.

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 the Directorate

Mr. S. Nagendra, Non-Executive/ Independent Director stepped down from the Board at the conclusion of the Annual General Meeting held on 14th June 2018 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. S.R. Mather retires by rotation and being eligible offers himself for re-election.

7.3. Appointment of Director who is over 70 years of age

Upon the recommendation of the Nomination Committee of the Company and the Board, it is recommended that Mr. M. Dayananda who is over 70 years of age be re-appointed as a Director of the Company for a further period of one year from the conclusion of the Annual General Meeting and that the age limit stipulated in Section 210 of the Companies Act, No. 07 of 2007 shall not be applicable to him.

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).

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

8.1. Board of Directors

The following Directors held office during the period under review and their brief profiles are given on pages 22 to 23 of the Annual Report.

Directors	Executive/ Non-Executive/ Independent
Mr. D. C. R. Gunawardena (Chairman)	Non-Executive
Mr. M. Dayananda *	Non-Executive/Independent
Mr. K. Selvanathan	Executive
Mr. S. R. Mather	Non-Executive/Independent
Mr. V. R. Wijesinghe	Executive
Mr. S. Nagendra (Stepped down from the Board w.e.f. 14th June 2018)	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 8th May 2019, 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. 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. M. Dayananda	4/4
Mr. K. Selvanathan	3/4
Mr. S. R. Mather	2/4
Mr. V.R. Wijesinghe	4/4
Mr. S. Nagendra (Stepped down from the Board w.e.f. 14th June 2018)	1/2

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. T. de Zoysa (Chairman)	Non-Executive/ Independent Director of CCPLC
Mr. D. C. R. Gunawardena	Non-Executive Director of CCPLC
Mr. R. Theagarajah	Non-Executive/ Independent Director of CCPLC
Mr. W. M. R. S. Dias	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 authorized 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 02 meetings.

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

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 69 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
Mr. A.S. Amaratunga (Appointed w.e.f. from 15th January 2019)	Non-Executive/Independent Director of CCPLC

The Audit Committee Report is given on page 40 to 41 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. M. Dayananda (Appointed as Member and Chairman w.e.f. 15.06.2018)	Non-Executive / Independent Director
Mr. D.C.R. Gunawardena	Non-Executive Director
Mr. S. Nagendra (Stepped down from the Board and Nomination Committee on 14.06.2018	Non-Executive / Independent Director

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

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.

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

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 2019, did not exceed 10% of Equity or 5% of the Total Assets of the Company as at 31st March 2019.

The details of the Related Party Transactions are given in note 34 on pages 93 to 95 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 2019.

- 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 2019.

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 subcommittees)
- 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.

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. 371,000 /- and Rs. 635,000/- (2018 - Rs. 345,000/- and Rs. 590,000/-) were paid to them by the Company and the Group respectively as audit fees for the year ended 31st March 2019. In addition to the above, the auditors were paid Rs. 60,000/- and Rs. 60,000/- (2018 - Rs. 135,000/- and Rs. 195,000/-) 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. (2018 – Nil)

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

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

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 pages 45 to 47 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.

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

More detailed description of the risk management strategies of the Company and the Group are given on pages 24 to 28.

11. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the year.

12. DIVIDEND

The Company paid a First Interim Dividend of cents 55 per ordinary share for the year ended 31st March 2019 amounting to Rs. 16,715,345/90 on 26th March 2019.

13. SOLVENCY TEST

Taking in to account the said distribution, the Directors were 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 has issued a Certificate of Solvency for the Dividend mentioned above, confirming same.

14. STATED CAPITAL

The Stated Capital of the Company as at 31st March 2019 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 2019 (2018 - 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 2019 were 206 and 270 (2018 - 199 and 269) 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 2019.

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 2019 are given in note 33 to the financial statements.

26. SHARE INFORMATION

Information relating to share trading are given on pages 98 and 99 of this Report.

27. TWENTY MAJOR SHAREHOLDERS WITH COMPARATIVES

The Parent Company, Carson Cumberbatch PLC holds 89.98% of the total Ordinary Shares in issue of the Company as at 31st March 2019.

		2019		2018	
	Twenty Major Shareholders as at 31st March	**No. of shares**	**%**	**No. of shares**	**%**
1	Carson Cumberbatch PLC A/C No.2	27,347,485	89.98	27,347,485	89.98
2	Mr. M.C.C.K. Rodrigo	363,661	1.20	313,800	1.03
3	Mr. K.C. Vignarajah	183,998	0.61	183,858	0.60
4	Mrs. V.R. Jayasinghe	128,003	0.42	128,003	0.42
5	Mr. K.C. Jayawardene	122,630	0.40	57,599	0.19
6	Mr. D.F.G. Dalpethado	120,825	0.40	109,997	0.36
7	Mr. H.A. Van Starrex	100,000	0.33	100,000	0.33
8	Bansei Securities Capital (Pvt) Ltd/R.C.J.Goonewardena	75,022	0.25	-	0.00
9	Mrs. N.A. Ediriweera	75,000	0.25	82,429	0.27
10	Mr. H.A. Pieris	70,000	0.23	70,000	0.23
11	J.B. Cocoshell (Pvt) Ltd	60,000	0.20	60,000	0.20
12	Mr. A.M. Weerasinghe	57,500	0.19	57,500	0.19
13	People's Leasing & Finance Plc/L.P.Hapangama	57,157	0.19	57,157	0.19
14	Mrs. I. Gwyn	55,000	0.18	55,000	0.18
15	Mr. H.A.S. Madanayake	50,000	0.16	50,000	0.16
16	Code-Gen International (Pvt) Ltd	50,000	0.16	50,000	0.16
17	Mr. P. Somadasa	43,410	0.14	43,807	0.14
18	Mrs. C.A.D.S. Woodward	42,679	0.14	42,679	0.14
19	Nanayakkara Management Services (Private) Limited	31,361	0.10	1,570	0.01
20	Mr. M.F.J. Macan Markar	30,100	0.10	15,474	0.05

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 8th May 2019.

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.

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

29. ANNUAL GENERAL MEETING

The 53rd Annual General Meeting of the Company will be held on Thursday, 13th June 2019 at 3.00 p.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala.

The notice of the Annual General Meeting is on page 100 of the Annual Report.

Signed on behalf of the Board,

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

(Sgd.)
M. Dayananda
Director

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

Secretaries
8th May 2019

Related Party Transactions Review Committee Report

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 Four (04) Meetings during the financial year to discuss matters relating to the Company and where necessary the approval of the Members were also sought via circulation of papers.

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

Meetings attended (out of four)	
Mr.V.P. Malalasekera	4/4
Mr.F. Mohideen	4/4
Mr.D.C.R. Gunawardena	4/4
Mr.H. Selvanathan	3/4
Mr.M. Selvanathan	3/4
Mr.S.K. Shah	3/4

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 the relevant 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 are 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 it is 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 endeavours to ensure 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) and quarterly disclosures are made by KMPs so designated, as relevant.

The Related Party Transactions of the Company for the period 1st April 2018 to 31st March 2019 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
8th May 2019

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.

During the year Mr.A.S. Amaratunga, a Non-Executive/Independent Director of CCPLC was appointed to the Audit Committee and the Committee consists of the following Members :

Audit Committee Members	Executive/Non-Executive/Independent
Mr.V.P. Malalasekera	Non-Executive/Independent (CCPLC)
Mr.D.C.R. Gunawardena	Non-Executive (CCPLC)
Mr.F. Mohideen	Non-Executive/Independent (CCPLC)
Mr.A.S. Amaratunga (appointed w.e.f. 15th January 2019)	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.

Mr.Saktha Amaratunga, a Non-Executive, Independent Director of CCPLC, is also a Director of Hemas Holdings PLC, Chairman of Hemas Holdings PLC-Audit Committee and a Commissioner of PT Agro Indomas, Indonesia, a subsidiary of Carson Cumberbatch Group.

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 were as follows :

Meetings attended (out of Five)	
Mr.V.P. Malalasekera (Chairman)	5/5
Mr.D.C.R. Gunawardena	4/5
Mr.F. Mohideen	4/5
Mr.A.S. Amaratunga (appointed w.e.f. 15th January 2019)	2/5

Director-Finance, 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 Audit 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 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 2018/2019 and the Group Internal Audit (GIA) carried out 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.

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.

Resulting from the introduction of the new audit report requirements last year, the Audit Committee continued the process to discuss the areas which are identified as Key Audit Matters by Messrs. KPMG for reporting in the audit report, at the audit planning and completion stages.

The draft financial statements of Pegasus Hotels of Ceylon PLC for the year ended 31st March 2019 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 2020, 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
8th May 2019

Financial Statements

Financial Calendar

Financial Year end	31st March 2019
53rd Annual General Meeting to be held on	13th June 2019
ANNOUNCEMENT OF RESULTS	
Interim Financial Statements published In terms of the Listing Rules of the Colombo Stock Exchange	
First Quarter ended 30th June 2018	14th August 2018
Second Quarter ended 30th September 2018	14th November 2018
Third Quarter ended 31st December 2018	14th February 2019
DIVIDEND	
First Interim Dividend for the year ended 31st March 2019	Paid on 26th March 2019

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
Internet : www.kpmg.com/lk

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pegasus Hotels of Ceylon PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the 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 2019 , 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 notes to the financial statements, and a summary of signification accounting policies and other explanatory information set out in pages 48 to 95 of this annual report.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31st March 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the company financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the company financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverable amount of Compensation Receivable	
Risk Description	Our responses
Pegasus Hotels of Ceylon PLC has recognized a compensation receivable amounting to Rs. 24,758,815/- (2018: 169,966,216/-). Refer Note 20 to the Financial Statements. The Compensation receivable is made in relation to the land acquired by the Government of Sri Lanka. In the previous years, the amount receivable was determined based on a valuation conducted by the Company. However, the company received an official notification on the compensation of Rs. 5,459,500 in response to the claim of Rs. 159.3 mn pertaining to the land extent of 353.89 perches. The compensation claim for the land extent 1,251 perches is yet to be announced. However, on the matter of prudence the Company made a provision amounting to Rs. 145.2 mn on the compensation receivable for the year ended 31st March 2019 based on the compensation awarded for the aforementioned 353.89 perches. Assessing the recoverable amount and the timing of the cash proceeds requires significant judgments and assumptions, therefore we considered this to be a key audit matter.	Our audit procedures included; • Obtaining management and the Lawyers' opinion on the recoverability and the timing of the compensation receivable. • Assessing the adequacy of impairment provision made in relation to the compensation receivable. • Assessing the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgments.

Independent Auditors' Report

KPMG

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our Auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related is closures made by management.

KPMG

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2618.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

08th May 2019

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**	**2019**	**2018**	**2019**	**2018**
Revenue	11	677,550	684,841	631,266	586,665
Direct costs		(421,151)	(409,098)	(372,548)	(347,655)
Gross profit		256,399	275,743	258,718	239,010
Other income / expenses	12	11,000	10,475	6,220	7,457
Selling and promotional expenses		(32,878)	(25,094)	(30,748)	(20,793)
Administrative expenses		(190,463)	(179,884)	(163,716)	(150,260)
Profit from operations	13	44,058	81,240	70,474	75,414
Impairment on compensation receivable	20	(145,207)	-	(145,207)	-
Finance income	14.1	19,604	28,969	16,453	25,903
Finance costs	14.2	(2,230)	(1,267)	(705)	(1)
Net finance income	14	17,374	27,702	15,748	25,902
(Loss) / profit before taxation		(83,775)	108,942	(58,985)	101,316
Income tax expenses	15.1	1,331	(7,887)	-	(5,624)
Deferred taxation	15.2	(9,845)	(16,727)	(13,111)	(14,828)
(Loss) / profit for the year		(92,289)	84,328	(72,096)	80,864
Other comprehensive income					
Actuarial gain / (loss) from valuation of employee benefits	29.2	180	395	(40)	342
Related tax	28.1	(25)	(113,068)	6	(113,061)
Other comprehensive income / (expense) for the year		155	(112,673)	(34)	(112,719)
Total comprehensive expense for the year		(92,134)	(28,345)	(72,130)	(31,855)
Earnings / (loss) per share (Rs.)	16	(3.04)	2.77	(2.37)	2.66

The Notes from pages 52 to 95 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	
As at 31st March	Note	2019	2018	2019	2018
ASSETS					
Non-current assets					
Property, plant and equipment	17	2,007,609	1,887,516	1,772,236	1,758,858
Intangible assets	18	115,287	115,287	-	-
Investment in subsidiary	19	-	-	110,223	110,223
Investment in fixed deposits		20,575	-	20,575	-
Compensation receivable	20	24,759	169,966	24,759	169,966
Total non-current assets		2,168,230	2,172,769	1,927,793	2,039,047
Current assets					
Inventories	21	17,181	18,368	13,402	14,682
Investment in fixed deposits		93,631	126,012	93,631	69,172
Fair value through profit or loss financial assets	22	29,482	-	29,482	-
Trade and other receivables	23	78,132	69,224	69,716	59,529
Cash and cash equivalents	24	8,870	22,418	8,254	9,721
Total current assets		227,296	236,022	214,485	153,104
Total assets		2,395,526	2,408,791	2,142,278	2,192,151
EQUITY AND LIABILITIES					
Equity					
Stated capital	25	515,170	515,170	515,170	515,170
Capital reserves	26	1,060,602	1,060,602	973,052	973,052
Revenue reserves	27	349,546	458,395	316,190	405,035
Total equity		1,925,318	2,034,167	1,804,412	1,893,257
Non-current liabilities					
Deferred tax liability	28	206,644	196,774	194,520	181,415
Employee benefits	29	19,950	17,250	13,776	11,356
Loans and borrowings	30	57,312	26,503	-	-
Total non-current liabilities		283,906	240,527	208,296	192,771
Current liabilities					
Trade and other payables	31	132,151	119,931	101,447	101,406
Current tax liabilities		2,828	5,690	3,915	4,700
Loans and borrowings	30	31,872	5,047	24,000	-
Bank overdraft	24	19,451	3,429	208	17
Total current liabilities		186,302	134,097	129,570	106,123
Total liabilities		470,208	374,624	337,866	298,894
Total equity and liabilities		2,395,526	2,408,791	2,142,278	2,192,151
Net assets per share (Rs.)		63.35	66.93	59.37	62.30

The Notes from pages 52 to 95 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
Director-Finance
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 08th May 2019.

Approved and signed on behalf of the Managers,

(Sgd.)
A.P. Weeratunge
Director
Carsons Management Services (Private) Limited
08th May 2019

Approved and signed on behalf of the Board,

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

(Sgd.)
M. Dayananda
Director

Statement of Changes in Equity

(All figures in Sri Lankan Rupees thousands)

		Capital reserves		Revenue reserves		
	Stated capital	Revaluation reserve	Capital accretion reserve	General reserve	Retained earning	Total equity attributable to equity holders of the parent company
Group						
Balance as at 1st April 2017	515,170	1,264,327	15,144	176	405,405	2,200,222
Profit for the year	-	-	-	-	84,328	84,328
Other comprehensive income for the year	-	(113,013)	-	-	340	(112,673)
Total comprehensive income for the year	-	(113,013)	-	-	84,668	(28,345)
Adjustment on land acquisition (Note 20.1)	-	(105,856)	-	-	-	(105,856)
Forfeited dividends	-	-	-	-	57	57
First & final dividend - 2016/17	-	-	-	-	(15,196)	(15,196)
First interim dividend - 2017/18	-	-	-	-	(16,715)	(16,715)
Balance as at 31st March 2018	515,170	1,045,458	15,144	176	458,219	2,034,167
Balance as at 1st April 2018	515,170	1,045,458	15,144	176	458,219	2,034,167
Loss for the year	-	-	-	-	(92,289)	(92,289)
Other comprehensive income for the year	-	-	-	-	155	155
Total comprehensive expense for the year	-	-	-	-	(92,134)	(92,134)
First interim dividend - 2018/19	-	-	-	-	(16,715)	(16,715)
Balance as at 31st March 2019	515,170	1,045,458	15,144	176	349,370	1,925,318
Company						
Balance as at 1st April 2017	515,170	1,176,777	15,144	176	355,555	2,062,822
Profit for the year	-	-	-	-	80,864	80,864
Other comprehensive income for the year	-	(113,013)	-	-	294	(112,719)
Total comprehensive income for the year	-	(113,013)	-	-	81,158	(31,855)
Adjustment on land acquisition (Note 20.1)	-	(105,856)	-	-	-	(105,856)
Forfeited dividends	-	-	-	-	57	57
First & final dividend - 2016/17	-	-	-	-	(15,196)	(15,196)
First interim dividend - 2017/18	-	-	-	-	(16,715)	(16,715)
Balance as at 31st March 2018	515,170	957,908	15,144	176	404,859	1,893,257
Balance as at 1st April 2018	515,170	957,908	15,144	176	404,859	1,893,257
Loss for the year	-	-	-	-	(72,096)	(72,096)
Other comprehensive expense for the year	-	-	-	-	(34)	(34)
Total comprehensive expense for the year	-	-	-	-	(72,130)	(72,130)
First interim dividend - 2018/19	-	-	-	-	(16,715)	(16,715)
Balance as at 31st March 2019	515,170	957,908	15,144	176	316,014	1,804,412

The Notes from pages 52 to 95 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**	**2019**	**2018**	**2019**	**2018**
Cash flows from operating activities					
(Loss) / profit before taxation		(83,775)	108,942	(58,985)	101,316
Adjustments for:					
Interest income on placement with banks and government securities	14	(17,407)	(9,398)	(14,271)	(5,167)
Net change in fair value of fair value through profit or loss financial assets - unit trust	14	(1,702)	(1,648)	(1,702)	(1,648)
Dividend income	14	-	-	-	(1,203)
Unwinding of discount on compensation receivable	14	-	(17,526)	-	(17,526)
Interest expenses on bank borrowings	14	2,230	1,267	705	1
Depreciation on property, plant and equipment	17	62,826	64,085	58,118	59,238
(Profit) / loss on disposal of property, plant and equipment		(1,608)	(1,195)	58	(1,195)
Property, plant and equipment written off		4,899	-	4,899	-
Provision for employee benefits	29.2	4,119	3,878	3,024	2,796
Impairment on compensation receivable	20	145,207	-	145,207	-
Provision made / (reversal of provision) for impairment of trade receivables		4,327	(69)	4,327	-
Profit before working capital changes		119,116	148,336	141,380	136,612
Decrease / (increase) in inventories		1,187	3,639	1,280	3,758
(Increase) / decrease in trade and other receivables		(13,235)	15,802	(14,514)	16,823
Increase / (decrease) in trade and other payables		11,975	(15,240)	(204)	(14,277)
Cash generated from operations		119,043	152,537	127,942	142,916
Employee benefits paid	29	(1,239)	(2,254)	(644)	(1,581)
Income tax paid		(1,531)	(3,483)	(785)	(1,075)
Net cash generated from operating activities		116,273	146,800	126,513	140,260
Cash flows from investing activities					
Purchase of property, plant and equipment	17	(186,092)	(49,300)	(77,576)	(45,837)
Proceeds from disposal of property, plant and equipment		2,789	3,061	1,123	3,060
Investment in fixed deposits		11,806	(126,012)	(45,034)	(69,172)
(Investment in) / disposal of fair value through profit or loss financial assets		(27,780)	1,648	(27,780)	1,648
Interest received		17,407	9,398	14,271	5,167
Dividend received		-	-	-	1,203
Net cash used in investing activities		(181,870)	(161,205)	(134,996)	(103,931)
Cash flows from financing activities					
Dividend paid		(16,470)	(31,793)	(16,470)	(31,793)
Loans and borrowings obtained during the year		57,634	25,000	24,000	-
Interest paid on bank borrowings		(5,137)	(1,267)	(705)	(1)
Net cash generated from / used in financing activities		36,027	(8,060)	6,825	(31,794)
Net (decrease) / increase in cash and cash equivalents		(29,570)	(22,465)	(1,658)	4,535
Cash and cash equivalents at the beginning of the year		18,989	41,454	9,704	5,169
Cash and cash equivalents at the end of the year	24	(10,581)	18,989	8,046	9,704

The Notes from pages 52 to 95 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. CORPORATE INFORMATION

a) Reporting entity

Pegasus Hotels of Ceylon PLC (the 'Company') is a limited liability Company incorporated and domiciled in Sri Lanka and listed 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 situated at Santa Maria Mawatha, Hendala, Wattala.

These consolidated financial statements for the year ended 31 March 2019 comprise the Company and its subsidiary (together referred to as the 'Group' and individually as 'Group entities').

b) Subsidiary- Equity Hotels Limited

A fully-owned Subsidiary, Equity Hotels Limited was incorporated on 1970 under the Companies Act No. 07 of 2007.

c) Principal activities and nature of operations.

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

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

d) Parent enterprise and ultimate parent enterprise

The Company's Parent undertaking as at 31 March 2019 is Carson Cumberbatch PLC.

The Company's Ultimate Parent undertaking and controlling party is Bukit Darah PLC.

e) Number of employees

The number of employees of the Group at the end of the year was 270 (2018 - 269), and Company - 206 (2018- 199).

f) Responsibilities for financial statements and approval of financial statements

The board of directors is responsible for preparation and presentation of the financial statements of the Company as per the provision of Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards. The directors' responsibility over financial statements for the year ended 31 March 2019 is set out in detail in the statement of directors' responsibility.

The financial statements of the Group of the year ended 31st March 2019 were authorized for issue in accordance with resolution of the Board of Directors on 08th May 2019.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group and the separate financial statements of the Company which comprise the statement of financial position, the statement of profit or loss and other comprehensive income, 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 prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and complies with the requirements of the Companies Act No. 07 of 2007.

b) Basis of measurement

The consolidated financial statements have been prepared on an accrual basis and under 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.
- Financial assets measured at fair value through P&L.

c) Functional and Presentation Currency

The consolidated financial statements are presented in Sri Lankan Rupees, which is the functional and presentation currency of Company and its subsidiary. All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand, unless stated otherwise.

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 estimates are recognized prospectively.

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.
- Deferred taxation - utilization of tax losses
- Defined benefit plans
- Current taxation

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 categorized 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 categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes 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.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

g) **Going Concern**

The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future, and they do not intend either to liquidate or cease trading.

h) **Comparative Information**

The comparative information has been reclassified/ restated where necessary to conform to the current year's classification in order to provide a better presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes below, the Group and Company have consistently applied the accounting policies to all periods presented in these financial statements.

Change in significant accounting policies

The Group and Company have initially applied SLFRS 15 and SLFRS 09 from 01 April 2018.

i) SLFRS 15 Revenue from Contracts with customers

SLFRS 15 establishes a comprehensive framework for determining how much and when revenue is recognized. It replaced LKAS 18 Revenue, LKAS 11 Construction Contracts and related interpretations. Under SLFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

SLFRS 15 does not have any material impact on the Group and Company as the current accounting practice does not differ significantly from SLFRS 15. Therefore, there was no adjustment to Retained earnings on the transition as at 1 April 2018.

ii) SLFRS 09 Financial Instruments

SLFRS 09 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 Financial Instruments: Recognition and measurement.

The Group and Company have adopted SLFRS 09 with no revision for prior periods, as permitted by the standard.

As a result of the adoption of SLFRS 09, the Group and Company have adopted consequential amendments to SLFRS 07 Financial Instruments: Disclosures that are applied to disclosures about 2017/18 but have not been generally applied to comparative information.

Therefore adopting SLFRS 9 does not have any material impact on the Group's statement of financial position as at 31st March 2019 and its statement of profit or loss and OCI and statement of cash flows for the year then ended 31st March 2019.

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 recognized in profit or loss.

ii. 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.

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.

iii. Non-controlling interests (NCI)

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

Changes in the Group's interest in a Subsidiary that do not result in a loss of control are accounted for as equity transactions.

However, the Company owned 99.9% of the equity of its subsidiary Equity Hotels Limited and hence no non-controlling interest is applicable.

iv. Loss of control

When a Group loses control over a Subsidiary, it derecognizes the asset and liabilities of subsidiary, and any related Non-Controlling Interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v. Transactions eliminated on consolidation

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

b) Foreign currency

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

Foreign currency differences arising on translation are generally recognized in profit or loss.

c) Financial instruments

i. Recognition and initial measurement

Trade receivable and debt securities issues are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the group and company become a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing components is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets – Policy applicable from 1 April 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

Financial assets are not reclassified subsequent to their initial recognition unless the Group and Company change its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL.

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group and Company's financial assets classified under amortised cost includes trade and other receivable, investment in fixed deposits and cash and cash equivalents.

A debt investment is measured at FVOCI if it meets both of the following conditions and it not designated as at FVTPL.

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group and Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group and Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investment in unit trust is classified as FVTPL

Financial assets – Business model assessment: Policy applicable from 1 April 2018

The group and company make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the group and company's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether

compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectation about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the group and company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial Assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 April 2018

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value for money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin,

In assessing whether the contractual cash flows are solely payments of principal and interest, the group and company consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual cash flows such that it would not meet this condition. In marking this assessment, the group and company consider:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the group and company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

Financial assets – subsequent measurement and gains and losses: policy applicable from 1 April 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

iii Financial assets – Policy applicable prior 1 April 2018

Non-derivative financial assets

The group and company hold financial assets that are categorized in to the 'loans and receivables' and Fair value through Profit or loss classification.

Loans and receivables

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

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

Fair value through Profit or loss

A financial asset is classified as a fair value through profit or loss. If it is classified as held-for-trading or is designated as such on initial recognition. Directly 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 therein including any interest or dividend income, are recognized in profit or loss.

Fair value thorough profit or loss includes investment in unit trust

iv Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Financial liabilities measured at amortised cost include loans and borrowings, refundable rental and other deposits, bank overdrafts, and trade and other payables.

v Derecognition

Financial asset

The group and company derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred in which the group and company neither transfer nor retain substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The group and company enter into transactions whereby they transfer assets recognized in its statement of financial position, but retain either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The group and company derecognize a financial liability when its contractual obligation are discharged or cancelled, or expire. The group and company derecognize a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group and company currently have a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

vi Impairment - Policy applicable from 01 April 2018

Non-derivative financial assets

Financial Instruments

The group and company recognise loss allowances for ECLs on financial assets measured at amortised cost.

The group and company measure loss allowances at an amount equal to lifetime ECLs. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the group and company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the group and company's historical experience and informed credit assessment and including forward-looking information.

Credit-impaired financial assets

At each reporting date, the group and company assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occured.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the group and company on terms that the group and company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

Impairment: Policy applicable before 01 April 2018

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

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the group and company on terms that the group and company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company and the Group on terms that the Company and the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties;
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortized cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

The Company and the Group considers evidence of impairment for financial assets measured at amortized cost (loans and receivables) at specific asset level.

Non-financial assets

The carrying amount of 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, or when annual impairment testing for an asset is required, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

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. . An impairment loss is recognized if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount.

Impairment losses are recognized in Profit or Loss. Impairment losses recognized 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 recognized.

vii. Stated capital

Ordinary shares

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

d) Property, plant and equipment

i. Recognition and measurement

Property, Plant, and Equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Group and the cost can be reliably measured. Items of property, plant and equipment are measured at cost/ fair value less accumulated depreciation and any accumulated impairment losses, if any.

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.

Cost Model

The Group applies the cost model to property, plant and equipment except for freehold land and buildings.

Revaluation of freehold properties

The Group applies the revaluation model to the entire class of freehold land and buildings. A revaluation is 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.

Increases in the carrying amount on revaluation is recognized in other comprehensive income and accumulated in equity in the revaluation reserve 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.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

Decreases in the carrying amount on revaluation that offset previous increases of the same individual assets are charged against revaluation reserve directly in equity. All other decreases are recognized in profit or loss.

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.

ii. Subsequent cost

Subsequent cost is capitalized only if is probable that the future economic benefits associated with the expenditure will flow to the Group. The costs of day-to-day servicing of property, plant and equipment is recognized in profit or loss as incurred.

iii. Depreciation

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, and is generally recognized 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	3-27
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 or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

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

iv. Derecognition

An item of property, plant and equipment is derecognized upon disposal of or when no future economic benefits are expected from its use or disposal. The gains or losses arising on derecognition (disposal or retirement) of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are 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.

v. 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.

vi. Borrowing cost

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset, which takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the specific asset.

The amount of borrowing costs which are eligible for capitalization is determined in accordance with LKAS 23- "Borrowing Costs".

Borrowing costs incurred in respect of specific loans that are utilized for renovation project of the buildings have been capitalized as a part of the cost of the Buildings. The capitalisation will cease when the building is ready for use.

The amounts so capitalised and the capitalisation rates are disclosed in the notes to the Financial Statements.

e) Intangible assets and goodwill

i. Recognition and measurement

Goodwill

Goodwill has arisen on the acquisition of the subsidiary. Goodwill is measured at cost less accumulated impairment losses.

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.

ii. 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.

iii. Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Goodwill is not amortized.

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.

iv. 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.

v. Derecogniton

Gains or losses arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognized in profit or loss when the asset is derecognized.

f) Inventories

Inventories are measured at the lower of cost and net realizable value. 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	Weighted average basis
Engineering spares others	Weighted average basis

g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits 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.

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

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(All figures in Sri Lankan Rupees thousands)

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

j) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company and the Group or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation.

A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably. The Company and the Group does not recognize a contingent liability but discloses its existence in the financial statements.

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

k) Leases

Determining whether an agreement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental borrowing rate.

Lease Assets

Leases of Property, plant and equipment that transfer to the Group substantially of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equals to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to the asset.

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

However, the Company has only operating leases as at the reporting period.

Lease payments

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

Income Statement

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. Dividend income

Dividend income is recognized in profit or loss on the date the entities right to receive dividend is established.

m) Expenditure recognition

All expenditures incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit or loss for the year.

n) Finance income and finance costs

Finance income comprises interest income on funds invested and unwinding of discount on compensation receivable. Interest income is recognized 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 acquire in a business combination,

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(All figures in Sri Lankan Rupees thousands)

gains on hedging instruments that are recognized in profit or loss and reclassifications of net gains previously recognized in other comprehensive income. Interest income is recognized 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 recognized in profit or loss and reclassifications of net losses previously recognized in other comprehensive income.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized 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.

o) Income tax expense

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

i. Current taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax payable also includes any tax liability arising from the declaration of dividends.

ii. Deferred taxation

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

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

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. 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; such reductions are reversed when the probability of future taxable profits improves.

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

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

Deferred tax assets and liabilities are offset only if certain criteria are met.

iii. Tax exposures

In determining the amount of current and deferred tax, 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.

4. 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.

5. 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”.

6. 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.

7. 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.

8. 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.

9. SEGMENT REPORTING

An operating segment is a component within the Group 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 as a whole is reviewed regularly by the Group’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

New standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these financial statements. Accordingly, these accounting standards have not been applied in preparing these financial statements. The Group intends to adapt these standards when they become effective.

SLFRS 16 Leases

Summary of the Requirement

SLFRS 16 eliminates the current dual accounting model for leases which distinguishes between On-Balance Sheet finance 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 reporting periods beginning on or after 1 January 2019.

Possible impact on consolidated financial statements

The Group is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16. This standard is not expected to have a significant impact on the financial statements of the Group.

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(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	For the year ended 31st March	2019	2018	2019	2018
11	**REVENUE**				
	Revenue analysis (net)				
	Room revenue	320,681	321,413	292,660	260,436
	Food and beverage revenue	340,981	348,912	323,070	312,313
	Other revenue	15,888	14,516	15,536	13,916
		677,550	684,841	631,266	586,665
12	**OTHER INCOME / EXPENSES**				
	Rent income	4,191	5,304	2,065	3,003
	Club membership income	2,052	2,824	2,052	2,824
	Profit / (loss) on disposal of property, plant and equipment	1,608	1,195	(58)	1,195
	Sundry income	3,149	1,152	2,161	435
		11,000	10,475	6,220	7,457
13	**PROFIT FROM OPERATIONS**				
	Profit from operations is stated after charging all expenses including the following:				
	Auditors' remuneration				
	- Audit services	635	590	371	345
	- Audit related services	60	195	60	135
	- Non-audit services	-	-	-	-
	Depreciation (note 13.1)	62,826	64,085	58,118	59,238
	Write-off of property, plant and equipment	4,899	-	4,899	-
	Provision made / (reversal of provision) for impairment of trade receivables	4,327	(69)	4,327	-
	Professional service costs (note 13.2)	1,901	2,457	1,573	2,161
	Nomination committee fees	50	50	50	50
	Personnel costs (note 13.3)	185,940	178,364	154,797	143,390
	Operating lease expenses	494	494	-	-
	Support service fees	8,112	8,585	7,951	7,333
13.1	**Depreciation**				
	Depreciation is included in the statement of profit or loss under the following headings:				
	Direct costs	48,478	50,397	44,581	46,402
	Administrative expenses	14,348	13,688	13,537	12,836
		62,826	64,085	58,118	59,238

		Group		Company	
	For the year ended 31st March	2019	2018	2019	2018
13.2	**Professional service costs**				
	Legal services	691	703	554	555
	Valuation services	67	173	67	173
	Other services	1,143	1,581	952	1,433
		1,901	2,457	1,573	2,161
13.3	**Personnel costs**				
	Salaries, wages and other related expenses	165,082	159,674	137,781	128,685
	Defined benefits plan cost - employee benefits	4,119	3,878	3,024	2,796
	Defined contribution plan cost - EPF and ETF	16,739	14,812	13,992	11,909
		185,940	178,364	154,797	143,390
	The above include:				
	Non executive directors' fees	500	800	500	800
	Directors' emoluments	-	-	-	-
		500	800	500	800
14	**NET FINANCE INCOME**				
14.1	**Finance income**				
	Interest income on placement with banks and government securities	17,407	9,398	14,271	5,167
	Net change in fair value of fair value through profit or loss financial assets - unit trust investments	1,702	1,648	1,702	1,648
	Dividend income	-	-	-	1,203
	Unwinding of discounting on compensation receivable (note 14.3)	-	17,526	-	17,526
	Gain on foreign exchange transactions	495	397	480	359
		19,604	28,969	16,453	25,903
14.2	**Finance cost**				
	Interest expenses on loans and borrowings				
	- On bank borrowings	5,137	1,267	705	1
		5,137	1,267	705	1
	Less :				
	Interest capitalised into property, plant and equipment	(2,907)	-	-	-
		2,230	1,267	705	1
	Net finance income	17,374	27,702	15,748	25,902

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, that expected timing of cash flows to be received in 10 years from the date of recognition which ended in 2018 and the weighted average deposit rate (WADR) at the date of acquisition (11.5%) was used as the discount rate as required by Sri Lanka Accounting Standard LKAS - 39, Financial Instruments - Recognition and Measurement.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

	For the year ended 31st March	Group 2019	Group 2018	Company 2019	Company 2018
15	**INCOME TAX EXPENSES**				
15.1	**Current taxation**				
	Current tax expenses (note 15.3)	-	8,162	-	5,653
	Dividend tax	-	134	-	-
	(Over)/under provision for previous years	(1,331)	(409)	-	(29)
		(1,331)	7,887	-	5,624
15.2	**Deferred taxation**				
	On origination and reversal of temporary differences (note 28.1)	9,845	16,727	13,111	14,828
		9,845	16,727	13,111	14,828
		8,514	24,614	13,111	20,452
15.3	**Reconciliation between the accounting profit and the profit for tax purposes**				
	Accounting (loss) / profit before taxation	(83,775)	108,942	(58,985)	101,316
	Aggregate disallowable expenses	80,450	84,111	71,172	75,426
	Aggregate allowable expenses	(80,388)	(88,092)	(68,438)	(85,556)
	Impairment on compensation receivable	145,207	-	145,207	-
	Notional adjustments arising on application of LKAS/SLFRS	-	(17,526)	-	(17,526)
	Profits exempt from income tax	-	-	-	(1,203)
	Adjustment on tax loss incurred during the year by the subsidiary company	30,597	-	-	-
	Interest income	(19,109)	(9,408)	(15,973)	(5,177)
	Adjusted profit from operations for tax purposes	72,982	78,027	72,983	67,280
	Interest income	19,109	9,534	15,973	5,177
	Total statutory Income	92,091	87,561	88,956	72,457
	Utilization of tax losses (notes 15.4)	(92,091)	(25,360)	(88,956)	(25,360)
	Taxable income	-	62,201	-	47,097
	Taxation thereon (note 15.5 a)	-	8,162	-	5,653
15.4	**Analysis of tax losses**				
	Tax losses brought forward	163,323	182,926	163,323	182,926
	Tax loss incurred during the year	30,597	-	-	-
	Adjustment on finalization of tax liability	1,709	5,757	1,709	5,757
	Utilization of tax losses during the year (note 15.5 b)	(92,091)	(25,360)	(88,956)	(25,360)
	Tax losses carried forward	103,538	163,323	76,076	163,323

15.5 Income tax provisions applicable

(a) In terms of section 2 of the Inland Revenue Act, No. 24 of 2017, income tax shall be calculated by applying the relevant rate set out under the First Schedule. As per the First Schedule, companies predominantly engaged in an undertaking for the promotion of tourism is liable to income tax at special rate of 14%. The term “predominantly” is defined as 80% or more of the Company’s gross income should be derived from such sources. During the year ended 31st March 2019 the Company and its Subsidiary recorded more than 80% of their gross income from hotel activities. Therefore, taxable income of the Company and its subsidiary are liable to income tax at 14%. (2018 - 12%).

(b) As per the provision of the Inland Revenue Act No. 24 of 2017 tax losses incurred can be set off against tax profits without any limitations and any un-utilized tax losses can be carried forward for 6 subsequent years. However as per the transitional provision of the Inland Revenue Act, brought forward tax losses which incurred prior to 1st April 2018 are deemed to be incurred in the year of assessment 2018/19 and can be set off against future taxable profit without any limitations and any unutilized tax losses thereon can be carried forward for 6 subsequent years.

(c) As per the directive issued by the Ministry of Finance in accordance to the section 57 & 59 of the Inland Revenue Act, No. 24 of 2017, unit trusts are considered as pass-through vehicles. Accordingly, income derived from a unit trust is identified in the Company accounts using the same source and character as identified by the unit trust. The Company as beneficiary is therefore required to pay 28% tax on interest income derived through Fixed Income Unit Trust and subject to predominant rule as explained in note 15.5 (a).

(d) As explained in Note 15.5 (a) above, Company and the Group will be liable to pay tax at 14% effective from 1st April 2018. Accordingly, deferred tax has been computed using the rate of 14% (2018 - 14%) for both Company and the Group.

16 EARNINGS / (LOSS) 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".

	Group		Company	
For the year ended 31st March	**2019**	**2018**	**2019**	**2018**
Amount used as the numerator				
(Loss) / profit attributable to the ordinary equity holders of the parent company	(92,289)	84,328	(72,096)	80,864
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
(Loss) / earnings per share (Rs.)	(3.04)	2.77	(2.37)	2.66

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

17 PROPERTY, PLANT AND EQUIPMENT

17.1 Group

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipment	Motor vehicle	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2019	Total as at 31st March 2018
Cost/valuation											
Balance as at the beginning of the year	828,215	912,797	123,376	156,638	13,796	92,996	4,569	6,617	5,065	2,144,069	2,207,367
Additions during the year	-	103,969	3,757	13,425	686	17,009	-	1,162	48,991	188,999	49,300
Transfers during the year	-	1,280	-	-	-	-	-	-	(1,280)	-	-
Disposal/write off during the year	-	(777)	(4,303)	(12,783)	(117)	(1,296)	-	(1,478)	-	(20,754)	(112,598)
Balance as at the end of the year	828,215	1,017,269	122,830	157,280	14,365	108,709	4,569	6,301	52,776	2,312,314	2,144,069
Depreciation											
Balance as at the beginning of the year	-	22,585	86,036	86,270	10,789	43,264	4,569	3,040	-	256,553	197,300
Charge for the year	-	24,036	7,896	15,402	1,455	12,893	-	1,144	-	62,826	64,085
Disposal/write off during the year	-	(23)	(4,245)	(8,629)	(117)	(1,031)	-	(629)	-	(14,674)	(4,832)
Balance at the end of the year	-	46,598	89,687	93,043	12,127	55,126	4,569	3,555	-	304,705	256,553
Net book value as at the end of the year	828,215	970,671	33,143	64,237	2,238	53,583	-	2,746	52,776	2,007,609	1,887,516

17.2 Company

	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 2019	Total as at 31st March 2018
Cost/valuation											
Balance as at the beginning of the year	828,215	791,940	108,452	142,597	13,471	81,594	4,569	5,650	1,753	1,978,241	2,044,942
Additions during the year	-	7,361	3,757	537	686	13,195	-	1,004	51,036	77,576	45,837
Transfers during the year	-	13	-	-	-	-	-	-	(13)	-	-
Disposal/write off during the year	-	(777)	(4,303)	(12,783)	(117)	(1,296)	-	(1,478)	-	(20,754)	(112,538)
Balance as at the end of the year	828,215	798,537	107,906	130,351	14,040	93,493	4,569	5,176	52,776	2,035,063	1,978,241
Depreciation											
Balance as at the beginning of the year	-	20,078	73,961	74,685	10,789	33,198	4,569	2,103	-	219,383	164,918
Charge for the year	-	21,466	7,278	14,830	1,455	12,083	-	1,006	-	58,118	59,238
Disposal/write off during the year	-	(23)	(4,245)	(8,629)	(117)	(1,031)	-	(629)	-	(14,674)	(4,773)
Balance as at the end of the year	-	41,521	76,994	80,886	12,127	44,250	4,569	2,480	-	262,827	219,383
Net book value as at the end of the year	828,215	757,016	30,912	49,465	1,913	49,243	-	2,696	52,776	1,772,236	1,758,858

17.3 Freehold land and freehold building of the Company and the Group were last 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 as at 31st March 2017. 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 2019	Carrying value of revalued assets 2018
Pegasus Reef Hotel, Wattala.	Freehold land	Market approach	20,977	828,215	828,215
	Building	Market approach	527,203	757,016	771,862
Equity Hotels Limited, Giritale	Building	Market approach	110,064	213,655	118,350

17.4 Analysis of Capital work-in-progress

	Group		Company	
As at 31st March	**2019**	**2018**	**2019**	**2018**
Freehold building	16,215	5,065	16,215	1,753
Furniture and fittings	32,188	-	32,188	-
Equipment	3,793	-	3,793	-
Plant and machinery	580		580	
	52,776	5,065	52,776	1,753

17.5 The land where the Equity Hotels Limited is located, in Giritale, Polonnaruwa, is on a 30 year lease from 01st January 1997 to 31st December 2026 with the option for renewal. 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	**2019**	**2018**	**2019**	**2018**
Plant and machinery	25,292	23,809	16,587	15,136
Equipment, furniture and fittings	63,534	51,939	49,317	39,002
Computer equipment	10,042	8,401	9,944	8,376
Motor vehicle	4,569	4,569	4,569	4,569
	103,437	88,718	80,417	67,083

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

	Group		Company	
As at 31st March	**2019**	**2018**	**2019**	**2018**
Borrowing costs capitalized	2,907	-	-	-

The amount of borrowing cost capitalized only to the extent of funds borrowed specifically for the construction of the qualifying asset.

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(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 17.5.

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.

		Group		Company	
	As at 31st March	**2019**	**2018**	**2019**	**2018**
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, a cash generating unit (CGU) operating 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 / revenue 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. Further, the net assets of the CGU also used to identify any indication of an impairment.

Accordingly, impairment test did not indicate an impairment on goodwill on acquisition of Equity Hotels Limited as at 31st March 2019.

18.3 Accounting software included under intangible assets is fully amortized as at 31st March 2019 (2018 - Nil).

19 INVESTMENT IN SUBSIDIARY

	Group		Company	
As at 31st March	**2019**	**2018**	**2019**	**2018**
Investment in subsidiary (note 19.1)	-	-	110,223	110,223
	-	-	110,223	110,223

19.1 Details of investment in subsidiary

	No. of shares	Cost as at 31st March 2019	No. of shares	Cost as at 31st March 2018
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.

20 COMPENSATION RECEIVABLE

	Group		Company	
As at 31st March	**2019**	**2018**	**2019**	**2018**
Balance as at the beginning of the year	169,966	152,396	169,966	152,396
Adjustment on land acquisition (Note 17.10)	-	44	-	44
Unwinding of discount on compensation receivable	-	17,526	-	17,526
Provision for impairment on compensation receivable	(145,207)	-	(145,207)	-
Balance as at the end of the year	24,759	169,966	24,759	169,966

20.1 Acquisition of land by the government of Sri Lanka and compensation receivable

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 building a fisheries harbor.

Accordingly in the financial year 2008/09, the Company submitted a claim of compensation amounting to Rs. 563 mn for 1,251 perches of the acquired land with the expectation that the balance 353.89 perches of land, which consists largely of mangrove land, will be divested back to the Company as per Supreme Court order in November 2008 as discussed below. The said claim of Rs. 563 mn was made taking into account the market value of the property, potential economic value lost for hotel expansion and a value for nuisance that will be created for hotel operation by the said project. The Company recorded the carrying value of Rs. 189.5 mn as the compensation receivable at the time of acquisition, in the financial statements for the said 1,251 land extent based 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, on prudency.

On the 353.89 perches of land which was supposed to be divested back to the Company as per the Supreme Court order in November 2008, the Company filed a Motion in the Supreme Court to obtain an order for the divestiture of title on 30.09.2016 on the basis that the harbor project is now completed. However, at the hearing of this Motion on 18th October 2016, the Supreme Court decided that no further orders can be made by the Supreme Court. Subsequently, on our inquiry from the Divisional Secretary, we were informed that the said 353.89 perches of land also will be used for the fisheries harbour project and called for a further claim of compensation for the said land too. Accordingly, on 26.10.2017

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(All figures in Sri Lankan Rupees thousands)

the Company submitted a further claim for the said 353.89 perches of land amounting to Rs.159.3 mn on the same claim basis as per the 1,251 perches of land. However, as a matter of prudence, the Company accounted only Rs. 43,310/- as the compensation receivable in the financial statements based on the historical purchase cost. Accordingly, the carrying value of said 353.89 perches of land amounting to Rs. 105,900,000/- has also been removed from the property, plant and equipment during the financial year 2017/18.

Subsequent to the Balance Sheet date, we received an official notification pertaining to our claim of compensation in respect of land extent of 353.89 perches, awarding a compensation of Rs. 5,459,500/- relating to our claim of Rs. 159.3 mn. The compensation claim for the balance land of 1,251 perches is yet to be announced until the conclusion of the ongoing land case in the District Court of Negombo which is still under hearing stage. However, as a matter of prudence the Company made a provision for the compensation receivable applicable for 1,251 perches of land also based on the criteria of compensation awarded for the aforesaid 353.89 perches. Accordingly, Rs. 145.2 mn provision was made on the compensation receivable for the year ended 31st March 2019. However, since the substantial component of 1,251 perches of land was not entirely mangrove land, we could expect a better compensation than the amount awarded for the said 353.89 perches of mangrove land. The Company is taking steps to appeal against the said award of compensation (Rs. 5,459,500/-) to the Land Acquisition Board of Review.

Further, as at the reporting date, the Company has not received any confirmation from the Divisional Secretary on the value determination of the said claim made on 1,251 perches of land, pending the final determination of the court case described in note 31.3. In the opinion of the lawyers' the said court case, may take further 1 year or more 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 henceforth. 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 full compensation claim for the total land acquired of 1,605 perches stood Rs. 722 mn as of the reporting date, whilst the carrying value of the compensation receivable stood at Rs. 24.7 mn subsequent to the provisioning mentioned above.

21 INVENTORIES

	Group		Company	
As at 31st March	**2019**	**2018**	**2019**	**2018**
Food	4,128	4,677	3,297	3,710
Beverage	3,765	3,012	3,119	2,228
Engineering spares	2,774	2,863	2,673	2,660
Linen	3,030	2,899	1,227	1,546
Others	3,484	4,917	3,086	4,538
	17,181	18,368	13,402	14,682

22 FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS

	Group		Company	
As at 31st March	2019	2018	2019	2018
Investment in unit trusts - unquoted	29,482	-	29,482	-
	29,482	-	29,482	-

	Group / Company					
As at 31st March	2019			2018		
	No. of units	Cost	Fair value	No. of units	Cost	Fair value
22.1 Investment in unit trusts - unquoted						
Guardian Acuity Money Market Fund	1,676,342	28,620	29,482	-	-	-
		28,620	29,482		-	-

Valuation of investments in unit trusts are based on the unit prices published by the Investment Managers as at 31st March 2019.

23 TRADE AND OTHER RECEIVABLES

	Group		Company	
As at 31st March	2019	2018	2019	2018
Financial				
Trade receivables (note 23.1)	66,793	60,909	59,327	52,170
Other receivables	2,629	2,992	2,211	2,670
Loans given to Company officers (note 23.2)	386	248	386	248
	69,808	64,149	61,924	55,088
Non-financial				
Advances and prepaid expenses	8,324	5,075	7,792	4,441
	8,324	5,075	7,792	4,441
	78,132	69,224	69,716	59,529
23.1 Trade receivables				
Trade debtors	71,380	61,169	63,654	52,170
Less: Provision for impairment of trade receivables	(4,587)	(260)	(4,327)	-
	66,793	60,909	59,327	52,170
23.2 Loans given to company Staff				
Balance as at the beginning of the year	248	195	248	149
Loans granted during the year	1,354	1,138	822	1,138
Settlements during the year	(1,216)	(1,085)	(684)	(1,039)
Balance as at the end of the year	386	248	386	248

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(All figures in Sri Lankan Rupees thousands)

24 CASH AND CASH EQUIVALENTS

	Group		Company	
As at 31st March	2019	2018	2019	2018
Cash at bank and in hand	8,870	12,043	8,254	9,721
Investment in securities purchased under resale agreement	-	10,375	-	-
Total cash and cash equivalents	8,870	22,418	8,254	9,721
Bank overdraft	(19,451)	(3,429)	(208)	(17)
Net cash and cash equivalents for the cash flow statement purpose	(10,581)	18,989	8,046	9,704

25 STATED CAPITAL

	Group		Company	
As at 31st March	2019	2018	2019	2018
Issued and fully paid				
At the beginning of the year (30,391,538 Ordinary shares)	515,170	515,170	515,170	515,170
At the end of the year (30,391,538 Ordinary shares)	515,170	515,170	515,170	515,170

26 CAPITAL RESERVES

	Group		Company	
As at 31st March	2019	2018	2019	2018
Revaluation reserve	1,045,458	1,045,458	957,908	957,908
Capital accretion reserve	15,144	15,144	15,144	15,144
	1,060,602	1,060,602	973,052	973,052

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 net of related deferred taxes. A subsequent decline in the carrying amount of an asset will be offset against the previously increased amount of the same asset which was credited to the revaluation reserve. A decrease arising from a valuation of an asset over and above the revaluation surplus is recognized as an expense in the Statement of Profit or Loss. Accordingly a subsequent increase of revaluation of an asset 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 amount set aside by the Directors to meet any contingencies.

27 REVENUE RESERVES

	Group		Company	
As at 31st March	2019	2018	2019	2018
General reserve	176	176	176	176
Retained earnings	349,370	458,219	316,014	404,859
	349,546	458,395	316,190	405,035

27.1 General reserves

General reserve represents the amount set aside by the directors to meet any contingencies.

	Group		Company	
As at 31st March	2019	2018	2019	2018
28 DEFERRED TAX LIABILITY				
Balance as at the beginning of the year	196,774	66,979	181,415	53,526
Charge for the year (note 28.1)	9,870	129,795	13,105	127,889
Balance as at the end of the year	206,644	196,774	194,520	181,415
28.1 Charge for the year				
The amounts recognized in the statement of profit or loss are as follows;				
Property, plant and equipment	1,878	18,188	1,230	16,122
Employee benefits	(403)	(547)	(333)	(380)
Tax losses	8,370	(914)	12,214	(914)
	9,845	16,727	13,111	14,828
The amounts recognized in the statement of other comprehensive income are as follows;				
Employee benefits	25	55	(6)	48
Revaluation of property, plant and equipment (note 28.4)	-	113,013	-	113,013
	25	113,068	(6)	113,061
Charge for the year	9,870	129,795	13,105	127,889
28.2 Deferred tax assets				
Tax effect on employee benefits	2,793	2,415	1,929	1,590
Tax effect on tax losses	14,495	22,865	10,651	22,865
Total deferred tax assets	17,288	25,280	12,580	24,455
28.3 Deferred tax liability				
Tax effect on property, plant and equipment	223,932	222,054	207,100	205,870
Total deferred tax liability	223,932	222,054	207,100	205,870
Net deferred tax liability	206,644	196,774	194,520	181,415

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

28.4 Tax on land Valuation

As per the Inland Revenue Act No 24 of 2017, applicable from 1st April 2018, any gains on realization from disposal of lands used in the business are liable for taxation under the business income of the entity. Accordingly, the realization gains shall be the amount by which the sum of the consideration received on the asset that exceeds the acquiring cost and any accumulated allowable costs incurred on improvement thereon at the time of the realization.

The Company has recognized a revaluation reserve on freehold land amounting to Rs. 807,238,500/- as at 31st March 2019, which is considered as the potential gain liable for taxation as at the Balance Sheet date on future realization. Accordingly, the Company has recognized a deferred tax liability of Rs. 113,013,390/- pertaining to revaluation reserve on freehold lands which is computed at the corporate tax rate of 14%.

29 EMPLOYEE BENEFITS

29.1 The movement of the liability recognized in the Statement of Financial Position is as follows;

	Group		Company	
As at 31st March	**2019**	**2018**	**2019**	**2018**
Balance as at the beginning of the year	17,250	16,021	11,356	10,483
Provision for the year (note 29.2)	3,939	3,483	3,064	2,454
Payments made during the year	(1,239)	(2,254)	(644)	(1,581)
Balance as at the end of the year	19,950	17,250	13,776	11,356

29.2 Provision for the year

The amounts recognized in the statement of profit or loss are as follows;				
Current service cost	2,302	2,036	1,832	1,590
Interest cost	1,817	1,842	1,192	1,206
	4,119	3,878	3,024	2,796
The amount recognised in the statement of other comprehensive income is as follows;				
Actuarial (gains) / losses	(180)	(395)	40	(342)
	(180)	(395)	40	(342)
Provision for the year	3,939	3,483	3,064	2,454

"The Employee benefits" as at 31st March 2019 amounting to Rs. 13,776,357/- and Rs. 19,950,152/- (2018 - Rs. 11,355,991/- and Rs. 17,250,214/-) 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% p.a. (2018 - 10.5% p.a.)
- Rate of pay increase — 10% p.a. (2018 - 8%-15% 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 benefits obligation by the amounts shown below,

	Group		Company	
As at 31st March	**2019**	**2018**	**2019**	**2018**
1% increase in discount rate	(1,232)	(1,149)	(861)	(747)
1% decrease in discount rate	1,382	1,293	971	842
1% increase in salary escalation rate	1,480	1,371	1,037	892
1% decrease in salary escalation rate	(1,339)	(1,236)	(934)	(803)

30 LOANS AND BORROWINGS

	Group		Company	
As at 31st March	**2019**	**2018**	**2019**	**2018**
30.1 Non-current liabilities				
Bank borrowings	57,312	26,503	-	-
Current liabilities				
Bank borrowings	31,872	5,047	24,000	-
	89,184	31,550	24,000	-

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(All figures in Sri Lankan Rupees thousands)

	Currency	Interest rate	Year of maturity	2019 Face value	2019 Carrying amount	2018 Face value	2018 Carrying amount
30.2 Details of long-term borrowings							
Group							
Sampath Bank (note a)	LKR	12%	2025	6,550	4,804	6,550	6,550
Sampath Bank (note b)	LKR	8%	2022	25,000	20,380	25,000	25,000
Commercial Bank PLC (note c)	LKR	AWPLR+2.25%	2026	40,000	40,000	-	-
Commercial Bank PLC (note d)	LKR	Money market rate	N/A	24,000	24,000	-	-
				95,550	89,184	31,550	31,550
Company							
Commercial Bank PLC (note d)	LKR	Money market rate	N/A	24,000	24,000	-	-
				24,000	24,000	-	-

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

The Loan is to be repaid in 71 equal monthly instalments of Rs. 194,000/- and a final instalment of Rs. 226,000/- together with interest after a grace period of 18 months from the date of the first disbursement.

As at 31st March 2019 Equity Hotels Limited has drawn Rs. 6.55 mn from the above loan.

b) Equity Hotels Limited secured a long-term loan amounting to Rs. 25 mn from Sampath Bank PLC at a rate of interest of 8%, under a Saubhagya Prosperity Loan scheme, to part finance the refurbishment and purchase of furniture and other equipment for Giritale Hotel in Polonnaruwa.

The Loan is to be repaid in 53 equal monthly instalments of Rs. 462,000/- and a final instalment of Rs. 514,000/- together with interest after a grace period of 6 months from the date of the first disbursement.

c) Equity Hotels Limited secured a long-term loan during the year amounting to Rs. 40 mn from Commercial Bank PLC at a rate of interest of AWPLR + 2.25%, to part finance the refurbishment and purchase of furniture and other equipment for Giritale Hotel. AWPLR will be reviewed monthly, and fixed on the first working day of each month.

The Loan is to be repaid in 59 equal monthly instalments of Rs. 666,000/- and a final instalment of Rs. 706,000/- together with interest after a grace period of 24 months from the date of the first disbursement.

d) The Company has obtained a short - term loan of Rs. 24 mn from Commercial Bank PLC which is playable on demand.

31 TRADE AND OTHER PAYABLES

	Group		Company	
As at 31st March	2019	2018	2019	2018
Financial				
Trade payables	54,463	48,188	47,356	41,133
Other payables	28,572	18,330	11,613	11,853
	83,035	66,518	58,969	52,986
Non financial				
Deposits and advances	11,633	18,210	9,231	16,970
Provisions and accrued expenses	37,483	35,203	33,247	31,450
	49,116	53,413	42,478	48,420
	132,151	119,931	101,447	101,406

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 the overall responsibility for the establishment and monitoring of the Company's risk management framework. The Board of Directors has delegated this function to Carsons Management Services (Private) Limited, the Managers; who are responsible for developing and monitoring the Company'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.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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 their contractual obligations, and arises principally from the Group's receivables from customers, placements in deposits with banking institutions, investments in unit 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	**2019**	**2018**
Compensation receivable (note 20)	24,759	169,966
Investment in fixed deposits	114,206	126,012
Fair value through profit or loss financial assets (note 22)	29,482	-
Trade and other receivables (note 23)	69,808	64,149
Cash and cash equivalents (note 24)	8,870	22,418
	247,125	382,545

32.1.1 a. Compensation receivable

The Compensation receivable is due to the Company from the Government of Sri Lanka on the 1,605 perches of land acquired to construct a fisheries harbour. The compensation receivable is recorded in the financial statements at carrying amount less provision for impairment. However, the timing of the receipt will be subject to the finality of the land case, currently at hearing stage, at the District Court of Negombo as mentioned note 20.1 and 33.3 and the proposed appeal to the Land Acquisition Board and Review. If ruling is accepted by the losing party, then the value determination of the claim would take place henceforth. 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. Upon completion of the legal procedure the Company also have the option to appeal against the award of compensation to the Land Acquisition Board of Review. Therefore, timing of the receipt and value of the Compensation cannot be determined accurately and beyond the control of the management.

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

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

These investments 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, the 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 a 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.

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	**2019**	**2018**
Corporate customers	9,754	5,704
Tour operators	55,100	46,555
Others	6,526	8,910
	71,380	61,169

Impairment of trade receivables

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

	Group	
As at 31st March	**2019**	**2018**
1–30 days	30,007	31,181
31–90 days	30,273	18,793
91–120 days	2,899	1,997
121 days above	8,201	9,198
	71,380	61,169

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(All figures in Sri Lankan Rupees thousands)

A provision of Rs. 4.6 mn has been made as impairment in respect of trade receivables as at the year end (2018 - 0.3 mn).

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 customers.

d. Cash and cash equivalents

The Group held cash and cash equivalents of Rs. 8.9 mn as at 31 March 2019 (2018: Rs.22.4 mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AAA(lka) to AA−(lka), based on Fitch Ratings.

Placements in government securities primarily comprise of short term Securities Purchased under Re sale agreement investments, extending to a period less than 3 months.

32.2 Liquidity risk

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

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

		Contractual cash flows					
31st March 2019	**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	54,463	54,463	54,463	-	-	-	-
Other payables	28,572	28,572	28,572	-	-	-	-
Loans and borrowings	89,184	89,184	1,312	30,560	9,870	40,252	7,190
Bank overdraft	19,451	19,451	19,451	-	-	-	-
	191,670	191,670	103,798	30,560	9,870	40,252	7,190

		Contractual cash flows					
31st March 2018	**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	48,188	48,188	48,188	-	-	-	-
Other payables	18,330	18,330	18,330	-	-	-	-
Loans and borrowings	31,550	31,550	-	5,047	6,049	18,793	1,661
Bank overdraft	3,429	3,429	3,429	-	-	-	-
	101,497	101,497	69,947	5,047	6,049	18,793	1,661

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. 8.9 mn (2018 - Rs. 22.4 mn) and Group's short term deposits amounted to Rs. 93.6 mn (2018-126 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. 51 mn as at 31st March 2019.

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

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, if required.

32.3.2 Interest rate risk

As at the reporting date the financial assets / liabilities are exposed to interest rate risks.

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.

As at 31st March		Group 2019	Group 2018
Variable rate instruments			
Financial liabilities	- Bank overdraft	(19,451)	(3,429)
	- Loans and borrowings	(64,000)	-
		(83,451)	(3,429)
Fixed rate instruments			
Financial assets	- Investment in fixed deposits	114,206	126,012
	- Fair value through profit or loss financial assets	29,482	-
	- Investment in REPO	-	10,375
Financial liabilities	- Loans and borrowings	(25,184)	(31,550)
		35,053	101,408

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 remained constant.

As at 31st March	Profit / (loss) Increase by 1%	Profit / (loss) Decrease by 1%
31st March 2019		
Variable rate instruments	(835)	835
31st March 2018		
Variable rate instruments	(34)	34

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

32.4 Accounting classifications and fair values

Financial instruments are measured either at fair value or amortised cost. The Accounting Policies in notes to the financial statements 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 2019	Mandatory FVTPL and other	Fair value hedge instruments	Financial assets at amortised cost	Assets at fair value through other comprehensive income	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	-	24,759	-	-	24,759	24,759
Investment in fixed deposits	-	-	114,206	-	-	114,206	114,206
Fair value through profit or loss financial assets - unit trust	29,482	-	-	-	-	29,482	29,482
Trade and other receivables	-	-	69,808	-	-	69,808	69,808
Cash and cash equivalents	-	-	8,870	-	-	8,870	8,870
	29,482	-	217,643	-	-	247,125	247,125
Trade and other payables	-	-	-	-	83,035	83,035	83,035
	-	-	-	-	83,035	83,035	83,035

31st March 2018	Original classification under LKAS 39	New classification as per SLFRS 9	Original carrying amount under LKAS 39	New carrying amount under SLFRS 9
Financial assets				
Compensation receivable	Loans and receivables	Amortised cost	169,966	169,966
Investment in fixed deposits	Loans and receivables	Amortised cost	126,012	126,012
Trade and other receivables	Loans and receivables	Amortised cost	64,149	64,149
Cash and cash equivalents	Loans and receivables	Amortised cost	22,418	22,418
			382,545	382,545
Financial liabilities				
Trade and other payables	Other financial liabilities	Financial liabilities at amortised cost	66,518	66,518
			66,518	66,518

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 2019				
Fair value through profit or loss financial assets	-	29,482	-	29,482
Property, plant and equipment - Land and Buildings	-	-	1,798,886	1,798,886
	-	29,482	1,798,886	1,828,368
As at 31st March 2018				
Property, plant and equipment - Land and Buildings	-	-	1,718,427	1,718,427
	-	126,012	1,718,427	1,718,427

There were no transfers in between Level 1, Level 2 and Level 3 during the financial period under review (2018 - Nil).

Valuation techniques and significant unobservable inputs.

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

Notes to the Financial Statements

(All figures in Sri Lankan Rupees thousands)

Company	Location	Valuation technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
				The estimated fair value would increase/(decrease) if –
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 values. Current market conditions and the comparable property prices have been used for the valuation.	Market value per perch was higher/(lower)
Buildings				
Pegasus Reef Hotel	Wattala	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 the respective year of construction.	Construction cost per square feet of a building.	Cost per square feet was higher/ (lower)
Equity Hotels Limited	Giritale		Depreciation rate for the usage of assets.	Depreciation rate for usage lower/(higher)

33 COMMITMENTS AND CONTINGENCIES

	Group		Company	
As at 31st March	2019	2018	2019	2018
33.1 Capital commitments				
Approved and contracted	89,424	85,323	89,424	-

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 the Company. 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 20.1. 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.

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.

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(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Group 2019	Group 2018	Company 2019	Company 2018
34.2.1 Key management personnel compensation				
Short-term employee benefits	500	800	500	800
Post-employment benefits	-	-	-	-
Termination benefits	-	-	-	-
Non-cash benefits	-	-	-	-
Other long-term benefits	-	-	-	-
	500	800	500	800

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

34.3 Group entities

Name of the Subsidiary	% equity interest 2019	% equity interest 2018
Equity Hotels Limited	99.9%	99.9%

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 2019	Group 2018	Company 2019	Company 2018
Parent entity						
Carson Cumberbatch PLC	D.C.R. Gunawardena	Providing hotel services	-	1,477	-	1,477
Subsidiary						
Equity Hotels Limited	D.C.R. Gunawardena V.R. Wijesinghe	Reimbursement of expenses	-	-	938	1,336
		Dividend received	-	-	-	1,203
Fellow subsidiaries						
Carsons Management services (Private) Limited (CMSL)	K. Selvanathan V.R. Wijesinghe	Reimbursement of expenses	-	3,295	-	2,712
		Computer charges	150	150	150	150
		Secretarial fees	561	556	444	444
		Support service fee	8,112	8,585	7,951	7,333
		Internal audit services fee	-	2,051	-	2,051
Agro Harpan Lestari (Pvt) Ltd		Providing hotel services	-	112	-	112
Lion Brewery (Ceylon) PLC		Providing hotel services	552	1,458	552	1,458

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.

The Company has provided a corporate guarantee to its subsidiary as detailed below.

Company	Purpose	Outstanding balance as at 31st March	
		2019	2018
Equity Hotels Limited	Long-term loan facility from Commercial Bank of Ceylon PLC	40,000	-

35 DIVIDEND PER SHARE

	Company	
As at 31st March	2019	2018
Dividends paid during the year		
Final / interim dividend	16,715	31,911
Dividend per share (Rs.)	0.55	1.05
Dividends proposed during the year		
First interim dividend		
Total dividend	16,715	16,715
Dividend per share (Rs.)	0.55	0.55

36 COMPARATIVE FIGURES

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

37 EVENTS AFTER THE REPORTING DATE

Subsequent to the Balance Sheet date on 06th May 2019, the Company received an official notification pertaining to its claim of compensation in respect of land extent of 353.89 perches awarding Rs. 5,459,500/- in relation to our claim of Rs. 159,325,500/-for the said land more-fully described in 20.1 to the Financial Statements. The Company is taking steps to appeal against the said award of compensation (Rs.5,459,500/-) to the Land Acquisition Board of Review.

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

	Group				
For the year ended / As at 31st March	2019	2018	2017	2016	2015
Trading Results					
Revenue	677,550	684,841	543,200	582,209	510,255
Profit from operations	44,058	81,240	16,722	109,177	92,365
Net finance income / (cost)	17,374	27,702	27,276	24,520	17,961
(Loss) / profit before taxation	(83,775)	108,942	43,998	133,697	110,326
Income taxation	(8,514)	(24,614)	(2,455)	(13,022)	(14,458)
(Loss) / profit for the year	(92,289)	84,328	41,543	120,675	95,868
Other comprehensive income / (expense) for the year	155	(112,673)	605,622	(1,307)	(1,075)
Total comprehensive (expense) / income for the year	(92,134)	(28,345)	647,165	119,368	94,793
Shareholders' Funds					
Stated capital	515,170	515,170	515,170	515,170	515,170
Reserves	1,410,148	1,518,997	1,685,052	1,053,083	957,251
Shareholders' funds	1,925,318	2,034,167	2,200,222	1,568,253	1,472,421
Assets Employed					
Property, plant and equipment	2,007,609	1,887,516	2,010,067	1,186,133	1,157,858
Intangible assets	115,287	115,287	115,287	115,287	115,287
Investment in fixed deposit	20,575	-	-	-	-
Compensation Receivable	24,759	169,966	152,396	136,678	122,545
Non current assets	2,168,230	2,172,769	2,277,750	1,438,098	1,395,690
Current assets	227,296	236,022	148,473	284,266	194,243
Current liabilities	(186,302)	(134,097)	(136,451)	(98,147)	(70,458)
Working capital	40,994	101,925	12,022	186,119	123,785
Assets employed	2,209,224	2,274,694	2,289,772	1,624,217	1,519,475
Non-current liabilities					
Loans and borrowings	(57,312)	(26,503)	(6,550)	-	-
Deferred tax liability	(206,644)	(196,774)	(66,979)	(39,514)	(34,559)
Employee benefits	(19,950)	(17,250)	(16,021)	(16,450)	(12,495)
Total non-current liabilities	(283,906)	(240,527)	(89,550)	(55,964)	(47,054)
Net assets	1,925,318	2,034,167	2,200,222	1,568,253	1,472,421
Capital expenditure	188,999	49,300	261,024	76,356	26,206
Profitability Ratios					
Net (Loss) / profit margin (%)	(14)	12	8	21	19
Return on shareholders' funds (%)*	(5)	4	2	8	7
Liquidity ratios					
Current ratio (times)	1.22	1.76	1.09	2.90	2.76
Debt equity (%)	4.63	1.55	0.30	-	-
Investor Ratios					
Earnings / (loss) per share (Rs.) **	(3.04)	2.77	1.37	3.97	3.15
Dividend per share (Rs.)	0.55	0.55	0.50	0.50	0.50
Net assets per share (Rs.)	63.35	66.93	72.40	51.60	48.45
Market price per share (Rs.)	24.00	28.00	32.50	31.50	41.00
Dividend yield (%)	2.29	1.96	1.54	1.59	1.22
Dividend payout (%)	N/A	19.86	36.50	12.59	15.87
Hotel operations					
Occupancy (%) (Calculated based on the room available to sell)	65	62	47	60	49

Notes

* Profit attributable to shareholders of the Company divided by shareholders' funds.

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

Statement of Value Added

For the year ended 31st March	2019		2018	
Revenue	677,550		684,841	
Other income including finance income	30,604		39,444	
Cost of materials and services bought from outside	(395,231)		(353,704)	
	312,923		370,581	
Distributed as follows:		%		%
To employees				
as remuneration	185,940	59	178,364	48
To government				
as taxation*	(1,331)	-	7,887	2
To providers of capital				
as dividend	16,715	5	16,715	5
as interest and other charges	2,230	1	1,267	-
Retained in the business				
as deferred taxation	9,845	3	16,727	5
as notional adjustments on LKAS / SLFRS	495	-	17,923	5
as depreciation	62,826	21	64,085	17
as provision for impairment on compensation receivable	145,207	46	-	-
as profit for the year (adjusted for dividends)	(109,004)	(35)	67,613	18
	312,923	100	370,581	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

As at 31 st March	2019	2018
Number of Shareholders	2,967	2,858

The number of shares held by Non - Residents as at 31st March 2019 was 115,698 (2018 - 108,120) which amounts to 0.38% (2018 - 0.36%) 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	2,717	315,694	1.0388	20	4,781	0.0157	2,737	320,475	1.0545
1001 - 10,000	183	582,917	1.9180	3	13,238	0.0436	186	596,155	1.9616
10,001 - 100,000	36	1,110,627	3.6544	2	97,679	0.3214	38	1,208,306	3.9758
100,001 - 1,000,000	5	919,117	3.0243	-	-	-	5	919,117	3.0243
Above 1,000,000	1	27,347,485	89.9839	-	-	-	1	27,347,485	89.9839
Total	2,942	30,275,840	99.62	25	115,698	0.38	2,967	30,391,538	100.00

	As at 31st March 2019		
Categories of Shareholders	No. of Shareholders	No. of Shares	%
Individuals	2,894	2,576,857	8.48
Institutions	73	27,814,681	91.52
Total	2,967	30,391,538	100.00

3. Market performance - Ordinary shares

As at 31 st March	2019	2018
Share price as at 31st March (Rs.)	24.00	28.00
Highest (Rs.)	33.00	35.00
Lowest (Rs.)	20.00	26.00
Value of shares traded	10,653,948	12,570,267
No. of shares traded	461,096	427,008
Volume of transactions (Nos.)	929	1,195

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. 729,396,912/- as at 31st March 2019 (2018 - Rs. 850,963,064/-).

5. Public Holding

The Company is in compliance with the Minimum Public Holding requirement for Companies listed on the Diri Savi Board as per Rule 7.13.1 (b) of the Listing Rules of the Colombo Stock Exchange, under Option 2, i.e, Float Adjusted Market Capitalization of less than Rs 1.0 Billion with 200 Public Shareholders and a Public Holding percentage of 10%.

The Company's Public Holding as at 31st March 2019

Market Capitalization of the Public Holding	Rs. 73.01 Million
Percentage of Ordinary Shares held by the Public	Rs. 10.01 %
Number of Public Shareholders	2,964

6. Dividend

A First Interim Dividend of Cents 55 per ordinary share for the year ended 31st March 2019, amounting to Rs. 16,715,345/90 was paid on 26th March 2019.

7. Value of the Properties – Land and Building

Location	2019 Extent (in hectares)	2019 Number of Buildings	Market value 2019 Rs.'000	Date of professional valuation
Pegasus Reef Hotel, Wattala	5.45	1	1,585,231	31st March 2017
Equity Hotels Limited, Polonnaruwa (Building)	6.03	1	213,655	31st March 2017

8. Number of Employees

The number of employees at the end of the year was 206 and 270 (2018 - 199 and 269) for the Company and the Group respectively.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the FIFTY THIRD Annual General Meeting of **PEGASUS HOTELS OF CEYLON PLC** will be held on Thursday, 13th day of June 2019 at 3.00 p.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala, for the following purposes :

1. To consider the Annual Report of the Board of Directors including the Financial Statements of the Company for the financial year ended 31st March 2019 together with the report of the Auditors thereon.

2. To re-elect Mr. S.R. Mather who retires in terms of Article 72, 73 and 74 of the Articles of Association of the Company.

3. To re-appoint Mr. M Dayananda as a Director of the Company who is over Seventy years of age and to consider and if deemed fit to pass the following resolution :

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

4. 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
8th May 2019

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 11th June 2019.

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 1.00 p.m. to 3.00 p.m.

6. Security Check
   i. Due to the prevailing situation in the country, there will be a security check by the security personnel stationed at the meeting venue.

   ii. 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.

Note

Note

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,
Mahendra Dayananda	or failing him,
Krishna Selvanathan	or failing him,
Sujendra Ranjanan Mather	or failing him,
Vibath Wijesinghe	

As *my/our proxy to attend at the 53rd Annual General Meeting of the Company to be held on Thursday, 13th June 2019 at 3.00 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 re-elect Mr. S.R. Mather who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.		
2	To re-appoint Mr. M Dayananda as a Director who is over Seventy years of age as a Director of the Company.		
3	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 Nineteen.

....

Signature/s

Notes

1. * Please delete the inappropriate words.
2. A shareholder entitled to attend and vote at a General Meeting of the Company, is entitled to appoint a proxy to attend and vote instead of him/her and the proxy need not be a shareholder of the Company. A proxy so appointed shall have the right to vote on a show of hands or on a poll and to speak at the General Meeting of the shareholders.
3. A shareholder is not entitled to appoint more than one proxy on the same occasion.
4. Instructions are noted on the reverse hereof.

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

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

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

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

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

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

   (i) in the case of an individual shall be signed by the appointor or by his attorney; and

   (ii) in the case of a corporation shall be either under its common seal or signed by its attorney or by an authorised officer on behalf of the corporation.

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

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

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

5. To be valid the completed form of proxy should be deposited at the Registered Office of the Company situated at No. 61, Janadhipathi Mawatha, Colombo 1 not later than 4.45 p.m. on 11th June 2019.

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)
Mahendra Dayananda
Krishna Selvanathan
Sujendra Mather
Vibath Wijesinghe
Sega Nagendra
(stepped down w.e.f 14.06.2018)

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. Gunathilake
D. Fernando
M. Munasinghe
P. Fernando
P. Samarakoon
M. Sanjeewa
N. Abeyratne
C. Kamburugamuwa

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