Pegasus Reef

the city resort that's just right!

Pegasus Hotels of Ceylon PLC

A Carson Cumberbatch Company

Annual Report 2019/20

This report can be accessed online at
http://www.carsoncumberbatch.com

CONTENT

CHAIRMAN'S STATEMENT

Given the challenging operational circumstances, it is commendable to be able to record a near break-even result, which is directly attributable to the dedication and commitment of our staff.

Dear Shareholder,

I welcome you to the 54th Annual General Meeting of Pegasus Hotels of Ceylon PLC. On behalf of the board, I present to you the Annual Report and Audited Financial Statements carrying detailed performance and information of the Company and the Group for the financial year ended 31st March 2020.

Firstly, allow me to give you a glimpse of the operational landscape of the leisure and tourism industry during the past period. In summary, the financial year 19/20 brought about unprecedented changes and endless calamities, beginning with the horrendous attacks on Easter Sunday, followed by a period of severe rainfall towards the mid-year, and the eventual winding up with scares over an alarming pandemic. While the negative aftermath of the aforementioned events were felt across every business industry, the tourism industry was possibly the hardest hit of all.

A cloud of terror overshadowed all hope we had for growth, at a time where our country was identified as one of the best destinations to visit. However, the attacks on Easter Sunday could not shake off our spirit for the harmony of the nation and all industry stakeholders helped our business sector to get back on the journey towards recovery. I would take this as an opportunity to commend all the relief support and financial lifelines extended to our industry by the Government, which provided an immediate boost in confidence and operational flexibility to the industry.

However, today as I write, we are once again on uncharted territory in a socially distanced world, where nations across the earth continue to fight one of the toughest battles in the history, in the form of the COVID-19 global pandemic. At this point, I would like to pay my tribute to all the healthcare staff, scientists, tri-forces and police who are currently serving on the frontline to battle this elusive enemy on our behalf. Unarguably, the world-wide lockdowns and curfews which COVID-19 brought with it, has left the world economy at a standstill, significantly impacting the emerging economies such as Sri Lanka, and destabilising the tourism, travel and hospitality fronts above all. At this critical juncture, whilst the key priority is to keep our people healthy and safe, targeted policies are required to weather the economic and industry shocks at the same time.

PERFORMANCE

At the start of the year, we had a well-focused business plan in place, yet a struggling industry limited our potential. Amidst travel advisories from other countries, the focus of hoteliers was immediately shifted towards the limited pool of Sri Lankan travellers, where industry competitiveness was at its maximum with an intense rate war in a struggle to seize market share. Moreover, at this challenging time, keeping guests and employees safe was our topmost priority. Inevitably, this increased the operational cost of the hotel.

Against this backdrop, the Company recorded a loss after tax of Rs. 12.5 Mn on a revenue of Rs. 521.5 Mn during the year under review. Given the challenging operational circumstances, it is commendable to be able to record a near break-even result, which is directly attributable to the dedication and commitment of our staff. Importantly, at the Company level, Pegasus Reef Hotel achieved a cash profit of Rs. 55.8 Mn.

Moving on to Giritale Hotel, it is unfortunate that the hotel had to absorb two consecutive industry blows soon after re-opening its doors following its' room refurbishment. Given the scale of the refurbishment and the limited cash reserves available at the time of the project, we were compelled to opt for debt financing to fund the project. In the face of the current industry dynamics, despite our preference to remain low geared, repayment of these loans are expected to take a longer period compared to what we originally anticipated. Nevertheless, we are now able to offer a greater appealing product to our guests, with guest satisfaction levels displaying tremendous improvement following the room refurbishment. Again, this calls for more investments in the future to upgrade other facilities and amenities of the hotel in order to provide an overall finer leisure experience for our guests.

Considering the above context, the loss after tax at the Group level for the year under review stood at Rs. 41.2 Mn. However, eliminating the impact of the non-cash items for the year, the Group recorded a cash profit of Rs. 45.7 Mn.

DAYS AHEAD

Our hotels were temporarily closed nearly for two months in adherence to the local emergency measures and guidelines on social distancing. With a detailed safety protocol, the required hygiene and sanitisation standards and disinfection procedures in place, we have now opened our doors once again to our valued guests. However, the two hotels will not operate at full capacity in order to support social distancing and to facilitate thorough clean-ups and disinfection of rooms after each usage, alongside improving the daily frequency of cleaning of all public areas. These procedures will be adhered to until a state of normalcy is reached.

In terms of community support, I take pride in the programme we launched to distribute dry rations on a stage-by-stage basis to the members of our staff focused on the most financially vulnerable households as well as the neediest families in our neighborhood. In these troubled times, I must thank all our staff for their excellent efforts in terms of regular upkeep and optimisation of operational cost of the properties during the period of closure, whilst ensuring and safeguarding the safety and quality standards.

With this pandemic, no industry has tumbled as far and fast as the leisure and tourism, thus on realistic grounds, it would take the longest period to bounce back. In the past, this industry has confronted many adversities, but never before have we seen such magnitude of business interruption and travel dips over such a large global footprint all at once. Hence, I would like to kindly request the government to step in and help the industry to stay afloat, as it remains a key foreign currency earner to the country while supporting a large workforce both directly and indirectly.

I wish to thank all my fellow Board Members and the Members of the Audit Committee, Remuneration Committee, Nomination Committee and the Related Party Transactions Review Committee. We are strongly in need of your invaluable insight to help move our business forward and carry us through these difficult times. Further, I am delighted to welcome Mr. Michael Elias on board who joined us as a Non-Executive director with effect from 03rd February 2020. My sincere gratitude also extends to all our business partners and other stakeholders. Most importantly, I wish to thank all our shareholders for your patience and understanding especially during this difficult phase.

Stay safe and stay well.

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

20th July 2020

MANAGEMENT DISCUSSION & ANALYSIS

Targeted positioning of our product and offers with value additions to the corporate clientele and local travellers, enabled us to substantially minimise the impact of revenue downturn for the year.

MACRO OVERVIEW

The performance of the Sri Lankan economy was subdued during the calendar year 2019 over several factors. Firstly, towards the end of 2018, the country was undergoing political uncertainty, which had its negative effect on the country's business confidence and economic sentiment. Secondly, the terror attacks on 21st April 2019 was a significant setback to the economy with business disruption and an unprecedented hit on the country's key industries such as tourism. During 2019, agriculture, forestry, and fishing activities expanded just marginally by 0.6%, largely due to the extreme weather conditions that prevailed towards the mid-year, while the industrial sector growth rate was a modest 2.7%, improving from last year's 1.2%, due to developments in key sectors such as apparel, food and beverage, and construction. Meanwhile, the services sector was only able to secure a growth of 2.3% vis-a-vis 4.6% in the corresponding period, as a result of the dramatic dip in the performance of tourism and tourism related industries. Thus, the Central Bank indicated that the economy grew at a mere 2.3% during 2019, demonstrating a noticeable decline relative to the 3.3% growth recorded in the corresponding period.

Simultaneously, the fiscal performance of the country deteriorated due to the contraction of government revenue sources and higher recurrent expenditure, widening the budget deficit, thereby leading to a rise in the government debt levels. In this challenging context, the government opted for an accommodative monetary policy with the expectation of providing a much-needed stimulus to weakened economic activities. However, in the wake of the recent COVID-19 pandemic, any upbeat in domestic economic activity achieved at the beginning of 2020 saw a reversal trend, along with the increased vulnerability of the Sri Lankan Rupee over a slowdown in exports, reduced worker remittances and the declining tourist traffic to the country. Thus, the COVID-19 pandemic has presented an element of uncertainty to the country's economic growth expectations for 2020. Similarly, exchange rate volatility is likely to persist in the near term with the debt financing challenges coupled with the severe negative impact to the key foreign exchange earning sources of the country. Meanwhile, the country's business environment has also been adversely impacted with the increase of several financial and liquidity constraints in managing day-to-day business operations. Against the backdrop of these events, the exact impact of the pandemic on the country's real growth and on external sector performance would be difficult to forecast at this point, and would largely be dependent on the effectiveness of the global and local measures taken to curb the spread of the virus. More importantly, development of an affordable vaccine or a cure that can be mass-produced and distributed globally would be the key to set some degree of normalcy and revival to the global economic activities.

In the meantime, synchronising the temporary policy measures introduced by the government in order to overcome the pandemic with sustained policies targeting the revival of local businesses and foreign direct investments would lay the foundation to reshape the long-term economic outlook of the country.

TOURISM INDUSTRY

Sri Lanka's tourism industry was dominated by security concerns during the greater part of the year under review due to the unfortunate series of terrorist attacks that took place on Easter Sunday. The occupancy levels of the hotels and other accommodation decreased rapidly, with anxious and panicked tourists fleeing back to their countries of origin. Temporary travel bans also led to many hoteliers rethinking their short-term positioning, with promotional strategies focusing on domestic demand. Therefore, the revenue growth possibilities were very limited for the tourism sector, with an extremely competitive market featuring staggering discounts across both formal and informal sectors. The aforementioned narrowed-down foreign demand is mirrored in the 18% dip in YoY visitor arrivals registered by the industry in 2019, with a count of only 1.9 Mn tourists as opposed to 2.3 Mn tourists in 2018. Accordingly, the gross tourist receipts declined by Rs. 65.6 Bn resulting in an unexpected tremor in the overall economy.

In such a non-conducive environment, the relief support provided by the government for the tourism sector in order to meet the challenges were of various forms, which included a one-year moratorium on loans until 31st March 2020. Additionally, subsidised working capital loans were extended to the sector as means of easing off the operational cash burden. Furthermore, Value Added Tax (VAT) was temporarily revised to 7% from 15% for registered hotels and tour operators from 01st June 2019. Later in the year, a proposal was brought to treat the tourism industry as a zero-rated source of revenue, if not less than 60% of the total value of the inputs are sourced locally. Thus, the impact of these relief measures promised a gradual revival to the declining tourism industry in the upcoming months.

However, to everyone's dismay, the COVID-19 pandemic interfered the process of planned recovery, undoing almost all the recovery that the industry managed to achieve towards the third quarter of financial year 19/20. Adding the effect of the pandemic also into the picture, the YoY decline in tourist arrivals from April 2019 to March 2020 was at 29%. The month of March in which the spread of the pandemic spiked in Sri Lanka, saw only 71,370 tourists with a YoY decline of 71% compared to the corresponding period of the previous year. With the months of April and May reporting zero tourists following the temporary shutdown of the International Airport operations, tourist arrival figures are likely to remain low in the forthcoming months even with the reopening of the airport, as the pandemic continues to aggravate on a global scale.

Periodic comparison of tourist arrivals

Period	FY20	FY19	Variance - %
1Q	267,849	456,723	(41)
2Q	367,863	567,275	(35)
3Q	537,390	601,874	(11)
4Q	507,311	740,600	(32)

Source: Data from Sri Lanka Tourism Development Authority

In conclusion, the COVID-19 pandemic has created an unprecedented disruption in the global economy, with its significant effects being experienced by our country as well. Hence, in this backdrop, as one of the leading net foreign exchange gainers to the country, the travel and tourism industry is currently at a standstill with almost all the hotels embarking on strenuous survival plans. As the pandemic continues to prevail, the travel and tourism industry is currently undergoing rapid transformation with the longest anticipated recovery times relative to other industries on rational terms. Hence, in facing such myriad of uncertainties the most significant challenge to the industry would be the financing of the fixed cost of operations. Therefore, in addition to the government's abundant economic and health initiatives, any form of extended reliefs and new bailout schemes would be welcoming in order for the industry to be able to take on its responsibility back again to contribute to the collective economic recovery efforts.

FINANCIAL REVIEW

Pegasus Reef Hotel

For the twelve months ended 31st March 2020, Pegasus Reef Hotel achieved a revenue of Rs. 521.5 Mn with a YoY decline of 17%, recording an average annual occupancy of 45%, as opposed to 66% achieved in the financial year 18/19. Such decline was mostly from a demand downturn due to the above-mentioned industry volatility. However, the Average Room Rate was maintained intact during the same period, augmented by the exchange rate depreciation as well as the change in the guest mix. The food and beverage revenue of the hotel also took a hit from the declined PAX count from the occupancy drop as well as reduced business from the MICE (Meetings, Incentives, Conferences and Exhibitions) segment during the period. Particularly, the main banquet hall was closed for one month during 1Q20 for refurbishment activities, while heavy rains towards mid-year constricted the number of outdoor functions and events held at the hotel. Nevertheless, targeted positioning of our product and offers with value additions to the corporate clientele and local travellers, enabled us to substantially minimise the impact of revenue downturn for the year.

In terms of costs, direct cost of the hotel declined by 4% YoY to Rs. 357.9 Mn while the sales and promotional expenses charge for the year declined to Rs. 16.8 Mn from Rs. 30.7 Mn in the previous year, due to reduced revenue opportunities. The underlying reasons for the direct cost reduction were twofold; stemming from the top line reduction as well as the results of prudent cost management activities through overall improved efficiency. However, the employee-related cost recognised under direct cost rose up by 6% YoY to reach Rs. 65.5 Mn. In terms of other significant cost items, the depreciation charge accounted for the year under direct cost stood at Rs. 52.6 Mn, up from Rs. 44.6 Mn recognised in the financial year 18/19. The said increase in depreciation stemmed from the capitalisation of the banquet hall project, as well as the essential investments on security related projects for the purpose of strengthening the overall safety of the guests, staff and the property. Meanwhile, as further extensions of the above depreciation charges and increased staff cost, the administrative expenses for the year also saw an increase of 10% YoY to be at Rs. 180.1 Mn. Thereby, the total depreciation charge of the hotel reported under the Statement of Profit and Loss was at Rs 71.2 Mn.

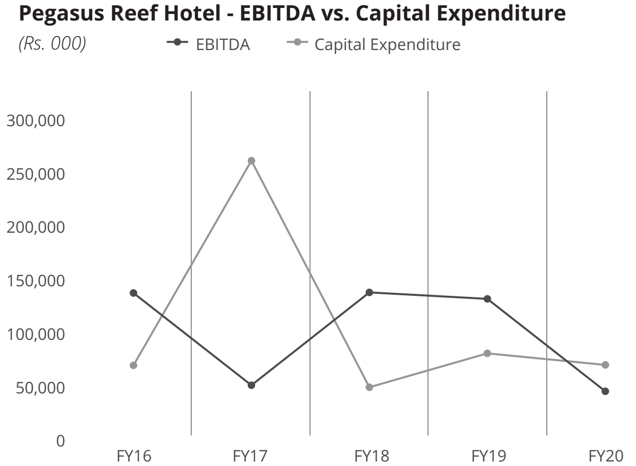
Accordingly, Pegasus Reef Hotel reported an operating loss of Rs. 29.1 Mn for the concluded financial year, primarily as an end result of the revenue loss and increased fixed-cost. Adjusting for the depreciation charges, the hotel recorded an EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) of Rs. 42.1 Mn for the year under consideration.

Pegasus Reef Hotel - EBITDA Comparison

Rs. 000	FY20	FY19	FY18	FY17	FY16
EBIT/Operating Profit / (Loss)	(29,136)	70,474	75,414	6,494	94,917
Depreciation	71,198	58,118	59,238	41,233	39,179
EBITDA	42,062	128,592	134,652	47,727	134,096
Capital Expenditure	66,744	77,576	45,837	258,017	66,329

Source: Pegasus Hotels of Ceylon PLC, Financial Statements

Pegasus Reef Hotel - EBITDA vs. Capital Expenditure



Source: Pegasus Hotels of Ceylon PLC, Financial Statements

HOTEL PROFITABILITY

Justified by the above reasons, Pegasus Reef Hotel recorded a loss before tax of Rs. 13.8 Mn for the financial year 19/20, compared to a loss before tax of Rs. 59 Mn in the prior year; where the prior year accounted for an impairment provision on the land compensation receivable amounting to Rs. 145.2 Mn. Adjusting for the said impact from impairment provision, the prior year profit before tax stood at Rs. 86.2 Mn.

Accordingly, the hotel reported a loss after tax of Rs. 12.5 Mn for financial year 19/20, compared to a similarly adjusted net profit of Rs. 73.1 Mn of the corresponding financial year. However, adjusting the loss after tax for the non-cash items, the total cash profit of the hotel for the year under review stood at Rs. 55.8 Mn.

We will strive for safety and service excellence while closely monitoring the changing customer demand patterns, with every hope of eradication of this health and economic crisis, and subsequent return to normalcy.

CAPITAL EXPENDITURE

The competitiveness in the dynamic hospitality marketspace continues to increase by the day with emergence of modern establishments on one hand, and the increased sophistication of the new age customer on the other. Hence, routinely upgrading our property to keep up with the modern market offering and service standards in order to remain relevant to our customers is a key expectation of a graded hotel. Thus, in the past 5 years, we have committed Rs. 514.5 Mn as capital expenditure for the development of the property through the utilisation of the hotel's cash flows whilst maintaining a reasonable dividend pay out.

The major service improvement project concluded by the hotel during the year was the banquet hall refurbishment with a total investment of Rs. 101.2 Mn. Upgrading the banquet hall facility with modern amenities has enabled us to further strengthen our offering in the competitive MICE marketspace, complementing our unique outdoor venues on offer. Thus, our marketability for weddings and other events has noticeably improved with increased customer appeal, allowing us a promising platform to build up on the future demand arising from this segment. In addition, a total of Rs. 6.7 Mn was invested on security-related capital expenditure towards strengthening safety measures of the Hotel.

Going forward, the hotel plans to remodel its main restaurant facility by carrying out a refurbishment with the aim to facilitate an alluring dining experience for its guests.

GIRITALE HOTEL

Following the closure of 32 rooms to facilitate the 21-room refurbishment project during a major portion of the previous financial year, the operations at Giritale Hotel returned to normalcy during the year under review. Unfortunately, due to the aforementioned turbulence in the tourism industry, the hotel was only able to reach an occupancy of 40% in the year under review. Even so, the success of our room refurbishment project was immediately reflected in our guest reviews, which was highly praised by our guests in terms of generating a refined experience.

GROUP FINANCE EXPENSES AND GEARING

As of 31st March 2020, the Group had Rs. 224.5 Mn worth of total cash reserves as well as Rs. 199.2 Mn of total borrowings. The borrowings were mainly attributable to the room refurbishment project at Giritale Hotel. However, given the impact of the crisis situation, both our hotels decided to welcome the moratorium and the working capital loans offered by banks as part of the government's sector revival plan in an attempt to optimise the funding structures. As such, the Group finance expense increased by Rs. 11.73 Mn YoY to reach Rs. 14 Mn in the period. However, the Group continued to demonstrate its financial flexibility with a low debt to equity ratio of 10.6% as of 31st March 2020. Nonetheless, the ongoing industry turbulence from COVID-19 is likely to influence our finance structures necessitating further debt financing in the short to medium term scenario.

GROUP PROFITABILITY

As primarily justified by the above reasons, Pegasus Hotels of Ceylon PLC achieved a consolidated loss before tax of Rs. 46.5 Mn for the financial year 19/20 compared to a profit before tax of Rs. 61.4 Mn adjusted for provision for compensation receivable in the corresponding twelve months. The Group recorded a loss after tax of Rs. 41.2 Mn in contrast to an adjusted profit after tax of Rs. 52.9 Mn reported in the financial year 18/19. Adjusting the loss after tax for the Group's non-cash items, the total cash profit for the year under review stood at Rs. 45.7 Mn.

During the period from FY15-FY19, the Group has been consistently maintaining a divided outflow to the shareholders from its operational profitability. However, the current operational context has significantly transformed since then, with the large-scale industry anomalies discussed above.

Hence, going forward, caution would have to be exercised in ensuring the stability of the business by closely monitoring how the market unfolds, so that the business would be in a better operational stance, and better equipped to facilitate reasonable dividends to the shareholders.

PAST DIVIDEND TREND

	FY20 Rs.	FY19* Rs.	FY18 Rs.	FY17 Rs.	FY16 Rs.	FY15 Rs.
Earnings per share	(0.41)	2.41	2.66	1.02	3.64	3.25
Dividend per share	N/A	0.55	0.55	0.50	0.50	0.50
CAPEX per share - Group	2.66	6.22	1.62	8.59	2.51	0.86

**Note: FY19 Earnings per share is adjusted for the impairment charges on compensation receivable of Rs. 145.2 Mn, accounted for in the Statement of Profit and Loss*

Source: Pegasus Hotels of Ceylon PLC, Financial Statements

THE UNKNOWN

The global pandemic has created its own doubts and fears with a significant impact on the survival dynamics of the global hospitality industry in the upcoming months as the worldwide travel plans have shown signs of receding with the extensive periods of lockdowns and delayed flight operations. Occupancies worldwide have seen a steep plunge and this is expected to continue into the "peak seasons". As the devastation from the pandemic is likely to affect almost every business sector in the short to medium term, the solution to the extensive impact it has created on the hospitality sector is entirely dependent on a mass-produced cure or vaccine.

The days ahead are expected to have many operating challenges for the hoteliers, along with revised cancellation and reservation policies, leading to an onset of a new financial struggle to maintain their operations. Under such unexpected circumstances, integrating the COVID-19 guidelines of health authorities and governments, we will redefine health and safety as the backbone of our operations, with an ongoing series of cleanliness and hygiene standards implemented with care across every operation at our hotels. We realise and accept our responsibility to contribute to speed up the recovery efforts in order to minimise the damage that is inflicted by the virus upon our community, industry and the economy. We will strive for safety and service excellence while closely monitoring the changing customer demand patterns, with every hope of eradication of this health and economic crisis, and subsequent return to normalcy. The times may have changed, however the great hospitality of our hotels remains unchanged.

Carsons Management Services (Private) Limited
Managers

20th July 2020

DIRECTORS PROFILES

CHANDIMA GUNAWARDENA (CHAIRMAN)

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
(vacated office w.e.f. 13/06/2020)

Mahendra Dayananda is an Independent, Non-Executive Director of Nestle Lanka PLC and he ceased to be an Independent Non-Executive Director of Pegasus Hotels of Ceylon PLC with effect from 13th June 2020. He 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 and former Chairman of the Colombo Tea Traders Association.

He is the President of the Sri Lanka Japan Business Council.

Former President of the Sri Lanka Institute of Directors and Chairman of the Ceylon Chamber of Commerce, he also 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 was the former Honorary Consul for the Republic of Benin in Sri Lanka until October 2019.

Earlier he was a Founder Executive Director commencing 1st January 1980 and subsequently the Chairman of Tea Tang (Private) Limited.

KRISHNA SELVANATHAN

Krishna Selvanathan - Director, Carsons Management Services (Private) Limited, 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 Mather received a B.A. in Economics Mathematics from Claremont McKenna College in California, USA.

DIRECTORS PROFILES

MICHAEL ELIAS

(appointed w.e.f. 03/02/2020)

Michael Elias is an international consultant in Tourism & Hospitality Management with 38 years of experience in every segment of the Tourism industry.

He was a Vice President of John Keells Holdings PLC and Executive Director/Chief Executive Officer of six Leisure Sector companies of the John Keells Group, including Sri Lanka's only previously SEC listed Destination Management Company, Walkers Tours Ltd. The multi award winning company Nature Odyssey (Pvt) Ltd was conceptualized and created by him.

He is the Immediate Past President of the Sri Lanka - Germany Business Council of the Ceylon Chamber of Commerce, a Past President of SLAPCEO (Sri Lanka Association of Professional Conference and Exhibition Organizers) a former Board Member of SLAITO (Sri Lanka Association of Inbound Tour Operators) a former Committee Member of the PATA Sri Lanka Chapter (Pacific Asia Travel Association), a Council Member of the Benelux Business Council of the Ceylon Chamber of Commerce and headed non-trade associations related to Education and Social Service.

Michael Elias is a Graduate of the University of Western Sydney and holds a Masters Degree in Business Administration from the Sydney Graduate School of Management. He has a Diploma in Strategic Management from the Wharton School, University of Pennsylvania, has the Certificate in Marketing of the Chartered Institute of Marketing (UK) and is a Certified Event Manager of IAPCO (International Association of Professional Conference Organisers).

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 the 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 the Postgraduate Institute of Management - University of Sri Jayewardenepura, Sri Lanka.

RISK MANAGEMENT

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…

Risks are inherent to 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 tolerance levels.

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

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

Risk management process re-validates that the relevant internal control systems are in place and provides assurance to Management/ Board of Directors that processes are robust and working effectively.

ENTERPRISE RISK MANAGEMENT PROCESS

Risk Management Governance Structure includes a reporting framework within the organisation and to the Board of Directors, thereby allowing Directors to assume their supervisory function for better Corporate Governance.

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

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 Responses and Strategies
Terrorism / Global Pandemic	The Easter Sunday tragedy in April 2019 had a significant negative impact to the leisure sector. This was further worsened by COVID-19. The pandemic has caused disruption to many local and global business and economic activities as it forced to close country borders, lockdown cities and implement social distancing to ensure health and safety of citizens. Two hotels of the Group had to briefly cease operations because of Government imposed curfew and lockdowns to curtail the spread of COVID-19. Further, our foreign tourist arrivals segment is severely affected even to date as a result of the closure of the international airport of the country.	Following the Easter Sunday attack of 2019, the management took immediate steps to strengthen the security of premises. With the COVID-19 pandemic, the Group has implemented all possible measures for the safety of the staff and customers, adhering to Government and health authority guidelines. We are closely assessing and monitoring the economic and financial impacts of the pandemic and will continue to prepare proactive business plans.
Market risk	Not being able to achieve business objectives due to volatility in the market.	The Group manages this risk by means of the following actions and procedures. ▪ Leisure sector has taken steps to reduce operational costs where practical and are exploring further opportunities to do so. ▪ Maintain and build relationships with tour operators. ▪ Participate in relevant trade and business promotions, locally and internationally. ▪ Maintaining value and standard of the hotels through periodic refurbishments and training and development programs aimed at employees. ▪ Develops and monitors comprehensive business plans. ▪ Diversification of revenue base through targeted promotional campaigns towards less affected business segments in the present environment.

RISK MANAGEMENT

Risk	Impact	Risk Responses and Strategies
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 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. The Group is maintaining additional cash and cash equivalents reserves with banks and financial institutions to counter the loss of inflows due to the business impact of COVID-19. Further, all non-essential capital expenditure of the Group has been postponed until such time business recovers to a reasonable degree and the Group has sufficient funds to go ahead with capital-intensive investments. It should be noted that the Group is currently at a net cash position, which gives us an advantage in securing funding lines if required in the future. Further we have applied for moratorium facilities on existing borrowings offered by banks as per the guidelines of Central Bank of Sri Lanka, which will ease the immediate pressure on liquidity of the Company and the Group to some extent.
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.	With the slowdown of economic activities of tourism sector, due to COVID-19 pandemic, recovery of dues has shown some challenges. Some of the tour operators are facing tight financial constraints in meeting their payable commitments as a result of the business impact of COVID-19. However, as of the date of approval of these financial statements, significant amount of debtors outstanding as at 31st March have been collected and required provisioning are made for doubtful debtors. The remaining outstanding amounts are due from relatively high credit profile debtors which can be reasonably expected to recover with gradual recovery of business. Further, we will continue to regularly evaluate the creditworthiness of tour operators and other customers especially taking into consideration the industry dynamics.
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.	The Group monitors fluctuations in exchange rates and takes precautionary measures to revise its fee quotes on a regular basis, in an attempt to mitigate the exposure to currency risk.

Risk	Impact	Risk Responses and Strategies
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. With the global spread of COVID-19, Central Bank of Sri Lanka initiated several policy changes to revive the economy and encourage banks and financial institutions to reduce interest rates.	As at the reporting date, both financial assets and financial liabilities of the Group consisted of variable as well as fixed rate instruments.
Systems and Process risks	The risk of direct or indirect losses due to inadequate or failed internal processes and systems.	▪ Maintains detailed procedure manuals and provides training and guidelines for new recruits. ▪ The Group Internal Audit function carries out regular reviews on internal control systems and processes and recommends process improvements, if shortcomings are noted.
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.	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 to clear out any ambiguity over the same. ▪ HR policies are focused on encouraging continuous training and development and ensuring appropriate compensation as per market rates to retain and develop talented employees.
Legal & Regulatory Compliance Risk	Failure to comply with the regulatory and legal framework applicable to the Group.	The management together with the Carsons Group legal division proactively identifies and sets up appropriate systems and processes for legal regulatory compliance with respect to the Group's operations. ▪ Arrange training programs and circulate updates for key employees on new / revised laws and regulations on a per 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. ▪ To minimize the spread of COVID 19, Government and health authorities have issued guidelines and rules to operate business activities. Group has implemented the required measures for the safety of the staff and customers, adhering to said guidelines and rules.

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 2020.

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 20th July 2020.

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 2020 are set out on pages 34 to 93. These financial statements do comply with the requirements of the Companies Act, No. 07 of 2007.

4.1. Revenue

Detailed analysis of revenue of the Company and the Group are set out 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	**2020**	**2019**	**2020**	**2019**
Loss for the year	(41,241)	(92,289)	(12,478)	(72,096)
Other comprehensive income/ (expense) for the year	279	155	358	(34)
Total comprehensive expense for the year	(40,962)	(92,134)	(12,120)	(72,130)
Retained earnings as at the beginning of the year	349,370	458,219	316,014	404,859
Forfeited dividends	66	-	66	-
Dividends	-	(16,715)	-	(16,715)
Retained earnings as at the end of the year	308,474	349,370	303,960	316,014

4.3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are given on pages 38 to 55.

4.4. Property, plant and equipment

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

4.4.1. Market value of freehold properties

The Company and the Group have recognized the carrying value of lands and buildings in the Statement of Financial Position at revalued amounts in accordance with Sri Lanka Accounting Standard (LKAS 16) - 'Property, Plant and Equipment'.

The last valuation was performed during the financial year ended 31st March 2017, accordingly a revaluation gain was recognised 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 additions of the Group are given in Note 17 to the Financial Statements.

4.6. Reserves

The movements of total reserves of both the Company and the Group are set out in the Statement of Changes in Equity on page 36.

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 and the Group 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 2020 is given in note 13 to the financial statements.

6.2. Directors' interest in contracts and shares

Directors' interests in contracts of the Company and the Group are disclosed in note 35 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 and the Group other than those disclosed in note 35 and the Directors of the Company did not have any interests in ordinary shares of the Company during the period from 1st April 2019 to 31st March 2020.

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 to the Directorate

Mr. M. Elias was appointed as a Non-Executive Independent Director of the Company with effect from 3rd February 2020.

Mr. M. Dayananda, Non-Executive Independent Director who was re-appointed to the Board in terms of Section 210 of the Companies Act, No. 07 of 2007, at the Annual General Meeting (AGM) held on 13th June 2019 for a period of one year till 13th June 2020, vacated office with effect from 13th June 2020 in terms of Section 210(2) (b) of the Companies Act, No. 07 of 2007 as the Company was unable to convene the AGM on or before 13th June 2020 to consider the re-appointment of the said Director, due to the COVID-19 pandemic situation in the country.

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

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

7.3 Director to retire by rotation

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

7.4 Proposed appointment to the Board of Directors

The Nomination Committee of the Company and the Board have recommended the appointment of Mr. M. Dayananda, who is over seventy years of age, to the Board of the Company pursuant to Article 68 of the Articles of Association of the Company, subject to obtaining the approval of the Shareholders of the Company at the forthcoming Annual General Meeting schedule to be held on 4th September 2020.

In terms of Section 211 of the Companies Act, No. 07 of 2007, the approval of the Shareholders is sought by way of an Ordinary Resolution for the appointment of Mr. M. Dayananda as a Director of the Company for a period of one year and that the age limit stipulated in Section 210 of the Companies Act, No. 07 of 2007 shall not be applicable to him.

The requisite Resolution to give effect to the above is set out in the Notice convening the Annual General Meeting of the Company.

Upon Shareholders approving the appointment of Mr. M. Dayananda at the AGM on 4th September 2020, he will be appointed as a Non-Executive Independent Director of the Company.

8. CORPORATE GOVERNANCE

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

8.1. Board of Directors

The following Directors held office during the period under review and their brief profiles are given on pages 09 to 10 of the Annual Report.

Directors	Executive/ Non-Executive/ Independent
Mr. D. C. R. Gunawardena (Chairman)	Non-Executive
Mr. M. Dayananda (vacated office w.e.f. 13/06/2020)	Non-Executive/Independent
Mr. K. Selvanathan	Executive
Mr. S. R. Mather	Non-Executive/Independent
Mr. V. R. Wijesinghe	Executive
Mr. M. Elias (appointed w.e.f. 03/02/2020)	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 20th July 2020, 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.

8.2. Directors' Meetings attendance

During the financial year, the Board of Directors had only three (03) Meetings as the Board Meeting for the 4th quarter could not be held due to the COVID-19 pandemic situation in the country.

The attendance of the Directors were as follows;

Board Members	Meetings Attended (out of three)
Mr. D.C.R. Gunawardena (Chairman)	3/3
Mr. M. Dayananda (vacated office w.e.f. 13/06/2020)	2/3
Mr. K. Selvanathan	2/3
Mr. S. R. Mather	3/3
Mr. V.R. Wijesinghe	3/3
Mr. M. Elias (appointed w.e.f. 03/02/2020)	-

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 financial year, the Committee had only one (01) Meeting as the 4th quarter meeting could not be held due to the COVID-19 pandemic situation in the country.

Remuneration Committee Members	Meetings Attended (out of one)
Mr. T. de Zoysa (Chairman)	1/1
Mr. D.C.R. Gunawardena	1/1
Mr. R Theagarajah	-
Mr. W.M.R.S. Dias	1/1

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

Aggregated remuneration paid to the Non-Executive Directors of the Company is disclosed in note 13 on page 57 of the Annual Report. Executive Directors are not compensated for their role on the Board.

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

Audit Committee Members	Executive/ Non-Executive/ Independent
Mr. V. P. Malalasekera (Chairman)	Non-Executive/Independent Director of CCPLC
Mr. F. Mohideen	Non-Executive/Independent Director of CCPLC
Mr. D. C. R. Gunawardena	Non-Executive Director of CCPLC
Mr. A.S. Amaratunga	Non-Executive/Independent Director of CCPLC

The Audit Committee Report is given on page 27 to 28 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 (vacated office and as Chairman of the Nomination Committee w.e.f. 13/06/2020)	Non-Executive / Independent Director
Mr. D.C.R. Gunawardena (appointed as Chairman of the Nomination Committee w.e.f. 13/06/2020)	Non-Executive Director
Mr. S. R. Mather (appointed to the Nomination Committee w.e.f. 13/06/2020)	Non-Executive / Independent Director

Scope and objective
The primary objective of the Nomination Committee is to lead the process for Board appointments of new Directors to the Board and the nominations of members to represent the Company in Group companies/ investee companies.

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

Any Director of the Board and other members of senior management may be invited to attend Meetings of the Nomination Committee. The Committee may also invite appointed external consultants to aid the Committee in the discharge of its duties.

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

The Nomination Committee meets at least twice a year.

During the financial year, the Committee had only one (01) Meeting as the 4th quarter meeting could not be held due to the COVID-19 pandemic situation in the country.

Nomination Committee Members	Meetings Attended (out of one)
Mr. M. Dayananda (vacated office and as Chairman of the Nomination Committee w.e.f. 13/06/2020)	1/1
Mr. D.C.R. Gunawardena (appointed as Chairman of the Nomination Committee w.e.f. 13/06/2020)	1/1
Mr. S. R. Mather (appointed to the Nomination Committee w.e.f. 13/06/2020)	-

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 2020, did not exceed 10% of Equity or 5% of the Total Assets of the Company as at 31st March 2020.

The details of the Related Party Transactions are given in note 35 to 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 2020.

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 2020.

8.7. Board Evaluation

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

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

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

9. INDEPENDENT AUDITORS

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

A sum of Rs. 395,000/- and Rs. 678,500/- were paid to them by the Company and the Group respectively, as audit fees for the year ended 31st March 2020 (2019 - Rs. 371,000 /- and Rs. 635,000 /-). The Auditors were not paid fees on audit related services during the year (2019 - Rs. 60,000/- and Rs. 60,000 /- for the Company and the Group respectively). Also no payments were made by the Company and the Group as professional fees for non-audit services during the year (2019 - NIl).

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

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

9.1. Auditors' Relationship or any interest with the Company

The Directors are satisfied that, based on written representations made by the Independent Auditors to the Board, the Auditors 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 31 to 33 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 fulfilment of governance requirements by providing opportunity to take timely preventive action in case of potential deterioration of status quo. More detailed description of the risk management strategies of the Company and the Group are given on pages 11 to 15.

11. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the year.

12. DIVIDEND

There were no dividend payments made during the financial year.

13. SOLVENCY TEST

Since there is no recommendation for a payment of a Dividend for the year ended 31st March 2020, it is not required to prepare a solvency statement in accordance with Section 56 of the Companies Act, No. 07 of 2007.

14. STATED CAPITAL

Stated Capital of the Company amounted to Rs. 515,169,681/- which consists of 30,391,538 Ordinary Shares. The movement in Stated Capital of the Company is given in Note 26 to the Financial Statements.

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. 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 are sensitive to the needs of the environment and make 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 operate 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 Company and the Group as at 31st March 2020 were 211 and 267 (2019 – 206 and 270) 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 2020.

22 OUTSTANDING LITIGATION

There is no litigation currently pending against the Company or the Group.

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 40 to the Financial Statements

25. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The contingent liabilities and commitments made on account of capital expenditure as at 31st March 2020 are given in note 34 to the Financial Statements.

26. IMPACT OF COVID-19 PANDEMIC

The business impact of the COVID-19 pandemic to the Group is given in Note 38 to the financial statements.

27. SHARE INFORMATION

Information relating to share trading are given on pages 96 and 97 of this Report.

28. 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 2020.

		31 March 2020		31 March 2019	
	Name of Shareholders	**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	364,952	1.20	363,661	1.20
3	MR. K.C. VIGNARAJAH	184,033	0.61	183,998	0.61
4	MRS. V.R. JAYASINGHE	134,303	0.44	128,003	0.42
5	MR. K.C. JAYAWARDENE	131,784	0.43	122,630	0.40
6	BANSEI SECURITIES CAPITAL (PVT) LTD/R.C.J.GOONEWARDENE	100,000	0.33	75,022	0.25
7	MR. R.C.J. GOONEWARDENE	97,295	0.32	-	-
8	MR. H.A. VAN STARREX	90,000	0.30	100,000	0.33
9	MRS. N.A. EDIRIWEERA	75,000	0.25	75,000	0.25
10	J.B. COCOSHELL (PVT) LTD	60,000	0.20	60,000	0.20
11	MR. A.M. WEERASINGHE	57,500	0.19	57,500	0.19
12	PEOPLE'S LEASING & FINANCE PLC/L.P.HAPANGAMA	57,157	0.19	57,157	0.19
13	MRS. I. GWYN	55,000	0.18	55,000	0.18
14	CODE-GEN INTERNATIONAL PVT LTD	50,000	0.16	50,000	0.16
15	MR. H.A.S. MADANAYAKE	50,000	0.16	50,000	0.16
16	MISS. L.A. PIERIS	50,000	0.16	15,000	0.05
17	MR. P. SOMADASA	43,295	0.14	43,410	0.14
18	MRS. C.A.D.S. WOODWARD	42,679	0.14	42,679	0.14
19	MR. H.A.R. PIERIS	35,000	0.12	-	-
20	NANAYAKKARA MANAGEMENT SERVICES (PRIVATE) LIMITED	31,361	0.10	31,361	0.10

29. 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 has approved the Financial Statements of the Company and the Group together with the reviews, which form part of the Annual Report on 20th July 2020.

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.

30. ANNUAL GENERAL MEETING

The 54th Annual General Meeting of the Company will be held on Friday, 4th September 2020 at 9.30 a.m. at the 8th Floor of No.65C, Dharmapala Mawatha, Colombo 7, Sri Lanka by means of audio or audio and visual technology.

The notice of the Annual General Meeting is on page 98 of the Annual Report.

Signed on behalf of the Board,

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

(Sgd.)
K. Selvanathan
Director

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

Colombo
20th July 2020

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Parent Company of Pegasus Hotels of Ceylon PLC is Carson Cumberbatch PLC (CCPLC). As provided by the Colombo Stock Exchange Listing Rules, the Related Party Transactions Review Committee (RPTRC) of CCPLC functions as the RPTRC of the Company.

COMPOSITION OF THE COMMITTEE

The Members of the RPTRC are as follows:

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

MEETINGS OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

CCPLC-RPTRC held three (03) Meetings during the financial year to discuss matters relating to the Company 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 three)	
Mr. V.P. Malalasekera (Chairman)	2/3
Mr. F. Mohideen	3/3
Mr. D.C.R. Gunawardena	3/3
Mr. H. Selvanathan	3/3
Mr. M. Selvanathan	3/3
Mr. S.K. Shah	3/3

A Meeting of the RPTRC was scheduled for March 2020 and could not be held due to the COVID 19 pandemic situation in the country.

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 2019 to 31st March 2020 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
20th July 2020

AUDIT COMMITTEE REPORT

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

The Audit Committee consists of the following Members:

Audit Committee Members	Executive/Non-Executive/Independent
Mr. V.P. Malalasekera (Chairman)	Non-Executive, Independent (CCPLC)
Mr. D.C.R. Gunawardena	Non-Executive (CCPLC)
Mr. F. Mohideen	Non-Executive, Independent (CCPLC)
Mr. A.S. Amaratunga	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 PLC.

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)	4/5
Mr. D.C.R. Gunawardena	5/5
Mr. F. Mohideen	5/5
Mr. A.S. Amaratunga	5/5

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, including Key Audit Matters and to deliberate the draft Financial Report and

AUDIT COMMITTEE REPORT

Accounts at the completion stage of the audit. 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 2019/2020 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.

Based on the audit reporting requirements, 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 financial statements of Pegasus Hotels of Ceylon PLC for the year ended 31st March 2020 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.

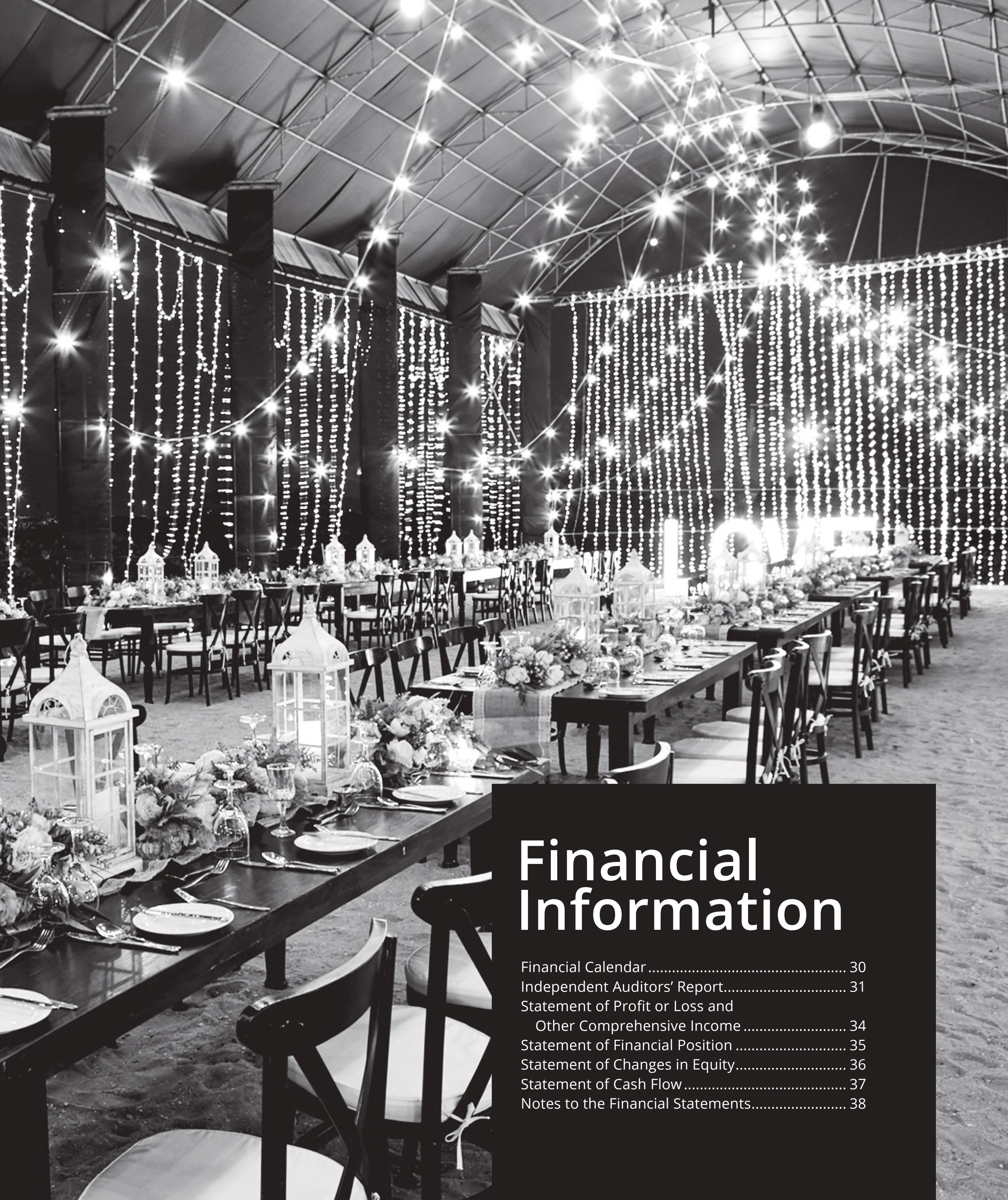
The Audit Committee has determined that Messrs. KPMG, Chartered Accountants, Auditors were independent on the basis that they did not carry out any management related functions of the Company.

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 2021, 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
20th July 2020



Financial Information

FINANCIAL CALENDAR

Financial Year	31st March 2020
Announcement of Results	
1st Quarter	30th June 2019
Issued to Colombo Stock Exchange	13th August 2019
2nd Quarter	30th September 2019
Issued to Colombo Stock Exchange	14th November 2019
3rd Quarter	31st December 2019
Issued to Colombo Stock Exchange	14th February 2020
4th Quarter	31st March 2020
Issued to Colombo Stock Exchange	29th May 2020
Meetings	
53rd Annual General Meeting	13th June 2019
54th Annual General Meeting	4th September 2020

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

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 2020, 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, including a summary of significant accounting policies and other explanatory information as set out on pages 34 to 93.

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 2020, 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the company financial statements and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

01.	**Management assessment of the potential impacts of Coronavirus outbreak (COVID-19) on the Group/ the Company ability to continue as going concern.**
Refer the Note 38 to the financial statements	
Risk Description	**Our Response**
The financial statements have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the directors have reviewed the company's cash flow projections prepared by the management. The cash flow projections were based on management's assumptions and estimation of future cash inflows and outflows, also taking into consideration the impact of COVID-19 related estimate uncertainty. Note to the financial statements, describes the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Company's, future prospects, performance and cash flows. Further, the management considered it appropriate to adopt the going concern basis of accounting in preparing financial statements and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We identified the management assessment of potential impact of COVID-19 to the Group's/ the Company's ability to continue as going concern as a key audit matter because the cash flow projections referred to above involves consideration of future events and circumstances which are inherently uncertain, and effect of those uncertainties may significantly impact the resulting accounting estimates. Therefore, the assessment requires the exercise of significant management judgement in assessing future cash inflows and outflows which could be subject to potential management bias.	Our audit procedures included, ▪ Obtaining the Company's cash flow projections covering period of not less than twelve months from the reporting period end date and evaluating these key assumptions used in preparing the projections. ▪ Evaluating the sensitivity of the projected available cash by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions. ▪ Inspecting the facility agreements for the Group's/ the Company's long-term loans to identify any financial covenants or similar terms and assessing the implication of these on the Group's/ the Company's liquidity. ▪ Assessing the adequacy of disclosures in the financial statements in relation to the potential impact of COVID-19 to the Group's ability to continue as going concern with reference to the requirements of the prevailing accounting standards.

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 disclosures made by management.

- 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
20th July 2020

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**	**2020**	**2019**	**2020**	**2019**
Revenue	11	598,632	677,550	521,461	631,266
Direct costs		(420,344)	(421,151)	(357,907)	(372,548)
Gross profit		178,288	256,399	163,554	258,718
Other income	12	6,598	11,000	4,198	6,220
Selling and promotional expenses		(23,790)	(32,878)	(16,831)	(30,748)
Administrative expenses		(212,732)	(190,463)	(180,057)	(163,716)
(Loss) / profit from operations	13	(51,636)	44,058	(29,136)	70,474
Impairment on compensation receivable	21	-	(145,207)	-	(145,207)
Finance income	14.1	19,102	19,604	18,611	16,453
Finance costs	14.2	(13,957)	(2,230)	(3,232)	(705)
Net finance income	14	5,145	17,374	15,379	15,748
Loss before taxation		(46,491)	(83,775)	(13,757)	(58,985)
Income tax expenses	15.1	(925)	1,331	-	-
Deferred taxation	15.2	6,175	(9,845)	1,279	(13,111)
Loss for the year		(41,241)	(92,289)	(12,478)	(72,096)
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain / (loss) from valuation of employee benefits	30.2	325	180	416	(40)
Related tax	29.1	(46)	(25)	(58)	6
Other comprehensive income / (expense) for the year		279	155	358	(34)
Total comprehensive expense for the year		(40,962)	(92,134)	(12,120)	(72,130)
Earnings / (loss) per share (Rs.)	16	(1.36)	(3.04)	(0.41)	(2.37)

The Notes from pages 38 to 93 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**	**2020**	**2019**	**2020**	**2019**
ASSETS					
Non-current assets					
Property, plant and equipment	17	2,000,757	2,007,609	1,765,594	1,772,236
Right-of-use assets	18	699	-	-	-
Intangible assets	19	116,967	115,287	-	-
Investment in subsidiary	20	-	-	110,223	110,223
Investment in fixed deposits		-	20,575	-	20,575
Compensation receivable	21	24,759	24,759	24,759	24,759
Total non-current assets		2,143,182	2,168,230	1,900,576	1,927,793
Current assets					
Inventories	22	25,316	17,181	20,573	13,402
Investment in fixed deposits		87,964	93,631	80,464	93,631
Fair value through profit or loss financial assets	23	34,707	29,482	34,400	29,482
Trade and other receivables	24	54,962	78,132	43,022	69,716
Tax receivable		1,933	-	1,208	-
Cash and cash equivalents	25	101,844	8,870	99,165	8,254
Total current assets		306,726	227,296	278,832	214,485
Total assets		2,449,908	2,395,526	2,179,408	2,142,278
EQUITY AND LIABILITIES					
Equity					
Stated capital	26	515,170	515,170	515,170	515,170
Capital reserves	27	1,060,602	1,060,602	973,052	973,052
Revenue reserves	28	308,650	349,546	304,136	316,190
Total equity		1,884,422	1,925,318	1,792,358	1,804,412
Non-current liabilities					
Deferred tax liability	29	200,515	206,644	193,299	194,520
Employee benefits	30	22,287	19,950	16,092	13,776
Loans and borrowings	31	109,623	57,312	21,444	-
Total non-current liabilities		332,425	283,906	230,835	208,296
Current liabilities					
Trade and other payables	32	139,062	132,151	98,270	101,447
Current tax liabilities		-	2,828	-	3,915
Loans and borrowings	31	89,566	31,872	57,945	24,000
Bank overdraft	25	4,433	19,451	-	208
Total current liabilities		233,061	186,302	156,215	129,570
Total liabilities		565,486	470,208	387,050	337,866
Total equity and liabilities		2,449,908	2,395,526	2,179,408	2,142,278
Net assets per share (Rs.)		62.00	63.35	58.97	59.37

The Notes from pages 38 to 93 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 20th July 2020.

Approved and signed on behalf of the Managers,

(Sgd.)
A.P. Weeratunge
Director

Approved and signed on behalf of the Board,

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

(Sgd.)
K. Selvanathan
Director

Carsons Management Services (Private) Limited
20th July 2020

STATEMENT OF CHANGES IN EQUITY

(All figures in Sri Lankan Rupees thousands)

		Capital reserves		Revenue reserves		Total equity
	Stated capital	Revaluation reserve	Capital accretion reserve	General reserve	Retained earning	attributable to equity holders of the parent company
Group						
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
Balance as at 1st April 2019	515,170	1,045,458	15,144	176	349,370	1,925,318
Loss for the year	-	-	-	-	(41,241)	(41,241)
Other comprehensive income for the year	-	-	-	-	279	279
Total comprehensive expense for the year	-	-	-	-	(40,962)	(40,962)
Forfeited dividends	-	-	-	-	66	66
Balance as at 31st March 2020	515,170	1,045,458	15,144	176	308,474	1,884,422
Company						
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
Balance as at 1st April 2019	515,170	957,908	15,144	176	316,014	1,804,412
Loss for the year	-	-	-	-	(12,478)	(12,478)
Other comprehensive income for the year	-	-	-	-	358	358
Total comprehensive expense for the year	-	-	-	-	(12,120)	(12,120)
Forfeited dividends	-	-	-	-	66	66
Balance as at 31st March 2020	515,170	957,908	15,144	176	303,960	1,792,358

The Notes from pages 38 to 93 form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

STATEMENT OF CASH FLOW

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	Group 2020	Group 2019	Company 2020	Company 2019
Cash flows from operating activities					
Loss before taxation		(46,491)	(83,775)	(13,757)	(58,985)
Adjustments for:					
Interest income on placements with banks and government securities	14	(13,069)	(17,407)	(13,018)	(14,271)
Net change in fair value of fair value through profit or loss financial assets - unit trust investments	14	(5,848)	(1,702)	(5,408)	(1,702)
Tax receivable written off		250	-	250	-
Interest expenses on loans and borrowings	14	13,957	2,230	3,232	705
Amortization of right of use assets	18	104	-	-	-
Depreciation on property, plant and equipment	17	85,430	62,826	71,198	58,118
Loss / (Profit) on disposal of property, plant and equipment		177	(1,608)	177	58
Property, plant and equipment written off		940	4,899	940	4,899
Provision for employee benefits	30.2	4,525	4,119	3,426	3,024
Impairment on compensation receivable	21	-	145,207	-	145,207
Provision made for impairment of trade receivables	24.1	2,649	4,327	2,168	4,327
Profit before working capital changes		42,624	119,116	49,208	141,380
(Increase) / decrease in inventories		(8,135)	1,187	(7,171)	1,280
Decrease / (increase) in trade and other receivables		15,466	(13,235)	19,471	(14,514)
Increase / (decrease) in trade and other payables		11,435	11,975	(2,222)	(204)
Cash generated from operations		61,390	119,043	59,286	127,942
Employee benefits paid	30.1	(1,863)	(1,239)	(694)	(644)
Income tax paid		(881)	(1,531)	(318)	(785)
Net cash generated from operating activities		58,646	116,273	58,274	126,513
Cash flows from investing activities					
Purchase of property, plant and equipment	17	(80,766)	(186,092)	(66,744)	(77,576)
Acquisition of intangible assets	19.2	(1,680)	-	-	-
Proceeds from disposal of property, plant and equipment		1,071	2,789	1,071	1,123
Net withdrawal of / (investment in) fixed deposits		29,904	11,806	37,404	(45,034)
Net disposal of / (investment in) fair value through profit or loss financial assets		623	(27,780)	490	(27,780)
Interest received		9,407	17,407	9,356	14,271
Net cash used in investing activities		(41,441)	(181,870)	(18,423)	(134,996)
Cash flows from financing activities					
Dividend paid		(889)	(16,470)	(889)	(16,470)
Lease rental paid	31.4	(721)	-	-	-
Bank borrowings obtained during the year	31.2	107,450	57,634	60,000	24,000
Bank borrowings repayments during the year	31.2	(12,804)	-	(7,500)	-
Interest paid on bank borrowings		(2,249)	(5,137)	(343)	(705)
Net cash generated from financing activities		90,787	36,027	51,268	6,825
Net Increase / (decrease) in cash and cash equivalents		107,992	(29,570)	91,119	(1,658)
Cash and cash equivalents at the beginning of the year		(10,581)	18,989	8,046	9,704
Cash and cash equivalents at the end of the year	25	97,411	(10,581)	99,165	8,046

The Notes from pages 38 to 93 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 Public 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 in Santa Maria Mawatha, Hendala, Wattala.

These consolidated financial statements for the year ended 31st March 2020 comprise of 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 in 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 31st March 2020 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 267 (2019 – 270), and Company - 211 (2019- 206).

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 provisions of Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards. The directors' responsibility over financial statements for the year ended 31 March 2020 is set out in detail in the statement of directors' responsibility.

The financial statements of the Group for the year ended 31st March 2020 were authorized for issue in accordance with a resolution of the Board of Directors on 20th July 2020.

2 BASIS OF PREPARATION

a) Statement of compliance

The financial statements of the Group comprise of the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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.

This is the first set of Group's annual financial statements in which SLFRS 16 Leases has been applied. The related changes to significant accounting policies are described in note 18.

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.
- Financial Assets classified as FVTPL.
- Defined benefit obligations are measured at its present value based on an actuarial valuation as explained in note 30.
- Compensation receivable measured at amortized cost as explained in note 21.

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.

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 amounts recognized in the Financial Statements are included in the following notes;

- Assessment of Impairment: Key assumptions used in discounted cash flow projections
- Deferred taxation: Utilization of tax losses
- Measurement of Defined benefit obligation: Key actuarial assumptions
- Current taxation
- Commitments and contingencies

e) Measurement of fair values

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

The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information are used to measure fair values, the Group assesses the evidence obtained from these 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 33.6.

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.

g) Going Concern

The Pegasus Hotels of Ceylon PLC operates in the tourism sector that has been significantly affected by the COVID – 19 pandemic.

The global spread of the virus in mid-March 2020, and severe counter-measures taken by the Government of Sri Lanka in the forms of travel restrictions, quarantine, and curfew periods forced the Group's hotels to be temporarily shut down.

In preparing these financial statements, based on available evidence, the management has evaluated the prevailing situation and estimated the effects of COVID-19 on the Group, taking into consideration the current and expected profitability, ability to defer non-essential capital expenditure, contractual maturities, cash reserves, any potential sources of financing facilities if required, ability to continue business and the appropriateness of the use of the going concern basis.

Accordingly, the Directors are satisfied that the Group has sufficient funds to continue its operations for the foreseeable future.

h) Comparative Information

Comparative information have 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.

a) Changes in significant accounting policies

The Group initially applied SLFRS 16 Leases from 1st April 2019. A number of other standards are also effective from 1st April 2019, but they do not have a material effect on Group's financial statements.

The Group applied SLFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1st April 2019. Accordingly, the comparative information presented for 2018 are not restated - i.e. they are presented as previously reported under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under 'IFRIC 4 Determining whether an Arrangement contains a Lease'. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note (g) Leases.

On transition to SLFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLRFS 16. Therefore, the definition of a lease under SLRFS 16 was applied only to contracts entered into or changed on or after 1st April 2019.

ii) *As a Lessee*

As a lessee, the Group leases many assets including property, production equipment and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under SLFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on the face of the balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property, the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under LKAS 17

Previously, the Group classified property leases as operating leases under LKAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1st April 2019 (note 18). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right of use asset at the date of initial application; and
- used hindsight when determining the lease term.

b) 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 Group'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.

c) 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 exchange rate as at that date. 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.

d) Financial instruments

i) *Recognition and initial measurement*

Trade receivable and debt securities issued 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 component is initially measured at the transaction price.

Financial Assets

ii) *Classification and subsequent measurement*

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

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's 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

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

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 of 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 contractual cash flows such that it would not meet this condition. In making 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.

Financial assets – subsequent measurement and gains and losses:

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 Liabilities – Classification, subsequent measurement and gain 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 recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iv) *Derecognition*

1. *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.

2. *Financial liabilities*

The Group and Company derecognize a financial liability when its contractual obligation is discharged, cancelled, or expired. 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.

v) *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*

1. *Non-derivative financial assets*

The Group and Company recognise loss allowances for Expected Credit Losses (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.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the financial asset is more than 120 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

2. 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 occurred.

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 120 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.

3. 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 Cash Generating Units (CGUs). An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Goodwill arising from a business combination is allocated to CGUs or group 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 or group of CGUs, and then to reduce the carrying amounts of the other assets in the CGU or 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.

e) Stated capital

Ordinary shares

Ordinary shares are classified as equity. Incremental Costs attributable to the issue of ordinary shares are recognized as a deduction from equity. Income tax relating to transaction cost of an equity transaction is accounted for in accordance with LKAS 12.

f) 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 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.

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.

(All figures in Sri Lankan Rupees thousands)

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	2-50
Plant and machinery	3-15
Motor vehicles	4-5
Office equipment	5-20
Furniture and fittings	5-20
Computer equipment	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 material 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.

g) Leases

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1st April 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after 1st April 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured if there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in right of use asset and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1st April 2019
For contracts entered into before 1st April 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

h) 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 are capitalized only when they increase the future economic benefits embodied in the specific asset to which they 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 CGU 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. Derecognition

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

i) *Inventories*

Inventories are recognized 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 and others	Weighted average basis

j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term 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.

Bank overdrafts are shown under current liabilities. For purpose of Cash Flow, Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as components of cash and cash equivalent.

k) Employee benefits

i. *Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is 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 into 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.

l) *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.

m) 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.

Income Statement

n) *Revenue*

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over the goods or services to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligation in contracts with customers, including payment terms, and related revenue recognition policies.

Type of service	Nature and timing of the satisfaction of performance obligation
Provision of accommodation	The main obligation in the customer contract is to provide rooms for guests' accommodation. This is represented in the Room Revenue reported in the financial statements. Revenue under this segment is recognised on the rooms occupied on a daily basis over the period of the stay. Invoice is raised to customer on completion of the duration of the stay.
Provision of Food and beverage	The following services are rendered under this performance obligation: i) Provision of BB/HB/FB meals for guests occupying the hotels which is part and parcel of the contract entered into. Revenue is recognized at the time of sale and invoice to the customers on the completion of the duration of the stay. ii) Provision of food and beverages - Revenue is recognised at the time of sale and invoice to the customers at the time of consumption.
Provision of Laundry, Telephone, Sports, etc.	These services are provided to customers as they are implied as business practices in the industry and create a valid expectation of the customer. Revenue is recognised at the time of provision of service and an invoice is raised at the time service is consumed.

o) Expenditure recognition

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

p) Finance income and finance costs

Finance income comprises of interest income on funds invested, net gain or loss on financial assets at FVTPL, dividend income, unwinding of discount on compensation receivable, gains on the re-measurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognized in profit or loss and reclassifications of net gains previously recognized in other comprehensive income. Dividend income is recognised in profit or loss on the date which Group's right to receive payment is established. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise of 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.

q) Income tax expense

Income tax expense comprises of 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 of 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;

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 are 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 of the Company, during the period under review.

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 are reviewed regularly by the Group's Chief Operating Decision Maker to make decisions about resources to be allocated and to assess its performance. Therefore, the Company has only one segment and no separate disclosure is given for the operating segment.

10 NEW STANDARDS AND CHANGES TO ACCOUNTING STANDARDS NOT EFFECTIVE AS AT THE REPORTING DATE

Several amendments to Accounting Standards are effective for annual periods beginning after 1st January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

- **Amendments to References to Conceptual Framework for financial reporting**
  CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard setting decisions with immediate effect. Key changes include:
- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.
- **Amendments to LKAS 1 and LKAS 8**
  In November 2018, the CA Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The Company shall apply those amendments prospectively for annual financial periods beginning on or after 1st January 2020.
- **Amendments to SLFRS 3**
  In November 2018, the CA Sri Lanka issued amendments to the definition of a business in SLFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

  The Group shall apply these amendments to business combinations prospectively for annual financial periods beginning on or after January 1, 2020, if the asset acquisitions occur on or after the beginning of that period.

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	For the year ended 31st March	2020	2019	2020	2019
11	**REVENUE**				
	Revenue analysis (net)				
	Room revenue	248,104	320,681	203,675	292,660
	Food and beverage revenue	338,790	340,981	308,315	323,070
	Other revenue	11,738	15,888	9,471	15,536
		598,632	677,550	521,461	631,266
12	**OTHER INCOME / EXPENSES**				
	Rent income	4,128	4,191	1,728	2,065
	Club membership income	2,179	2,052	2,179	2,052
	(Loss) / Profit on disposal of property, plant and equipment	(177)	1,608	(177)	(58)
	Sundry income	468	3,149	468	2,161
		6,598	11,000	4,198	6,220
13	**(LOSS) / PROFIT FROM OPERATIONS**				
	(Loss) / Profit from operations is stated after charging all expenses including the following:				
	Auditors' remuneration				
	- Audit services	679	635	395	371
	- Audit related services	-	60	-	60
	Amortization of right of use assets	104	-	-	-
	Depreciation (note 13.1)	85,430	62,826	71,198	58,118
	Write-off of property, plant and equipment	940	4,899	940	4,899
	Provision for impairment of trade receivables	2,649	4,327	2,168	4,327
	Professional service costs (note 13.2)	2,374	1,901	1,996	1,573
	Nomination committee fees	50	50	50	50
	Personnel costs (note 13.3)	202,464	185,940	167,747	154,797
	Operating lease expenses	-	494	-	-
	Support service fees	8,625	8,112	8,625	7,951

For the year ended 31st March		Group 2020	Group 2019	Company 2020	Company 2019
13.1	**Depreciation**				
	Depreciation is included in the statement of profit or loss under the following headings:				
	Direct costs	65,621	48,478	52,616	44,581
	Administrative expenses	19,809	14,348	18,582	13,537
		85,430	62,826	71,198	58,118
13.2	**Professional service costs**				
	Legal services	650	691	510	554
	Valuation services	66	67	50	67
	Other services	1,658	1,143	1,436	952
		2,374	1,901	1,996	1,573
13.3	**Personnel costs**				
	Salaries, wages and other related expenses	179,982	165,082	149,583	137,781
	Defined benefits plan cost - employee benefits	4,525	4,119	3,426	3,024
	Defined contribution plan cost - EPF and ETF	17,957	16,739	14,738	13,992
		202,464	185,940	167,747	154,797
	The above include:				
	Non executive directors' fees	440	500	440	500
	Directors' emoluments	-	-	-	-
		440	500	440	500

14 NET FINANCE INCOME

		Group 2020	Group 2019	Company 2020	Company 2019
14.1	**Finance income**				
	Interest income on placements with banks and government securities	13,069	17,407	13,018	14,271
	Net change in fair value of fair value through profit or loss financial assets - unit trust investments	5,848	1,702	5,408	1,702
	Gain on foreign exchange transactions	185	495	185	480
		19,102	19,604	18,611	16,453

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	For the year ended 31st March	2020	2019	2020	2019
14	**NET FINANCE INCOME CONTD.**				
14.2	**Finance cost**				
	Interest expenses on loans and borrowings				
	- On bank borrowings	13,374	5,137	3,232	705
	- On lease liabilities	583	-	-	-
		13,957	5,137	3,232	705
	Less :				
	Interest capitalised into property, plant and equipment	-	(2,907)	-	-
		13,957	2,230	3,232	705
	Net finance income	5,145	17,374	15,379	15,748
15	**INCOME TAX EXPENSES**				
15.1	**Current taxation**				
	Current tax expenses (note 15.3)	-	-	-	-
	Under / (over) provision for previous years	925	(1,331)	-	-
		925	(1,331)	-	-
15.2	**Deferred taxation**				
	On origination and (reversal of) temporary differences (note 29.1)	(6,175)	9,845	(1,279)	13,111
		(6,175)	9,845	(1,279)	13,111
		(5,250)	8,514	(1,279)	13,111

For the year ended 31st March	Group 2020	Group 2019	Company 2020	Company 2019
15.3 Reconciliation between the accounting profit and the profit for tax purposes				
Accounting (loss) / profit before taxation	(46,491)	(83,775)	(13,757)	(58,985)
Aggregate disallowable expenses	103,789	80,450	85,791	71,172
Aggregate allowable expenses	(78,095)	(80,388)	(63,847)	(68,438)
Impairment on compensation receivable	-	145,207	-	145,207
Adjustment on tax loss incurred during the year by the subsidiary company	39,714	30,597	-	-
Interest income	(18,917)	(19,109)	(18,426)	(15,973)
Adjusted profit / (loss) from operations for tax purposes	-	72,982	(10,239)	72,983
Interest income	18,917	19,109	18,426	15,973
Total statutory Income	18,917	92,091	18,426	88,956
Utilization of tax losses (notes 15.4)	(18,917)	(92,091)	(18,426)	(88,956)
Taxable income	-	-	-	-
Taxation thereon (note 15.5 a)	-	-	-	-
15.4 Analysis of tax losses				
Tax losses brought forward	103,538	163,323	76,076	163,323
Tax loss incurred during the year	39,714	30,597	10,239	-
Adjustment on finalization of tax liability	4,762	1,709	4,762	1,709
Utilization of tax losses during the year (note 15.5 b)	(18,917)	(92,091)	(18,426)	(88,956)
Tax losses carried forward	129,097	103,538	72,651	76,076

15 INCOME TAX EXPENSES CONTD.

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 are 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 2020 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%. (2019 - 14%).

(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, the Company and the Group are liable to pay tax at 14% effective from 1st April 2018. Accordingly, deferred tax has been computed using the rate of 14% (2019 - 14%) for both the Company and the Group.

16 EARNINGS / (LOSS) PER SHARE

Earnings / (Loss) per share is calculated on the profit / (loss) 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	**2020**	**2019**	**2020**	**2019**
Amount used as the numerator				
Loss attributable to the ordinary equity holders of the parent company	(41,241)	(92,289)	(12,478)	(72,096)
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 per share (Rs.)	(1.36)	(3.04)	(0.41)	(2.37)

Diluted Earnings per share

There were no potentially dilutive ordinary shares as at 31st March 2020 and there have been no transactions involving ordinary shares or potential ordinary shares as at the reporting date which would require restatement of EPS.

(All figures in Sri Lankan Rupees thousands)

17 PROPERTY, PLANT AND EQUIPMENT

17.1

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipment	Motor Vehicle	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2020	Total as at 31st March 2019
Group											
Cost/valuation											
Balance as at the beginning 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
Additions during the year	-	-	11,014	1,167	1,932	10,690	-	2,079	53,884	80,766	188,999
Transfers during the year	-	37,668	13,567	33,769	-	19,936	-	-	(104,940)	-	-
Disposal/write off during the year	-	-	(4,368)	(3,285)	(1,991)	(1,084)	-	(1,231)	(940)	(12,899)	(20,754)
Balance as at the end of the year	828,215	1,054,937	143,043	188,931	14,306	138,251	4,569	7,149	780	2,380,181	2,312,314
Depreciation											
Balance as at the beginning of the year	-	46,598	89,687	93,043	12,127	55,126	4,569	3,555	-	304,705	256,553
Charge for the year	-	35,757	8,030	20,746	1,475	18,438	-	984	-	85,430	62,826
Disposal/write off during the year	-	-	(4,092)	(2,909)	(1,991)	(1,084)	-	(635)	-	(10,711)	(14,674)
Balance as at the end of the year	-	82,355	93,625	110,880	11,611	72,480	4,569	3,904	-	379,424	304,705
Net book value as at the end of the year	828,215	972,582	49,418	78,051	2,695	65,771	-	3,245	780	2,000,757	2,007,609

17.2

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipment	Motor Vehicle	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2020	Total as at 31st March 2019
Company											
Cost/valuation											
Balance as at the beginning 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
Additions during the year	-	-	-	739	803	9,770	-	1,548	53,884	66,744	77,576
Transfers during the year	-	37,668	13,567	33,769	-	19,936	-	-	(104,940)	-	-
Disposal/write off during the year	-	-	(4,368)	(3,285)	(1,991)	(1,084)	-	(1,231)	(940)	(12,899)	(20,754)
Balance as at the end of the year	828,215	836,205	117,105	161,574	12,852	122,115	4,569	5,493	780	2,088,908	2,035,063
Depreciation											
Balance as at the beginning of the year	-	41,521	76,994	80,886	12,127	44,250	4,569	2,480	-	262,827	219,383
Charge for the year	-	25,452	7,298	18,885	1,181	17,402	-	980	-	71,198	58,118
Disposal/write off during the year	-	-	(4,092)	(2,909)	(1,991)	(1,084)	-	(635)	-	(10,711)	(14,674)
Balance as at the end of the year	-	66,973	80,200	96,862	11,317	60,568	4,569	2,825	-	323,314	262,827
Net book value as at the end of the year	828,215	769,232	36,905	64,712	1,535	61,547	-	2,668	780	1,765,594	1,772,236

17 PROPERTY, PLANT AND EQUIPMENT CONTD.

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 2020	Carrying value of revalued assets 2019
Pegasus Reef Hotel, Wattala.	Freehold land	Market approach	20,977	828,215	828,215
	Building	Market approach	555,376	769,232	757,016
Equity Hotels Limited, Giritale	Building	Market approach	103,361	203,350	213,655

	Group		Company	
As at 31st March	2020	2019	2020	2019
17.4 Analysis of Capital work-in-progress				
Freehold building	780	16,215	780	16,215
Furniture and fittings	-	32,188	-	32,188
Equipment	-	3,793	-	3,793
Plant and machinery	-	580	-	580
	780	52,776	780	52,776

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

	Group		Company	
As at 31st March	2020	2019	2020	2019
Plant and machinery	61,850	25,292	53,145	16,587
Equipment, furniture and fittings	65,184	63,534	50,952	49,317
Computer equipment	10,197	10,042	9,571	9,944
Motor vehicle	4,569	4,569	4,569	4,569
Building	3,452	-	3,452	-
	145,252	103,437	121,689	80,417

(All figures in Sri Lankan Rupees thousands)

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

	Group		Company	
As at 31st March	**2020**	2019	**2020**	2019
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.

17.7 Restrictions on title of property, plant and equipment

There are no restrictions on titles of the property, plant and equipment held by the Company and the Group, except for the disclosure in note 21.

17.8 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.

18 RIGHT-OF-USE ASSETS

	Group		Company	
As at 31st March	**2020**	2019	**2020**	2019
Cost				
Balance as at the beginning of the year	-	-	-	-
Adjustment on recognition of right of use assets as per SLFRS 16	803	-	-	-
Additions during the year	-	-	-	-
Balance as at the end of the year	803	-	-	-
Accumulated amortization				
Balance as at the beginning of the year	-	-	-	-
Amortization for the year	104	-	-	-
Balance as at the end of the year	104	-	-	-
Carrying amount as at the end of the year	699	-	-	-

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. Subsequent to the balance sheet date, the Subsidiary Company extended the lease period as disclosed in note 40 to the Financial Statements.

The Group has initially adopted SLFRS 16 - Leases with effect from 1st April 2019 in preparation of its financial statements. The effect of applying this standard is described below.

Accordingly on adoption of SLFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of LKAS 17 - Leases. As per SLFRS 16 these liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of the transition date.

As at 1st April 2019	
Asset	
Right-of-use assets	4,373
Lease equalization reserve	(3,570)
Total assets	803
Liabilities	
Lease Liabilities	4,373
Total liabilities	4,373

		Group		Company	
	As at 31st March	**2020**	2019	**2020**	2019
19	**INTANGIBLE ASSETS**				
19.1	**Goodwill on consolidation**				
	Balance as at the beginning of the year	115,287	115,287	-	-
	Acquisition during the year	-	-	-	-
	Impairment (note 19.3)	-	-	-	-
	Balance as at the end of the year	115,287	115,287	-	-
19.2	**Computer Software**				
	Balance as at the beginning of the year	-	-	-	-
	Acquisition during the year	1,680	-	-	-
	Amortization for the year	-	-	-	-
	Balance as at the end of the year	1,680	-	-	-
		116,967	115,287	-	-

(All figures in Sri Lankan Rupees thousands)

19 INTANGIBLE ASSETS CONTD.

19.3 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 and enterprise value per room estimated based on market transactions. 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 2020.

	Group		Company	
As at 31st March	**2020**	2019	**2020**	2019
20 INVESTMENT IN SUBSIDIARY				
Investment in subsidiary (note 20.1)	-	-	110,223	110,223
	-	-	110,223	110,223

	No. of shares	Cost as at 31st March 2020	No. of shares	Cost as at 31st March 2019
20.1 Details of investment in subsidiary				
Equity Hotels Limited	685,469	110,223	685,469	110,223
Total investment in subsidiary		110,223		110,223

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

For the year ended /as at 31st March	2020	2019
20.2 Summarised financials of subsidiary		
Revenue	77,171	46,284
Loss for the year	(28,763)	(20,193)
Total other comprehensive (expense) / income for the year	(79)	189
Total comprehensive expense for the year	(28,842)	(20,004)
Non current assets	237,542	235,376
Current assets	27,894	13,896
Total assets	265,436	249,272
Non current liabilities	101,590	75,610
Current liabilities	76,846	57,817
Total liabilities	178,436	133,427
Net assets	87,000	115,845
Net cash generated from / (used in) operating activities	372	(10,240)
Net cash (used in) investing activities	(23,018)	(46,874)
Net cash generated from financing activities	39,519	29,202
Net increase / (decrease) in cash and cash equivalents	16,873	(27,912)

	Group		Company	
As at 31st March	2020	2019	2020	2019

21 COMPENSATION RECEIVABLE

Balance as at the beginning of the year	24,759	169,966	24,759	169,966
Provision for impairment on compensation receivable	-	(145,207)	-	(145,207)
Balance as at the end of the year	24,759	24,759	24,759	24,759

21 COMPENSATION RECEIVABLE CONTD.

21.1 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, 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 operations 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.

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 was then 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 will also 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 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, at that time, 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.

On 06.05.2019 the Company 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. We have filed an appeal against the said award of compensation at the Land Acquisition Board of Review on 21.05.2019 and the inquiry is still ongoing. 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 has completed it's hearing and awaiting judgement. 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.

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 34.3. The District Court has concluded the hearing, pending judgement. If 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. In the opinion of the lawyer's a time estimation cannot be given for the finality of appeals if any. 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.

As at 31st March	Group 2020	Group 2019	Company 2020	Company 2019
22 INVENTORIES				
Food	5,839	4,128	4,712	3,297
Beverage	4,875	3,765	3,891	3,119
Engineering spares	2,606	2,774	2,498	2,673
Linen	8,597	3,030	6,368	1,227
Others	3,399	3,484	3,104	3,086
	25,316	17,181	20,573	13,402

As at 31st March	Group 2020	Group 2019	Company 2020	Company 2019
23 FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS				
Investment in unit trusts - unquoted	34,707	29,482	34,400	29,482
	34,707	29,482	34,400	29,482
23.1 Movement in fair value through profit or loss financial assets				
Balance as at the beginning of the year	29,482	-	29,482	-
Investments during the year	276,577	129,799	256,576	129,799
Disposals during the year	(277,200)	(102,019)	(257,066)	(102,019)
Fair value adjustment	5,848	1,702	5,408	1,702
Balance as at the end of the year	34,707	29,482	34,400	29,482

As at 31st March	2020 No. of units	2020 Cost	2020 Fair value	2019 No. of units	2019 Cost	2019 Fair value
23.2 Investment in unit trusts - unquoted						
Group						
Guardian Acuity Money Market Fund	1,786,123	34,070	34,707	1,676,342	28,620	29,482
		34,070	34,707		28,620	29,482
Company						
Guardian Acuity Money Market Fund	1,770,328	33,773	34,400	1,676,342	28,620	29,482
		33,773	34,400		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 2020.

(All figures in Sri Lankan Rupees thousands)

	Group		Company	
As at 31st March	2020	2019	2020	2019
24 TRADE AND OTHER RECEIVABLES				
Financial				
Trade receivables (note 24.1)	32,958	66,793	26,273	59,327
Other receivables	15,267	2,629	10,309	2,211
Loans given to company staff (note 24.2)	413	386	399	386
	48,638	69,808	36,981	61,924
Non-financial				
Advances and prepaid expenses	6,324	8,324	6,041	7,792
	6,324	8,324	6,041	7,792
	54,962	78,132	43,022	69,716
24.1 Trade receivables				
Trade debtors	40,194	71,380	32,768	63,654
Less: Provision for impairment (note 24.1.1)	(7,236)	(4,587)	(6,495)	(4,327)
	32,958	66,793	26,273	59,327
24.1.1 Impairment of trade receivables				
Balance as at the beginning of the year	4,587	260	4,327	-
Provision during the year	2,649	4,327	2,168	4,327
Balance as at the end of the year	7,236	4,587	6,495	4,327
24.2 Loans given to company Staff				
Balance as at the beginning of the year	386	248	386	248
Loans granted during the year	1,960	1,354	1,190	822
Settlements during the year	(1,933)	(1,216)	(1,177)	(684)
Balance as at the end of the year	413	386	399	386

As at 31st March	Group 2020	Group 2019	Company 2020	Company 2019
25 CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	101,844	8,870	99,165	8,254
Total cash and cash equivalents	101,844	8,870	99,165	8,254
Bank overdraft	(4,433)	(19,451)	-	(208)
Net cash and cash equivalents for the cash flow statement purpose	97,411	(10,581)	99,165	8,046

As at 31st March	Group 2020	Group 2019	Company 2020	Company 2019
26 STATED CAPITAL				
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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share on a show of hands by individuals present in person or by proxy at a meeting of shareholders or one vote per share in the case of a poll.

As at 31st March	Group 2020	Group 2019	Company 2020	Company 2019
27 CAPITAL RESERVES				
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

27.1 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.

27.2 Capital accretion reserve

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

(All figures in Sri Lankan Rupees thousands)

	Group		Company	
As at 31st March	2020	2019	2020	2019
28 REVENUE RESERVES				
General reserve	176	176	176	176
Retained earnings	308,474	349,370	303,960	316,014
	308,650	349,546	304,136	316,190

28.1 General reserves

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

	Group		Company	
As at 31st March	2020	2019	2020	2019
29 DEFERRED TAX LIABILITY				
Balance as at the beginning of the year	206,644	196,774	194,520	181,415
Charge / (reversal) for the year (note 29.1)	(6,129)	9,870	(1,221)	13,105
Balance as at the end of the year	200,515	206,644	193,299	194,520
29.1 Charge / (reversal) for the year				
The amounts recognized in the statement of profit or loss are as follows;				
Property, plant and equipment	(1,259)	1,878	(1,073)	1,230
Employee benefits	(373)	(403)	(382)	(333)
Tax losses	(3,579)	8,370	480	12,214
Lease creditor on right of use assets	(593)	-	-	-
Provision for bad debts	(371)	-	(304)	-
	(6,175)	9,845	(1,279)	13,111
The amounts recognized in the statement of other comprehensive income are as follows;				
Employee benefits	46	25	58	(6)
	46	25	58	(6)
Charge / (reversal) for the year	(6,129)	9,870	(1,221)	13,105

As at 31st March	Group 2020	Group 2019	Company 2020	Company 2019
29.2 Deferred tax assets				
Tax effect on employee benefits	3,120	2,793	2,253	1,929
Tax effect on tax losses	18,074	14,495	10,171	10,651
Tax effect on lease creditor on right of use assets	593	-	-	-
Tax effect on provision for bad debts	371	-	304	-
Total deferred tax assets	22,158	17,288	12,728	12,580
29.3 Deferred tax liability				
Tax effect on property, plant and equipment	222,673	223,932	206,027	207,100
Total deferred tax liability	222,673	223,932	206,027	207,100
Net deferred tax liability	200,515	206,644	193,299	194,520

29.4 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 2020, 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%.

29.5 Use of Judgements and Estimates

Deferred tax asset/ Assessment of Recoverability

In 2019/20 Group incurred a tax loss of Rs 39.7Mn increasing cumulative tax losses to Rs.129Mn. Management has determined the recoverability of cumulative tax losses which expire in 2024/25 based on five year business plan and taking into account the reversal of existing taxable temporary differences.

Deferred tax is an estimated computation based on the assumptions on available information as at the reporting date. Hence these estimates are subject to change if there are further developments to any information, which the assumptions are based at the time of estimation (i.e. further clarifications to the new IRD act). Such changes to the estimates will be adjusted during the period the change occurs.

(All figures in Sri Lankan Rupees thousands)

	Group		Company	
As at 31st March	**2020**	**2019**	**2020**	**2019**

30 EMPLOYEE BENEFITS

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

	Group 2020	Group 2019	Company 2020	Company 2019
Balance as at the beginning of the year	19,950	17,250	13,776	11,356
Provision for the year (note 30.2)	4,200	3,939	3,010	3,064
Payments made during the year	(1,863)	(1,239)	(694)	(644)
Balance as at the end of the year	22,287	19,950	16,092	13,776

30.2 Provision for the year

The amounts recognized in the statement of profit or loss are as follows;

	Group 2020	Group 2019	Company 2020	Company 2019
Current service cost	2,330	2,302	1,911	1,832
Interest cost	2,195	1,817	1,515	1,192
	4,525	4,119	3,426	3,024

The amount recognised in the statement of other comprehensive income is as follows;

	Group 2020	Group 2019	Company 2020	Company 2019
Actuarial (gains) / losses	(325)	(180)	(416)	40
	(325)	(180)	(416)	40
Provision for the year	4,200	3,939	3,010	3,064

“The Employee benefits” as at 31st March 2020 amounting to Rs. 16,092,409/- and Rs. 22,287,806/- (2019 - Rs. 13,776,357/- and Rs. 19,950,152/-) for the Company and the Group respectively are estimated based on 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	10.5% p.a. (2019 - 11% p.a.)
- Rate of pay increase	10% p.a. (2019 - 10% 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.	

30.3 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	**2020**	**2019**	**2020**	**2019**
1% increase in discount rate	(1,391)	(1,232)	(1,008)	(861)
1% decrease in discount rate	1,565	1,382	1,142	971
1% increase in salary escalation rate	1,665	1,480	1,211	1,037
1% decrease in salary escalation rate	(1,504)	(1,339)	(1,086)	(934)

		Group		Company	
	As at 31st March	**2020**	**2019**	**2020**	**2019**
30.4	**Maturity analysis of the payment**				
	Within next 12 months	1,350	1,659	1,068	970
	Between 1-2 years	5,254	4,254	4,654	3,347
	Between 2-5 years	4,811	3,820	2,675	3,064
	Between 5-10 years	6,630	5,989	4,096	3,551
	Beyond 10 years	4,242	4,228	3,599	2,844
	Total	22,287	19,950	16,092	13,776

		Group		Company	
	As at 31st March	**2020**	**2019**	**2020**	**2019**
31	**LOANS AND BORROWINGS**				
31.1	**Non-current liabilities**				
	Bank borrowings	105,546	57,312	21,444	-
	Lease creditor on right of use asset	4,077	-	-	-
		109,623	57,312	21,444	-
	Current liabilities				
	Bank borrowings	89,408	31,872	57,945	24,000
	Lease creditor on right of use asset	158	-	-	-
		89,566	31,872	57,945	24,000
		199,189	89,184	79,389	24,000

(All figures in Sri Lankan Rupees thousands)

As at 31st March	Group 2020	Group 2019	Company 2020	Company 2019

31 LOANS AND BORROWINGS CONTD.

31.2 Movement of bank borrowings

	Group 2020	Group 2019	Company 2020	Company 2019
Balance as at the beginning of the year	89,184	31,550	24,000	-
Moratoriums received	11,124	-	2,889	-
Bank borrowings obtained during the year	107,450	57,634	60,000	24,000
Bank borrowings repayments during the year	(12,804)	-	(7,500)	-
Balance as at the end of the year	194,954	89,184	79,389	24,000

31.3 Details of long-term borrowings

Bank	Interest rate	Year of maturity	Repayment terms	2020 Face value	2020 Carrying amount	2019 Face value	2019 Carrying amount
Group							
Sampath Bank PLC	Fixed rate	2024	50 equal monthly instalments of Rs. 229,000 and a final instalment of Rs. 222,000 commencing from July, 2020.	11,672	11,672	6,550	4,804
Sampath Bank PLC	Fixed rate	2023	35 equal monthly instalments of Rs. 41,300 and a final instalment of Rs. 38,486 commencing from July, 2020.	1,484	825	-	-
Sampath Bank PLC	Fixed rate	2023	31 equal monthly instalments of Rs. 594,000 and a final instalment of Rs. 580,000 commencing from July, 2020.	18,994	18,994	25,000	20,380
Sampath Bank PLC	Fixed rate	2023	35 equal monthly instalments of Rs. 44,800 and a final instalment of Rs. 42,003 commencing from July, 2020.	1,610	895	-	-
Commercial Bank PLC	"AWPLR plus margin"	2025	59 equal monthly instalments of Rs. 666,000 and a final instalment of Rs. 706,000 commencing from November, 2020.	40,000	40,000	40,000	40,000
Commercial Bank PLC	AWPLR	2022	24 equal monthly instalments of Rs. 221,958 with repayment terms to be mutually agreed and arranged with the bank by 31/08/2020.	5,327	5,327	-	-
Commercial Bank PLC	"AWPLR plus margin"	2022	24 equal monthly instalments of Rs. 833,333 with repayment terms to be mutually agreed and arranged with the bank by 31/08/2020.	20,000	20,000	-	-

Bank	Interest rate	Year of maturity	Repayment terms	2020 Face value	2020 Carrying amount	2019 Face value	2019 Carrying amount
Commercial Bank PLC	AWPLR	2022	24 equal monthly instalments of Rs. 49,492 with repayment terms to be mutually agreed and arranged with the bank by 31/08/2020.	1,188	1,188	-	-
Commercial Bank PLC	Fixed rate	2021	23 equal monthly instalments of Rs. 834,000 and a final instalment of Rs. 818,000.	20,000	16,664	-	-
Commercial Bank PLC	"AWPLR plus margin"	N/A	Payable on demand.	24,000	24,000	24,000	24,000
Commercial Bank PLC	"AWPLR plus margin"	2022	24 equal monthly instalments of Rs. 120,357.	2,889	2,889	-	-
Commercial Bank PLC	Fixed rate	2021	24 equal monthly instalments of Rs. 2,500,000.	60,000	52,500	-	-
				207,164	194,954	95,550	89,184

Company

Bank	Interest rate	Year of maturity	Repayment terms	2020 Face value	2020 Carrying amount	2019 Face value	2019 Carrying amount
Commercial Bank PLC	"AWPLR plus margin"	N/A	Payable on demand.	24,000	24,000	24,000	24,000
Commercial Bank PLC	"AWPLR plus margin"	2022	24 equal monthly instalments of Rs. 120,357.	2,889	2,889	-	-
Commercial Bank PLC	Fixed rate	2021	24 equal monthly instalments of Rs. 2,500,000.	60,000	52,500	-	-
				86,889	79,389	24,000	24,000

(All figures in Sri Lankan Rupees thousands)

31 LOANS AND BORROWINGS CONTD.

As at 31st March	Group 2020	Group 2019
31.4 Movement of lease creditor		
Balance as at the beginning of the year	-	-
Recognition of operating lease liability under SLFRS 16	4,373	-
Payment of lease liabilities	(721)	-
Interest expense charged to income statement	583	-
Balance as at the end of the year	4,235	-

As at 31st March	Group 2020	Group 2019
31.5 Lease commitments		
Lease rentals payable within one year	721	-
Lease rentals payable within one to five years	4,058	-
Lease rentals payable after five years	1,894	-
Total	6,673	-

For the year ended 31st March	Group 2020	Group 2019
31.6 Amounts recognised in profit or loss		
Interest on lease liabilities	583	-
31.7 Amounts recognised in the Statement of cash flows		
Total cash out flow for leases	721	-

As at 31st March	Group 2020	Group 2019	Company 2020	Company 2019
32 TRADE AND OTHER PAYABLES				
Financial				
Trade payables	57,274	54,463	42,302	47,356
Other payables	17,452	28,572	15,360	11,613
Amount due to related company	16,954	-	-	-
	91,680	83,035	57,662	58,969
Non financial				
Deposits and advances	11,257	11,633	9,295	9,231
Provisions and accrued expenses	36,125	37,483	31,313	33,247
	47,382	49,116	40,608	42,478
	139,062	132,151	98,270	101,447

33 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 and it's subsidiary'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.

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

33.1 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 and financial institutions, investments in unit trusts and in government securities.

33.1.1 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		Company	
As at 31st March	**2020**	**2019**	**2020**	**2019**
Financial assets at fair value through profit or loss				
Investment in unit trusts - unquoted (Note 23)	34,707	29,482	34,400	29,482
Financial assets at amortized cost				
Compensation receivable (note 21)	24,759	24,759	24,759	24,759
Investment in fixed deposits	87,964	114,206	80,464	114,206
Trade and other receivables (note 24)	48,638	69,808	36,981	61,924
Cash and cash equivalents (note 25)	101,844	8,870	99,165	8,254
	297,912	247,125	275,769	238,625

33.1.1 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 completed it's hearing and awaiting judgement, at the District Court of Negombo as mentioned note 21.1 and 34.3 and the appeal pending at 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 Group has invested in Unit Trusts, in Guardian Acuity Fixed Income 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 Group prior to these investments, to assess their ability to repay, in the event the Group wishes to withdraw, within the existing regulatory framework.

33.1 Credit risk Contd.

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		Company	
As at 31st March	**2020**	**2019**	**2020**	**2019**
Corporate customers	9,052	9,754	7,899	8,884
Tour operators	30,660	55,100	24,767	48,448
Others	482	6,526	102	6,322
	40,194	71,380	32,768	63,654

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

	Group		Company	
As at 31st March	**2020**	**2019**	**2020**	**2019**
1–30 days	7,586	30,007	7,324	28,019
31–90 days	18,967	30,273	15,278	25,571
91–120 days	3,360	2,899	1,182	2,657
121 days above	10,281	8,201	8,984	7,407
	40,194	71,380	32,768	63,654

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

A provisions of Rs. 7.2 mn and Rs. 6.5 mn have been made by the Group and the Company respectively as impairment of trade receivables as at the year end (2019 - Rs. 4.6 mn and Rs. 4.3 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 the respective customers.

d. Cash and cash equivalents

Cash and cash equivalents of Rs. 101.8 mn and Rs. 99.2 mn held by the Group and the Company respectively as at 31st March 2020 (2019 – Rs. 8.9 mn and Rs. 8.3 mn) represent their maximum credit exposure on these assets. These are held with bank and financial institution counterparties, which are rated AAA(lka) to BBB(lka), based on Fitch Ratings.

33.2 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.

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

			Contractual cash flows				
31st March 2020	**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	57,274	57,274	57,274	-	-	-	-
Other payables	17,452	17,452	17,452	-	-	-	-
Amount due to related companies	16,954	16,954	16,954				
Bank borrowings	194,954	194,954	9,409	79,999	60,173	40,673	4,700
Lease creditor	4,235	4,235	25	133	273	2,110	1,694
Bank overdraft	4,433	4,433	4,433	-	-	-	-
	295,302	295,302	105,547	80,132	60,446	42,783	6,394

33.2 Liquidity risk Contd.

31st March 2019	Contractual cash flows						
	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	-	-	-	-
Bank 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

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.

33.2.2 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 and the Company maintain a portion of assets in highly liquid form; placements with Banking institutions and Government securities in order to meet their contractual obligations during the normal course of operations. As at the reporting date, the Group's and the Company's Cash and Cash Equivalents amounted to Rs. 101.8 mn and Rs. 99.2 mn (2019 - Rs. 8.9 mn and Rs. 8.3 mn), short term deposits amounted to Rs. 88 mn and Rs. 80.5 mn (2019- Rs. 93.6 mn Rs. 93.6 mn) and investment in unit trust amounted to Rs. 34.7 mn and Rs. 34.4 mn (2019 - Rs. 29.5 mn and Rs. 29.5 mn) respectively.

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 from extreme circumstances that cannot reasonably be predicted, such as natural disasters.

33.3 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.

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

33.3 Market risk Contd.

33.3.1 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 for 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.

33.3.2 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.

		Group		Company	
As at 31st March		**2020**	**2019**	**2020**	**2019**
Variable rate instruments					
Financial assets	- Fair value through profit or loss financial assets	34,707	29,482	34,400	29,482
Financial liabilities	- Bank overdraft	(4,433)	(19,451)	-	(208)
	- Bank borrowings	(93,404)	(64,000)	(26,889)	(24,000)
		(63,130)	(53,969)	7,511	5,274
Fixed rate instruments					
Financial assets	- Investment in fixed deposits	87,964	114,206	80,464	114,206
Financial liabilities	- Bank borrowings	(101,550)	(25,184)	(52,500)	-
		(13,586)	89,022	27,964	114,206
		(76,716)	35,053	35,475	119,480

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.

	Profit / (loss)			
	Group		Company	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
As at 31st March 2020				
Variable rate instruments	(631)	631	75	(75)
As at 31st March 2019				
Variable rate instruments	(540)	540	53	(53)

33.4 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 describe 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. The carrying amount of following financial instrument are a reasonable approximation of fair value.

33.5 Fair value vs carrying amounts

As at 31st March 2020	Mandatory FVTPL and other	Financial assets at amortised cost	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	24,759	-	24,759	24,759
Investment in fixed deposits	-	87,964	-	87,964	87,964
Fair value through profit or loss financial assets - unit trust	34,707	-	-	34,707	34,707
Trade and other receivables	-	48,638	-	48,638	48,638
Cash and cash equivalents	-	101,844	-	101,844	101,844
	34,707	263,205	-	297,912	297,912
Bank Borrowings	-	-	194,954	194,954	194,954
Trade and other payables	-	-	91,680	91,680	91,680
Bank overdraft	-	-	4.433	4.433	4.433
	-	-	291,067	291,067	291,067

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

As at 31st March 2019	Mandatory FVTPL and other	Financial assets at amortised cost	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
Bank Borrowings	-	-	89,184	89,184	89,184
Trade and other payables	-	-	83,035	83,035	83,035
Bank overdraft	-	-	19,451	19,451	19,451
	-	-	191,670	191,670	191,670

33.6 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
31st March 2020				
Fair value through profit or loss financial assets	-	34,707	-	34,707
Property, plant and equipment - Land and Buildings	-	-	1,800,797	1,800,797
	-	34,707	1,800,797	1,835,504
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

There were no transfers between Level 1, Level 2 and Level 3 during the financial period under review (2019 - Nil).

Measurement of fair values
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.

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

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** This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of property being revalued. This involves evaluation of recent active market prices of similar assets making appropriate adjustments for difference in size, nature and location of the property.	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 assesses the cost of the building if it would have constructed in the 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)

	Group		Company	
As at 31st March	**2020**	**2019**	**2020**	**2019**
34 COMMITMENTS AND CONTINGENCIES				
34.1 Capital commitments				
Approved and contracted	-	89,424	-	89,424

34.2 Financial commitments

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

34.3 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 the 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 21.1. 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.

35 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.

35.1 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.

35.2 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard (LKAS 24) - "Related party disclosures", Key Management Personnel (KMP) are those having authority and responsibility for planning and controlling the activities of the entity directly or indirectly. Accordingly, the Directors of the Company, (including executive and non-executive directors), have been classified as Key Management personnel of the Company.

		Group		Company	
	For the year ended 31st March	**2020**	**2019**	**2020**	**2019**
35.2.1	*Key management personnel compensation*				
	Short-term employee benefits	440	500	440	500
	Post-employment benefits	-	-	-	-
	Termination benefits	-	-	-	-
	Non-cash benefits	-	-	-	-
	Other long-term benefits	-	-	-	-
		440	500	440	500

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

		% equity interest	
	Name of the subsidiary	**2020**	**2019**
35.3	**Group entities**		
	Equity Hotels Limited	99.9%	99.9%

(All figures in Sri Lankan Rupees thousands)

35 RELATED PARTY TRANSACTIONS CONTD.

35.4 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 2020	Group 2019	Company 2020	Company 2019
Parent entity						
Carson Cumberbatch PLC	D.C.R. Gunawardena	Short term loans received	16,954	-	-	-
Fellow subsidiaries						
Carsons Management services (Private) Limited (CMSL)	K. Selvanathan V.R. Wijesinghe	Computer charges	150	150	150	150
		Secretarial fees	558	561	444	444
		Support service fee	8,625	8,112	8,625	7,951
Agro Harapan Lestari (Pvt) Ltd		Providing hotel services	258	-	258	-
Lion Brewery (Ceylon) PLC	D.C.R. Gunawardena K. Selvanathan	Providing hotel services	1,156	552	1,156	552

Short-term loans obtained by subsidiary company Equity Hotels Limited from Carson Cumberbatch PLC are on interest-free basis and payable on demand. The outstanding balance as at 31st March 2020 is given in Note 35.5 to the financial statements.

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 subsidiary Company Equity Hotels Limited has obtained the following letter of comfort / corporate guarantee from Related Companies for long-term loan facilities from Commercial Bank of Ceylon PLC.

Related company	Type of guarantee	Outstanding balance as at 31st March 2020	2019
Carson Cumberbatch PLC	Letter of Comfort	20,000	-
Pegasus Hotels of Ceylon PLC	Corporate Guarantee	40,000	40,000
		60,000	40,000

As at 31st March	Group 2020	Group 2019	Company 2020	Company 2019
35.5 Amounts due to related companies				
Carson Cumberbatch PLC	16,954	-	-	-
	16,954	-	-	-

As at 31st March	Group 2020	2019

36 DIVIDEND PER SHARE

Dividends Proposed / paid during the year		
Interim dividend	-	16,715
Dividend per share (Rs.)	-	0.55

37 COMPARATIVE FIGURES

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

38 GROUP IMPACT OF COVID-19

38.1 Impact on the business/ operations of the Group and its response

The impact of the Coronavirus worldwide and the measures taken by the respective Governments including travel restrictions, quarantine requirements, lockdowns and curfews, have forced the temporary shutting down of the Group's two hotels for a period of nearly two months during the period from March to May, 2020. However, both hotels of the Group are open for business as of the date of approval of these financial statements whilst fully complying to the safety regulations issued by the government and the relevant authorities.

Leisure and Travel related industries are the worst affected due to the pandemic, therefore, it is too early to forecast the full impact of COVID-19 on the business. However, the management expect a substantial reduction in revenue during the financial year 2020/21.

Accordingly, the management has reasonably assessed the impact of COVID-19 on the performance and cash flows of the Group and taken several measures to minimise discretionary cash outlays as well as postponing capital expenditure, thereby generating savings wherever possible. Together with controlling of expenses, the management is continuously looking into ways to generate new avenues of revenues as well as strengthen existing lines by emphasizing on core-strengths of each of the hotel.

Additionally, the Group has opted to obtain the moratorium facilities on servicing of debt that have been put forward by the Central Bank to the industry. This would ease the immediate pressure on Group's liquidity.

38 GROUP IMPACT OF COVID-19 CONTD.

38.2 The Group's expectation of the future impact of COVID-19 on its future operations and financial condition

Due to the closure of the hotels, the Group is expected to incur a loss at least in the first half of the financial year 2020/21. The global situation is extremely volatile at present and since the impact of the pandemic on the Group's business is closely linked to the source markets and the international airline industry, an estimate of the medium to long term outlook may not be realistic at this stage. However, Group will continue to monitor developments locally and take timely action to mitigate any risks to its financial stability.

38.3 Use of estimates, assumptions and judgements due to COVID-19 pandemic

In preparing these Financial Statements, the Company has considered the "Guidance Notes on Accounting Considerations of the COVID-19 Outbreak (updated on 11th May 2020)" issued by The Institute of Chartered Accountants of Sri Lanka. 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.

Such estimates and underlying assumptions are reviewed on an ongoing basis.

A brief explanation of the key estimates, assumptions and judgements that have changed during the year ended 31 March 2020 is given below;

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these Consolidated Financial Statements.

The estimation uncertainty is associated with:

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Group has developed various accounting estimates in these Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2020 about future events that the Directors believe are reasonable given present circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and recoverable amount assessments of non-financial assets.

In preparing these Financial Statements, the Company has considered the "Guidance Notes on Accounting Considerations of the COVID-19 Outbreak (updated on 11th May 2020)" issued by The Institute of Chartered Accountants of Sri Lanka.

39 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.

40 EVENTS AFTER THE REPORTING DATE

On 08th July 2020, the subsidiary company Equity Hotels Limited signed a new lease agreement extending the lease period by further 30 years with effect from 01st January 2020 to 31st December 2049 with the option of renewal for the land where the Equity Hotels Limited is located, in Giritale, Polonnaruwa.

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

FIVE YEAR SUMMARY

(All figures in Sri Lankan Rupees thousands)

For the year ended / As at 31st March	2020	2019	Group 2018	2017	2016
Trading Results					
Revenue	598,632	677,550	684,841	543,200	582,209
(Loss) / Profit from operations	(51,636)	44,058	81,240	16,722	109,177
Net finance income / (cost)	5,145	17,374	27,702	27,276	24,520
(Loss) / profit before taxation	(46,491)	(83,775)	108,942	43,998	133,697
Income taxation	5,250	(8,514)	(24,614)	(2,455)	(13,022)
(Loss) / profit for the year	(41,241)	(92,289)	84,328	41,543	120,675
Other comprehensive income / (expense) for the year	279	155	(112,673)	605,622	(1,307)
Total comprehensive (expense) / income for the year	(40,962)	(92,134)	(28,345)	647,165	119,368
Shareholders' Funds					
Stated capital	515,170	515,170	515,170	515,170	515,170
Reserves	1,369,252	1,410,148	1,518,997	1,685,052	1,053,083
Shareholders' funds	1,884,422	1,925,318	2,034,167	2,200,222	1,568,253
Assets Employed					
Property, plant and equipment	2,000,757	2,007,609	1,887,516	2,010,067	1,186,133
Right-of-use assets	699	-	-	-	-
Intangible assets	116,967	115,287	115,287	115,287	115,287
Investment in fixed deposits	-	20,575	-	-	-
Compensation receivable	24,759	24,759	169,966	152,396	136,678
Non current assets	2,143,182	2,168,230	2,172,769	2,277,750	1,438,098
Current assets	306,726	227,296	236,022	148,473	284,266
Current liabilities	(233,061)	(186,302)	(134,097)	(136,451)	(98,147)
Working capital	73,665	40,994	101,925	12,022	186,119
Assets employed	2,216,847	2,209,224	2,274,694	2,289,772	1,624,217
Non-current liabilities					
Loans and borrowings	(109,623)	(57,312)	(26,503)	(6,550)	-
Deferred tax liability	(200,515)	(206,644)	(196,774)	(66,979)	(39,514)
Employee benefits	(22,287)	(19,950)	(17,250)	(16,021)	(16,450)
Total non-current liabilities	(332,425)	(283,906)	(240,527)	(89,550)	(55,964)
Net assets	1,884,422	1,925,318	2,034,167	2,200,222	1,568,253
Cash flow statement					
Net cash inflows / (outflows) from;					
Operating activities	58,646	116,273	146,800	83,776	154,036
Investing activities	(41,441)	(181,870)	(161,205)	(66,708)	(240,980)
Financing activities	90,787	36,027	(8,060)	(8,590)	(15,097)
Net increase / (decrease) in cash and cash equivalents	107,992	(29,570)	(22,465)	8,478	(102,041)
Capital expenditure	80,766	188,999	49,300	261,024	76,356
Profitability Ratios					
Net (Loss) / profit margin (%)	(7)	(14)	12	8	21
Return on shareholders' funds (%)*	(2)	(5)	4	2	8
Liquidity ratios					
Current ratio (times)	1.32	1.22	1.76	1.09	2.90
Debt equity (%)	10.57	4.63	1.55	0.30	-
Investor Ratios					
Earnings / (loss) per share (Rs.) **	(1.36)	(3.04)	2.77	1.37	3.97
Dividend per share (Rs.)	-	0.55	0.55	0.50	0.50
Net assets per share (Rs.)	62.00	63.35	66.93	72.40	51.60
Market price per share (Rs.)	19.10	24.00	28.00	32.50	31.50
Dividend yield (%)	-	2.29	1.96	1.54	1.59
Dividend payout (%)	-	N/A	20.67	48.79	13.75
Hotel Operations					
Occupancy (%) (Calculated based on the rooms available to sell)	44	65	62	47	60

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

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	2020	%	2019	%
Revenue	598,632		677,550	
Other income including finance income	25,700		30,604	
Cost of materials and services bought from outside	(368,787)		(395,231)	
	255,545		312,923	
Distributed as follows:				
To employees				
as remuneration	202,464	79	185,940	59
To government				
as taxation*	925	-	(1,331)	-
To providers of capital				
as dividend	-	-	16,715	5
as interest and other charges	13,957	5	2,230	1
Retained in the business				
as deferred taxation	(6,175)	(2)	9,845	3
as notional adjustments on LKAS / SLFRS	185	-	495	-
as depreciation	85,430	34	62,826	21
as provision for impairment on compensation receivable	-	-	145,207	46
as profit for the year (adjusted for dividends)	(41,241)	(16)	(109,004)	(35)
	255,545	100	312,923	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.

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

2 ORDINARY SHAREHOLDERS

As at 31st March	2020	2019
Number of shareholders	2,993	2,967

The number of shares held by non-residents as at 31st March 2020 was 108,696 (2019 - 115,698), which amounts to 0.36% (2019 - 0.38%) of the total number of ordinary shares in issue.

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	2,739	310,889	1.02	20	4,781	0.01	2,759	315,670	1.04
1001-10,000	187	566,883	1.86	2	6,236	0.02	189	573,119	1.88
10,001-100,000	38	1,242,513	4.08	2	97,679	0.32	40	1,340,192	4.41
100,001-1,000,000	4	815,072	2.68	-	-	-	4	815,072	2.68
Above 1,000,000	1	27,347,485	89.98	-	-	-	1	27,347,485	89.98
Total	2,969	30,282,842	99.64	24	108,696	0.36	2,993	30,391,538	100.00

Categories of Shareholders	As at 31st March 2020		
	No. of Shareholders	No. of Shares	%
Individuals	2,920	2,554,884	8.41
Institutions	73	27,836,654	91.59
Total	2,993	30,391,538	100.00

3 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 Billion with 200 Public Shareholders and a Public Holding percentage of 10%.

The Company's Public Holding as at 31st March 2020

Market Capitalization of the Public Holding	Rs.58.10 Million
Percentage of Ordinary Shares held by the Public	10.01%
Number of Public Shareholders	2,990

4 DIVIDEND

There were no distributions made during the financial year.

5 MARKET PERFORMANCE - ORDINARY SHARES

For the year ended 31st March	2020	2019
As at 31st March (Rs.)	19.10	24.00
Highest (Rs.)	30.00	33.00
Lowest (Rs.)	19.00	20.00
Value of shares traded (Rs.)	7,009,967	10,653,948
No. of shares traded	289,450	461,096
Volume of transactions (Nos.)	788	929

6 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. 580,478,375/80 as at 31st March 2020 (2019 - Rs. 729,396,912/-).

7 VALUE OF THE PROPERTIES - LAND AND BUILDING

Location	2020 Extent (in hectares)	2020 Number of Buildings	Market value 2020 Rs.'000	Date of professional valuation
Pegasus Reef Hotel, Wattala	5.45	1	1,597,447	31st March 2017
Equity Hotels Limited, Polonnaruwa (Building)	6.03	1	203,350	31st March 2017

8 NUMBER OF EMPLOYEES

The number of employees at the end of the year was 211 and 267 (2019 - 206 and 270) for the Company and the Group respectively.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 54th Annual General Meeting of PEGASUS HOTELS OF CEYLON PLC will be held on Friday, 4th September 2020 at 9.30 a.m. at the 8th Floor of No.65C, Dharmapala Mawatha, Colombo 7, Sri Lanka by means of audio or audio and visual technology for the following purposes:

1. To 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 ordinary resolution:

   "**IT IS HEREBY RESOLVED** that the age limit stipulated in Section 210 of the Companies Act, No. 07 of 2007 shall not be applicable to Mr. M. Dayananda who is 74 years of age and that he be appointed a Director of the Company with immediate effect for a period of one year".
2. To consider the Annual Report of the Board of Directors including the Financial Statements of the Company for the financial year ended 31st March 2020 together with the report of the Auditors thereon.
3. To re-elect Mr. M. Elias as a Director in terms of Article 68 of the Articles of Association of the Company.
4. To re-elect Mr. D. C. R. Gunawardena who retires in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.
5. To re-appoint M/s KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act, No. 07 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
20th July 2020

NOTES

1. This Notice and the submission of the Form of Proxy should be read in conjunction with the 'Procedure to be followed at the Annual General Meeting of the Company scheduled for 4th September 2020', which is enclosed with the Notice convening the AGM.
2. The notice convening the AGM together with the procedure to be followed at the AGM will be posted to the Shareholders. The documents will also be made available on the Colombo Stock Exchange website www.cse.lk and on the Group's website www.carsoncumberbatch.com and you may access same directly through the URL link

   http://www.carsoncumberbatch.com/investor_information/investor_information_pegasus_hotels_of_ceylon_plc.php
3. A member is entitled to appoint a proxy to attend and vote instead of him/herself. A proxy need not be a member of the Company. A Form of Proxy accompanies this Notice.
4. The completed Form of Proxy must be submitted to the Company **not later than 4.45 p.m. on 2nd September 2020** or via email to **PEGAGM2020@carcumb.com** or by fax to +94 11-2337671 or handed over or posted to the Registered Office of the Company, No. 61, Janadhipathi Mawatha, Colombo 1.
5. A person representing a Corporation is required to submit a certified copy of the resolution authorizing him/her to act as the representative of the Corporation. A representative need not be a member.
6. The transfer books of the Company will remain open.

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,
Krishna Selvanathan	or failing him,
Sujendra Ranjanan Mather	or failing him,
Michael Timothy Leon Elias	or failing him,
Vibath Wijesinghe	

As *my/our proxy to attend at the 54th Annual General Meeting of the Company to be held on Friday, 4th September 2020 at 9.30 a.m. at the 8th Floor, No. 65C, Dharmapala Mawatha, Colombo 7, Sri Lanka by means of audio or audio and visual technology and at any adjournment thereof and at every poll which may be taken in consequence thereof.

		For	Against
1.	To appoint Mr. M. Dayananda who is over seventy years of age, as a Director of the Company.		
2.	To re-elect Mr. M. Elias as a Director in terms of Article 68 of the Articles of Association of the Company.		
3.	To re-elect Mr. D. C. R. Gunawardena who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.		
4.	To re-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 Twenty.

....
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 submitted to the Company **not later than 4.45 p.m. on 2nd September 2020** or via email to **PEGAGM2020@carcumb.com** or by fax to +94 11-2337671 or handed over or posted to the Registered Office of the Company, No. 61, Janadhipathi Mawatha, Colombo 1.
6. Shareholders who are unable to participate at the meeting through the online meeting platform (i.e. Zoom platform) may appoint a proxy as his/her/its proxy by forwarding the duly completed **Form of Proxy not later than 4.45 p.m. on 2nd September 2020**, clearly indicating their vote under each matter set out in the Form of Proxy as per the instructions set out in the **'Procedure to be followed at the Annual General Meeting of the Company scheduled for 4th September 2020'**, attached with this Notice.
7. Shareholders could also appoint a member of the Board to act as their proxy if they so choose. The Shareholders who wish to appoint a Director as his/her/its proxy must forward the duly completed Form of Proxy clearly indicating their vote under each matter set out in the **Form of Proxy and forward same together with the Registration Form (Annexure 1)**, attached herewith to the Company.

Please fill in the following details

Name of Shareholder : ....

CDS Account No : ....

Name of Proxyholder : ....

NIC No. of the Proxyholder : ....

CORPORATE INFORMATION

NAME OF THE COMPANY

Pegasus Hotels of Ceylon PLC
(A Carson Cumberbatch Company)

COMPANY REGISTRATION NUMBER

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

Mr. D. C. R. Gunawardena *(Chairman)*
Mr. K. Selvanathan
Mr. S. R. Mather
Mr. V. R. Wijesinghe
Mr. M. T. L. Elias *(appointed w.e.f. 03/02/2020)*
Mr. M. Dayananda *(vacated office w.e.f. 13/06/2020)*

PLACE OF BUSINESS

Santha Maria Mawatha, Wattala.
Tel : +94 112 049 600

BANKERS

Commercial Bank of Ceylon PLC
Standard Chartered Bank
Sampath Bank PLC
Deutsche Bank AG.
Hatton National Bank PLC

AUDITORS

Messrs. KPMG
Chartered Accountants
No.32A, Sir Mohamed Macan Marker Mawatha,
Colombo 03, Sri Lanka.
Tel: +94 11 5426 426
Fax:+94 11 2445 872

MANAGERS & SECRETARIES

Carsons Management Services (Private) Limited
61, Janadhipathi Mawatha, Colombo 01, Sri Lanka.
Tel : +94 11 2039 200
Fax: +94 11 2039 300

REGISTERED OFFICE

61, Janadhipathi Mawatha, Colombo 01, Sri Lanka.
Tel : +94 11 2039 200
Fax: +94 11 2039 300

PEGASUS HOTELS OF CEYLON PLC - COMMITTEE OF MANAGEMENT

Mr. Amila Alvis - *General Manager*
Mr. Kapila Gunathilaka - *Head of Finance*
Mr. Dushmantha Fernando - *Head of Sales & Marketing*
Ms. Mala Munasinghe - *Executive Housekeeper*
Mr. Promoda Fernando - *Food & Beverage Manager*
Ms. Premila Samarakoon - *Front Office Manager*
Mr. Nalinda Abeyratne - *Executive Chef*
Mr. Kolitha Perera - *Chief Engineer*

EQUITY HOTELS LIMITED - COMMITTEE OF MANAGEMENT

Mr. Thiagarajah Geneshan - *General Manager*
Mr. Senarath Ekanayake - *Accountant*
Mr. Hendrick Nandasena - *Chef*
Mr. Mahinda Tennekoon - *House Keeper*

HOTEL WEBSITE

www.pegasusreefhotel.com

CORPORATE WEBSITE

www.carsoncumberbatch.com

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