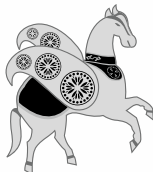




Pegasus Hotels of Ceylon PLC

A Carson Cumberbatch Company



PEGASUS REEF
the city resort that's just right!

Annual Report 2020/21

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



CHAIRMAN'S STATEMENT

“The unwavering commitment of our employees was certainly our greatest strength when manoeuvring through this incredibly turbulent phase”

Dear Shareholder,

On behalf of the Board, it is my privilege to welcome you to the 55th Annual General Meeting of Pegasus Hotels of Ceylon PLC and I herewith present to you the annual report and financial statements of the Company and the Group for the financial year ended 31st March 2021.

The year ended was exceptionally difficult. For over a year, the COVID-19 humanitarian and health crisis crippled economies worldwide and significantly impacted the well-being of communities. Additionally, businesses and livelihoods have been thrown off-balance, and society has been forced to adjust to a never-imagined 'new normal' of masks, virtual gatherings, intermittent lockdowns and physical distancing. In terms of cross-border travel, many airlines were unfortunately compelled to ground almost entire fleets within a very short time span. In light of these unforeseen challenges, the world has been racing to find ways to prevent the spread of the virus with the primary intention being to flatten the curve and control its disastrous impact on economies and societies.

Today, it is incredibly heartening to see the level of progress achieved by way of such research efforts, with the development of several successful vaccines. At this juncture, I must salute all the healthcare workers, medical researchers, armed forces and essential-service workers across continents who have continued to make countless sacrifices, working around the clock in the face of the deadly threat of COVID-19. I am convinced that the vaccination has unfolded a new phase of the pandemic for us, with its ability to decelerate infection rates. However, the extent of mass distribution of vaccines and the pace of vaccination across countries will largely shape the quality of our future. Nevertheless, the 'known unknowns' of the pandemic could still pose challenges in the days ahead.

Following a year darkened by the horrifying events of the Easter Sunday attacks, we looked upon the 2020/21 financial year with optimism and a sense of ambition. However, to our dismay, we found ourselves facing an immediate suspension of operations in the first two months of the year, due to the outbreak of

the first wave of COVID-19 in Sri Lanka, which resulted in a nationwide lockdown and the closure of the international airport. We resumed our operations in June 2020 amidst many capacity restrictions and regulatory guidelines. At this point in time, with the tourism industry sliding into a crisis, the impact on our revenue and financials was felt more severely than in the previous financial year. During the second quarter, we were gradually able to gain traction from the modest improvement displayed in the local business segment. However, the intense competition in the industry, understandable at times when survival is everyone's priority, made it a challenge for us to reach the anticipated targets. To ensure the safety of our valued guests during these times, we promptly responded by establishing government-mandated health and safety levels within our hotels by implementing the required safety and sanitation protocols and other precautionary measures. Subsequently, by way of further strengthening our safety protocols, we took steps to register Pegasus Reef as a "Safe and Secure" certified hotel, in order to obtain verification for its safety standards by the Sri Lanka Tourism Development Authority.

Unfortunately, as we began to display a gradual recovery, the second wave of COVID-19 emerged in October 2020, wherein the Wattala and Gampaha regions in particular were severely affected and thus, isolated. Accordingly, Pegasus Reef Hotel had to suspend its operations for a total of nearly four months of the financial year 2020/21.

Meanwhile, in order to cushion the severe topline impact we faced, a strict policy was adopted with respect to our day-to-day costs, which were mostly of fixed and semi-fixed nature. All discretionary expenses were eliminated where possible, with a focus solely on critical repair and maintenance expenses which were essential to maintain our safety and quality standards as well as customer satisfaction levels. In the industry, a significant amount of natural attrition was evident during this time period, particularly exacerbated by factors including the depressed industry backdrop, negative impact to income levels and low service charges. Hence, it was essential to ensure a balanced cadre in order to maintain an optimal level of operations. The unwavering commitment of our employees was certainly our

greatest strength when manoeuvring through this incredibly turbulent phase. In spite of these debilitating challenges, we continued to support our communities during the pandemic by distributing emergency rations to the most vulnerable households in our locality, as we believed caring for our society was the need of the hour.

Against the above-mentioned backdrop, Pegasus Hotels of Ceylon PLC, posted a loss after tax of Rs. 229.8 Mn on a revenue of Rs. 197.5 Mn at a Group level. At the Company level, a loss after tax of Rs. 203.4 Mn was recorded on a revenue of Rs. 151.2 Mn. It was indeed very disheartening to see years of our hard work going down the drain with the worsening of the Group's net cash position from Rs. 20.9 Mn at the beginning of the financial year, to a net debt position of Rs. 102.5 Mn as at its end. Nonetheless, we were able to mitigate the demand impact to a certain extent by means of the aforementioned cost curtailment efforts. At the same time, I must commend the Government and the Industry Authorities for the much-needed policy measures which were implemented during the year to revive the troubled hospitality industry, including the extension of debt moratoria and introduction of concessionary loan facilities.

FUTURE OUTLOOK

As I pen this message today, Sri Lanka is currently experiencing the third wave of COVID-19 infections, which emerged relatively stronger than the previous waves with an alarming surge in daily infections. However, the Government has correspondingly ramped up the vaccination drive within the country, bringing in hope and positivity to this rather negative state of affairs. From the hospitality industry's perspective, the travel and tourism arena is battered once again, with new travel restrictions imposed on Sri Lanka by major countries and frequent bans on international arrivals, alongside domestic movement restrictions which are often announced. Hence, the hotel industry continues to experience a substantial dent in terms of business activity in comparison to the pre-COVID days.

Therefore, in consideration of the above situation and the current market needs, I would like to inform that the Board of Pegasus Hotels of Ceylon PLC has offered Pegasus Reef Hotel as a temporary Intermediate Care Center of the Asiri Group of Hospitals, with 100 rooms allocated for COVID-19 patients from 19th of May 2021 onwards. Nevertheless, with the gradual improvement in the current situation of the country and the restoration of business conditions, we expect to recommence our hotel operations soon. While the short to medium term

industry prospects will be challenging, I am confident that the hospitality industry is set for a long-term rebound, with the future that awaits on the other side in terms of pent-up demand for travel and celebrations. Further, I believe that it is important for us to think differently and execute flexible and sustainable business strategies against a rapidly transforming industry, in order to rise from this incredibly challenging period.

In conclusion, I would like to extend my sincere gratitude to my fellow Board members and the members of the Audit Committee, Remuneration Committee, Nomination Committee and the Related Party Transactions Review Committee for the exceptional leadership displayed in these unprecedented times. In addition, I wish to thank all our business partners and other stakeholders for the tremendous support extended during this, most challenging of years. Also, I am very proud of the hard work and persistence displayed by our employees during these turbulent times. Most importantly, I wish to thank all our shareholders for your continued support and cooperation. Better days will eventually come, and till then, we shall persevere.

(Sgd.)

D.C.R. Gunawardena

Chairman

05th July 2021

MANAGEMENT DISCUSSION & ANALYSIS

“Our hotels established and implemented the requisite safety and sanitisation procedures and protocols, as a means of prioritising safety in our day-to-day operations. In addition, cost rationalisation programmes were established and executed in order to particularly curb the overhead expenses of the hotels.”

COVID-19 AND THE GLOBAL HOSPITALITY INDUSTRY

The global hospitality industry underwent a catastrophe over the past year, being one of the worst affected industries of the COVID-19 pandemic. With over 184 Mn positive cases emerging across the world and with ever-evolving variants, the pandemic commanded a range of events including temporary border closures, travel restrictions, cut-downs in flights, quarantine rules and the foremost need for social distancing, all of which rendered a collective impact on the demand for tourism and

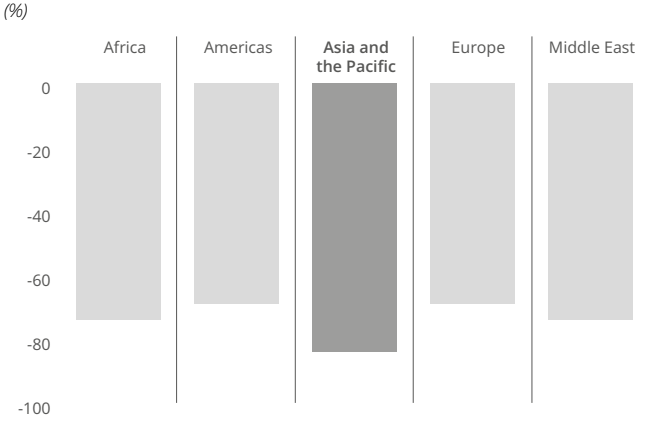
leisure activities. This negative impact on demand dynamics was mirrored in global industry statistics, where data from the United Nations World Tourism Organization (UNWTO), indicated that global international tourist arrivals declined by a sizeable 73% YoY, constituting a whopping 1 billion tourists during the period from January to December 2020. Meanwhile compared to other regions, the Asia-Pacific region recorded the highest decline in arrivals, which reduced by 84% YoY versus 2019.

International Tourist Arrivals



Source: United Nations World Tourism Organization

YoY Decline in Tourist Arrivals by Region in 2020



Source: United Nations World Tourism Organization

Accordingly, the COVID-related travel restrictions and drop in demand led to a significant reduction in the patronage of hotels worldwide, thereby dramatically affecting overall occupancy and revenue levels via cancellations and limited bookings. Similarly, conference tourism also observed a noticeable downturn,

and a notable transformation owing to the shift of physical business meetings and events to online platforms. As a result, hotels and other tourism-related establishments across the world were compelled to completely reimagine their operating models. Most importantly, the health and safety factor took centre-stage, with protocols being implemented across every

hotel operation; further justified by the increased tendency for consumers to choose standalone private spaces over larger hotel establishments. To attract traffic from the local tourism, hotels had to increasingly opt for new, more flexible reservation and cancellation policies.

Subsequently, the development of the COVID-19 vaccines and mass vaccination rollouts that took place across the world offered a degree of hope for the travel industry. Vaccine passports and increased testing protocols prior to travelling improved overall confidence and consumer sentiment, and served as a boost to progressively restart international travel, particularly in the Western world. Furthermore, safe travel destinations with an ability to offer socially-distanced vacations received greater consideration, and were more popular among safety-conscious consumers across the globe. Nevertheless, the expensive air travel fare and pandemic-related uncertainties continue to impede long-haul travel as at present.

COVID-19 IMPACT ON SRI LANKAN ECONOMY AND THE HOSPITALITY INDUSTRY

Sri Lanka's economy shrank in 2020 with a contraction of 3.6% over 2019, primarily due to pandemic-driven implications. Accordingly, all three major sectors faced a clear setback, with the highest impact felt on the industry sector, which contracted by 6.9% following a marked dip in construction and manufacturing activities. The agriculture and services sectors too declined by 2.4% and 1.5% respectively against the aftermath of the disruptions caused by the pandemic. Subsequently, the GDP per capita declined by 4.4% YoY to USD 3,682, further factoring in the effects of the depreciating Sri Lankan rupee against the US Dollar. Meanwhile, as Sri Lanka had closed the borders for tourists from mid-March 2020 till January 2021, the total tourist arrivals to the country took a considerable hit, recording a decline of 73.5% YoY during 2020 with only 507,704 tourists arriving at our shores, while the earnings from tourism significantly plunged by 81.1% YoY to reach USD 682 Mn. Moreover, the integration of the hospitality industry to a wider frame of industries meant that its downfall affected not just hotels, but a wider spectrum of other businesses and communities as well.

Under such strenuous conditions, the local hotels which were already in 'survival mode' due to the repercussions of the Easter Sunday attacks that took place in the previous year, had to now look for further alternatives to revenue generation.

This challenge was met by ensuring significant amendments to business strategies, while a radical redefinition of business processes was deemed essential, with an intense focus on aspects of safety and social distancing.

However, the troubled local hospitality industry was relieved to a certain extent by the support schemes extended by the Government. The moratorium facilities on debt which were previously granted to the hotel industry in the aftermath of Easter Sunday attacks were further extended in the context of the pandemic. In addition, a new scheme titled the 'Saubagya COVID-19 Renaissance Facility' was introduced as means of easing off liquidity pressures, enabling businesses and individuals in the sector to benefit from concessionary interest rate loans. Other relief measures offered at the macro-level predominantly included grace periods on bill payments, waivers on the annual renewal fees, and one-off payments to tour guides and tourist drivers. Many hotels were allowed to operate as quarantine centres and intermediate care centres with standard health and safety guidelines in place.

OUR OPERATIONAL CONTEXT

At the commencement of the financial year 2020/21, both Pegasus Reef Hotel and Giritale Hotel faced a period of closure spanning two months, due to the onset of the pandemic in the country and the resultant island-wide curfew. In the interim, our hotels established and implemented the requisite safety and sanitisation procedures and protocols, as a means of prioritising safety in our day-to-day operations. In addition, cost rationalisation programmes were established and executed in order to particularly curb the overhead expenses of the hotels.

As civilian life began to return to normalcy with the lifting of restrictions, we opened our doors in June 2020 with the required safety mechanisms in place, further strengthened by alternative business plans that focused primarily on the domestic segment. Consequently, sales channels were narrowed down with a strong focus on digital platforms to suit the market context. Furthermore, a number of offers and promotions were introduced with respect to food delivery and outdoor catering to private events. During this period, 'The Fishery' restaurant in particular gained momentum by delivering our mouth-wateringly unique seafood dishes to customers in the vicinity. Besides this, Pegasus Reef Hotel was successful in carrying out and concluding a few of its signature events including dinner nights and cultural food festivals; thus

MANAGEMENT DISCUSSION & ANALYSIS

offering new value additions to the local guests whilst adhering to all the safety protocols issued by the Ministry of Health. In the Weddings and MICE segment, despite many cancellations, postponements and limits being imposed on the pax counts, we were successful in attracting a reasonable number of functions and events within the few months we remained in operation. Nonetheless, the competition was mounting at this point across all revenue segments with extreme undercutting strategies, as the entire industry was on an intense quest to benefit from a very limited and a restricted market base.

In spite of the above-mentioned successful months, our progress was adversely affected once again with the occurrence of the second wave in October 2020, which gravely impacted the locality of the Pegasus Reef Hotel. This led to Pegasus Reef Hotel temporarily suspending its operations for nearly another two months of the financial year 2020/21.

FINANCIAL PERFORMANCE

Company

Pegasus Reef Hotel reported a revenue of Rs. 151.2 Mn for the year ended 31st March 2021, demonstrating a YoY decline of 71%, primarily affected by the above-mentioned pandemic-related closure of the hotel for a near four-month period. The hotel recorded an overall occupancy of a mere 10% versus 45% in the previous year, while the Average Room Rate (ARR) increased to Rs. 9,386 from the previous year's Rs. 9,097; largely due to the massive reduction in foreign business during the year under review. Accordingly, the substantial drop in business volumes resulted in room revenue recording a decline of 77% YoY whilst the food and beverage revenue declined by 67% YoY.

Meanwhile, the direct costs of the hotel reduced by a considerable 40% YoY to Rs. 214.1 Mn; a direct reflection of the contracted top line, and other cost management initiatives implemented across our operations in alignment with the low volume of business we experienced. Overall personnel costs of the hotel were brought down by 40% YoY in accordance with the associated cost-saving programmes implemented by the management and the optimisation of staff in line with the limited level of business. In addition, the repair and maintenance expenses declined by Rs. 8.2 Mn YoY, as only critical repair and maintenance expenses were incurred to

avoid any form of compromise on the safety and quality of our offering. The total administrative cost of the hotel declined by 36% YoY to arrive at Rs. 115.8 Mn during the year under discussion. In terms of the other major overheads, the hotel's selling and promotional expenses noted a decline of 47% YoY to reach Rs. 9 Mn, as the marketing efforts were directed towards the most efficient and effective distribution channels, with a greater focus on the domestic context. Similarly, no major capital projects were embarked on during the year under review.

In the meantime, the finance income of the hotel was negatively impacted with a YoY decline of 42% to reach Rs. 10.9 Mn, primarily due to the withdrawal of funds for working capital requirements and operational loss funding as well as due to the declining interest rates in the market. On the other hand, finance costs of the hotel increased by 33% YoY owing to the loans obtained at concessionary rates as part of COVID-relief by the Government. Accordingly, the total debt of the Company increased from Rs. 79.4 Mn at the beginning of the year to Rs. 109 Mn as at the end, while the net cash position of the Company weakened to Rs. 33.6 Mn as at 31st March 2021.

Driven by the aforesaid unfortunate business circumstances, Pegasus Reef Hotels of Ceylon PLC reported a loss after tax of Rs. 203.4 Mn at Company level for the year under review. Cash loss without the effects of depreciation for the year ending 31st March 2021 was observed at Rs. 132 Mn.

Group including the results of the subsidiary

On a consolidated basis, Pegasus Reef Hotels of Ceylon PLC reported a revenue of Rs. 197.5 Mn with a YoY decline of 67%. Despite the subdued industry conditions, Giritale Hotel was however able to reach an occupancy of 22% during the year under review, predominantly on a local-driven sales strategy and other region-specific promotions. With respect to costs, savings were derived from the careful planning of personnel expenses as well as the aforementioned cost-control activities. Hence, with the pandemic-related concerns noted above, the Group's profitability was substantially impacted during the financial year 2020/21, where the Group recorded a loss after tax of Rs. 229.8 Mn, which amounted to a cash loss of Rs. 145.9 Mn, without the impact of the depreciation and amortisation expenses.

Group net debt position as at 31st March 2021 was at Rs. 102.5 Mn, in contrast to a net cash position of Rs. 20.9 Mn as at the commencement of the financial year. On top of the present financial strain due to the ongoing industry conditions, debt commitments pertaining to the room refurbishment of Giritale Hotel remain to be addressed in the short to medium term.

Future Outlook

At present, the rapid rollout of COVID-19 vaccination programmes across multiple continents has brought a beacon of hope to the long-overshadowed domestic and international travel segment. However, uncertainty still continues to loom. The evolution and spread of new waves and variants continue to give rise to unforeseen travel barriers across borders. In the Sri Lankan context, the third wave of COVID-19 has currently caused abrupt disruptions to the economy with a sudden spike in daily cases. The upcoming short-term prospects of the local hospitality industry have been almost entirely impacted as a result of repeated mobility restrictions within the country.

Therefore, in consideration of the prevailing COVID-19 situation in the Country and related strict hotel operating guidelines issued by the authorities, 100 rooms of Pegasus Reef Hotel have been allocated towards serving as an Intermediate Care Centre of the Asiri Group of Hospitals from 19th May 2021 onwards. However, the hotel expects to shift back to routine operations in the near future, with the gradual normalisation of the ongoing conditions.

In general, the hospitality industry has lived through many crises in the past and despite the adversity faced along the way, we believe that its long-term road to recovery is certain, particularly with the possible implementation of the long-awaited travel bubbles in the days to come, underpinned by the stabilisation of discretionary spending overtime. Equally, the effectiveness of further medical research carried out against COVID-19 and the scale of vaccine coverage will play an important role in the state of the tourism and hospitality fronts in the forthcoming days. Against such a backdrop, we will continue to implement responsive and agile business strategies whilst eagerly looking forward to what awaits us in the post-pandemic days.

Carsons Management Services (Private) Limited
05 July 2021

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 & appointed w.e.f. 04/09/2020]

Mahendra Dayananda is an Independent, Non-Executive Director of Nestle Lanka PLC, Bukit Darah PLC and Pegasus Hotels of Ceylon PLC. 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 was until recently the President of the Sri Lanka Japan Business Council, former President of the Sri Lanka Institute of Directors and past Chairman of the Ceylon Chamber of Commerce and also chaired the Monetary Policy Consultative Committee - Central Bank of Sri Lanka for a period of 09 years. He continues to chair 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 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.

MICHAEL ELIAS

Michael Elias is an international consultant in Tourism & Hospitality Management with 39 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), an Executive 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 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”

Risks are inherent in any business. However, 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 in the event of any occurrence of risks, will minimise their significant impact on the achievement of business objectives. The risk management mechanism identifies and measures key risks that are associated with the business, and takes a proactive role in the decision making process, whereby, opportunities are explored to deliver shareholder value while potential threats are addressed appropriately. Risks are managed until they are mitigated and re-assessed to be within the Company’s risk appetite.

In the implementation of business plans, the Company embodies the enterprise risk management process 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

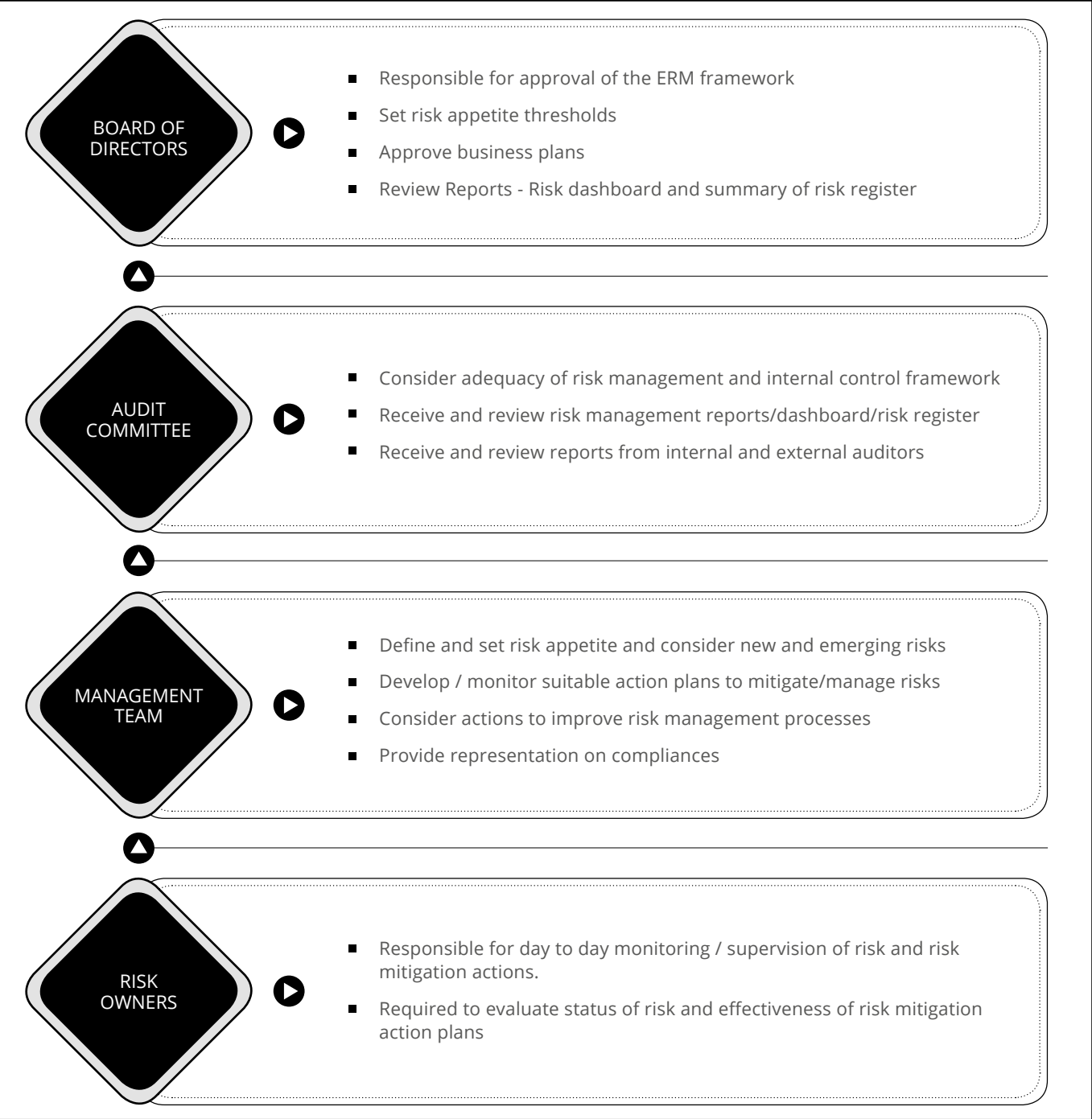
Risk management process revalidates the internal control systems and provides assurance to the management and the Board of Directors on the effectiveness of the established processes.

ENTERPRISE RISK MANAGEMENT PROCESS



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

KEY RESPONSIBILITIES



RISK MANAGEMENT

We are of the view that Risk Management is one of the driving factors of sustainability of operations and have identified the following risk profiles. The principal risks thus identified are considered and continuously reviewed at various stages of our business processes.

The COVID 19 pandemic has caused significant disruption to worldwide economic and business activities. The operations

of the two hotels of the Group were interrupted on several occasions during the first nine months of the financial year 2020/21 with the initial island-wide lockdown and several localized lockdowns that were imposed to prevent the spread of COVID-19 in Sri Lanka. However, both hotels of the Group saw gradual recovery in occupancy levels and revenue during the final quarter.

Risk	Impact	Risk Responses and Strategies
Global Pandemic	<p>The COVID-19 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.</p> <p>Two hotels had to temporarily cease operations because of COVID-19. Also, the international travel industry is severely affected from the COVID-19 pandemic.</p>	<p>The Group has implemented all possible measures to ensure the safety of the staff and customers, adhering to the rules and guidelines of the Government and Health Authorities.</p> <p>We are closely monitoring the economic cost of the pandemic and will be continually assessing the financial impact across this sector and draft proactive business responses accordingly.</p>
Market Risk	Inability to achieve business objectives due to market volatility.	<p>The Group manages this risk by means of the following actions and procedures.</p> <ul style="list-style-type: none"> ■ Leisure sector has taken steps to maintain other operational costs at a minimum and exploring further opportunities to do so. ■ Maintains and builds relationships with tour operators. ■ Participates in relevant trade and business promotions, locally and internationally. ■ Maintains value and standard of the hotels through regular refurbishments and training and development of employees. ■ Develops and monitors comprehensive business plans. ■ Diversification of revenue base. ■ Subsequent to the reporting date, in consideration of the prevailing situation in the country due to the increase in the spread of COVID-19 and strict operating guidelines issued by the authorities for hotels, Board of Pegasus Hotels of Ceylon PLC has offered 100 rooms of Pegasus Reef Hotel as a temporary Intermediate Care Centre (ICC) of the Asiri Group of Hospitals

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 which need to be settled by cash or any other financial assets.	<p>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.</p> <p>The Group has opted to receive the benefit of debt moratorium extended by the respective lending institutions for capital and interest payments.</p> <p>The Group monitors the level of expected cash inflows on trade and other receivables along 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.</p> <p>In addition, the Group has access to short-term financing facilities extended from the parent company, Carson Cumberbatch PLC, if required.</p>
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.	<p>With the downturn in tourism activity, recovery of dues has been challenging. The following controls are implemented to mitigate this risk.</p> <ul style="list-style-type: none"> ■ Continuous and regular evaluation of creditworthiness of tour operators and other customers. ■ Ongoing monitoring and follow up of receivable balances. ■ Placement of deposits only with reputable institutions.
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.
Interest Rate Risk	Interest rate risk is the risk arising due to the volatility of the interest rates in the markets subsequently affecting the future cash flow of the Group cash flows.	The Group has borrowings with variable interest rates such as AWPLR and has exposure to fluctuations in cashflow/profit with the movement in market interest rates. (Please refer note 33, 'Financial instruments' in the financial statements for further details).

RISK MANAGEMENT

Risk	Impact	Risk Responses and Strategies
Systems and Process Risks	The risk of direct or indirect losses due to inadequate or failed internal processes and systems.	<ul style="list-style-type: none"> ■ 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 any 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.	<p>The following initiatives have been implemented by the Group.</p> <ul style="list-style-type: none"> ■ Despite the industry wide lay-offs due to cashflow constraints, both hotels have decided to retain their existing staff. ■ Ensure recruitments are carried out to hire employees with required qualifications, knowledge and experience. ■ Availability of detailed job descriptions and role profiles for each job. ■ HR policies are focused on encouraging continuous training and development and ensuring appropriate compensation as per market rates to retain and develop employees.
Legal & Regulatory Compliance Risk	Failure to comply with the regulatory and legal framework applicable to the Group.	<p>The management together with the legal division of Carson Cumberbatch PLC, proactively identifies and establishes appropriate systems and processes for legal regulatory compliance with respect to the Group's operations.</p> <ul style="list-style-type: none"> ■ Arranging training programmes and circulating updates for key employees on new / revised laws and regulations on a need basis. ■ Providing comments on draft laws to government and regulatory authorities. ■ Obtaining comments and interpretations from external legal consultants on areas which require clarity. ■ Obtaining compliance certificates from the management on a quarterly basis on compliance with relevant laws and regulations. <p>In order to minimise the spread of COVID-19, The Government and Health Authorities have issued guidelines and rules to conduct business activities. The Group has implemented all possible measures to ensure the safety of the staff and customers, adhering to the above guidelines and rules.</p>

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors of Pegasus Hotels of Ceylon PLC have pleasure in presenting to the shareholders their Report together with the Audited Financial Statements for the year ended 31st March 2021.

The details set out herein provide the pertinent information required by the Companies Act, No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and are guided by recommended best Accounting Practices.

The Annual Report was approved by the Board of Directors on 05th July 2021.

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 2021 are set out on pages 36 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) For the year ended 31st March	Group		Company	
	2021	2020	2021	2020
Profit/(Loss) for the year	(229,824)	(41,241)	(203,452)	(12,478)
Other comprehensive income/ (expense) for the year, adjusted for revaluation of property plant and equipment and related tax	(2,713)	279	(1,706)	358
Total comprehensive income / (expense) for the year	(232,537)	(40,962)	(205,158)	(12,120)
Retained earnings as at the beginning of the year	308,474	349,370	303,960	316,014
Forfeited dividends	177	66	177	66
Retained earnings as at the end of the year	76,114	308,474	98,979	303,960

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

4.3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are given on pages 40 to 57.

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'.

A professional valuation was performed as at 31st March 2021 by Mr. S. Sivaskantha, F. I. V (Sri Lanka) of Perera Sivaskantha and Company, incorporated Valuers. The details of the movements in fair value of Land and building of the Group and the Company during the year and their carrying values as at 31st March 2021 are presented in Note 17 to the financial statements.

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 38.

5. STATEMENT OF DIRECTORS RESPONSIBILITIES

The responsibilities of the Directors in relation to the financial statements are detailed in the following paragraphs, whilst the responsibilities of the Auditors are set out in the Independent Auditors' Report.

According to the Companies Act, No. 07 of 2007 and the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, the Directors are required to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the performance for the said period.

The financial statements comprise of inter alia:

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

In preparing these financial statements the Directors are required to ensure that:

- Appropriate accounting policies have been selected and applied consistently, while material departures, if any, have been disclosed and explained,
- All applicable Accounting Standards have been complied with,
- Reasonable and prudent judgments and estimates have been made and
- Provides the information required by and otherwise comply with the Companies Act, No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

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

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

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

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

6. INTERESTS REGISTER

The Company maintains an 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 2021 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 2020 to 31st March 2021.

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

7.1.1 Mr. M. Dayananda - Non-Executive/Independent Director who was over 70 years of age was re-appointed as a Director of the Company 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 further period of one year commencing from the conclusion of the said AGM, i.e. till 13th June 2020. However, due to the COVID-19 pandemic situation in the Country, the AGM of the Company could not be

held on or prior to 13th June 2020 and therefore, Mr. M. Dayananda ceased to be a Director of the Company with effect from 13th June 2020.

7.1.2 At the AGM held on 04th September 2020 Mr. M. Dayananda - Non-Executive/Independent Director was appointed in terms of Section 211 of the Companies Act, No.07 of 2007 pursuant to Article 68 of the Articles of Association of the Company, as a Director of the Company effective 04th September 2020 for a period of one year from the conclusion of the AGM and that the age limit stipulated in Section 210 of the Companies Act, No.07 of 2007 shall not be applicable to him.

7.2 Appointment of Directors who have reached 70 years of age

7.2.1 Mr. M. Dayananda - Non-Executive/Independent Director who was over 70 years of age was appointed as a Director of the Company in terms of Section 210 of the Companies Act, No.07 of 2007 at the AGM held on 04th September 2020 for a period of one year commencing from the conclusion of the said AGM, i.e. till 04th September 2021.

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

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

7.3 Director to retire by rotation

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

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 8 to 9 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 & appointed w.e.f. 04/09/2020]	Non-Executive/Independent
Mr. K. Selvanathan	Executive
Mr. S. R. Mather	Non-Executive/Independent
Mr. M. Elias	Non-Executive/Independent
Mr. V. R. Wijesinghe	Executive

Each of the Non-Executive Directors of the Company have submitted a signed declaration on Independence/ Non-Independence as per Rule 7.10.2. (b) of the Listing Rules of the Colombo Stock Exchange (CSE). The said declarations were tabled at a Board Meeting of the Board of Directors of the Company held on 05th July 2021, 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

As permitted by Article 83 (1)(b) of the Articles of Association of the Company, during the period under review, the Board of Directors had four (04) virtual Board Meetings through Microsoft Teams and the attendance of the Directors were as follows;

Board Members	Attended Meetings
Mr. D.C.R. Gunawardena (Chairman)	4/4
Mr. M. Dayananda [Vacated office w.e.f.13/06/2020 & appointed w.e.f. 04/09/2020]	2/2
Mr. K. Selvanathan	4/4
Mr. S. R. Mather	4/4
Mr. M. Elias	4/4
Mr. V.R. Wijesinghe	4/4

8.3. Remuneration Committee

The Parent Company of the Company is Carson Cumberbatch PLC (CCPLC). As per 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 Charter requires the Committee to meet at least twice a year. As allowed by the Remuneration Committee Charter, the Committee held three (03) virtual meetings during the period under review.

Remuneration Committee Members	Attended Meetings
Mr. T. de Zoysa (Chairman)	3/3
Mr. D.C.R. Gunawardena	3/3
Mr. R Theagarajah	3/3
Mr. W.M.R.S. Dias	3/3

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 59 of the Annual Report.

8.4. Audit Committee

The Parent Company of the Company is Carson Cumberbatch PLC (CCPLC). As per 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. A. S. Amaratunga (Appointed Chairman w.e.f. 01/01/2021)	Non-Executive/Independent Director of CCPLC
Mr. D. C. R. Gunawardena	Non-Executive Director of CCPLC
Mr. Y.H. Ong (Appointed w.e.f. 01/01/2021)	Non-Executive/Independent Director of CCPLC
Mr. V. P. Malalasekera (Ceased to be Chairman & Member w.e.f. 31/12/2020)	Non-Executive/Independent Director of CCPLC
Mr. F. Mohideen (Ceased to be a Member w.e.f. 31/12/2020)	Non-Executive/Independent Director of CCPLC

The following members ceased to be members of the Audit Committee, subsequent to their resignation as Non-Executive/ Independent Directors of CCPLC w.e.f. 31st December 2020.

- Mr. V. P. Malalasekera (Chairman)
- Mr. F. Mohideen

The Audit Committee Report is given on page 27 to 28 of this Annual Report.

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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 (Ceased to be a Member and Chairman w.e.f. 13/06/2020, appointed as a Member w.e.f. 04/09/2020 & appointed as Chairman w.e.f. 01/01/2021)	Non-Executive / Independent Director
Mr. D.C.R. Gunawardena (Appointed Chairman w.e.f. 13/06/2020 & Ceased to be the Chairman w.e.f. 01/01/2021)	Non-Executive Director
Mr. S. R. Mather (Appointed as a Member w.e.f. 13/06/2020 & Ceased to be a Member w.e.f. 04/09/2020)	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 Charter requires the Committee to meet at least twice a year. As allowed by the Nomination Committee Charter, the Committee held three (03) virtual meetings during the period under review.

Nomination Committee Members	Attended Meetings
Mr. M. Dayananda (Ceased to be a Member and Chairman w.e.f. 13/06/2020, appointed as a Member w.e.f. 04/09/2020 & appointed as Chairman w.e.f. 01/01/2021)	2/2
Mr. D. C. R. Gunawardena (Appointed Chairman w.e.f. 13/06/2020 & Ceased to be the Chairman w.e.f. 01/01/2021)	3/3
Mr. S. R. Mather (Appointed as a Member w.e.f. 13/06/2020 & Ceased to be a Member w.e.f. 04/09/2020)	1/1

8.6. Related Party Transactions Review Committee

The Parent Company of the Company is Carson Cumberbatch PLC (CCPLC). As per 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. W. M. R. S. Dias (Appointed Chairman & Member w.e.f. 01/01/2021)	Non-Executive/Independent Director of CCPLC
Mr. R. Theagarajah (Appointed w.e.f. 01/01/2021)	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 until 30/06/2021 & Non-Executive Director of CCPLC w.e.f. 01/07/2021
Mr. V. P. Malalasekera (Ceased to be Chairman & Member w.e.f. 31/12/2020)	Non-Executive/Independent Director of CCPLC
Mr. F. Mohideen (Ceased to be a Member w.e.f. 31/12/2020)	Non-Executive/Independent Director of CCPLC

The following members ceased to be members of the Related Party Transactions Review Committee, subsequent to their resignation as Non-Executive/Independent Directors of CCPLC w.e.f. 31st December 2020.

- Mr. V. P. Malalasekera (Chairman)
- Mr. F. Mohideen

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.

8.6.1 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 2021, did not exceed 10% of Equity or 5% of the Total Assets of the Company as at 31st March 2021.

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 2021.

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 2021.

8.7. Board Evaluation

Each Director individually appraises the Board's performance to ensure discharging its responsibilities satisfactorily. This process takes in to account and evaluates all aspects in relation to Board responsibilities.

Independent observations made by the Directors are collated and addressed by the Nomination Committee of the Company and recommended as relevant, to the Board of Directors for consideration.

9. INDEPENDENT AUDITORS

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

A sum of Rs. 395,000/- and Rs. 680,000/- were paid to them by the Company and the Group respectively, as audit fees for the year ended 31st March 2021 (2020 - Rs. 395,000 /- and Rs. 678,500 /-). The Auditors were not paid fees on audit related

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

services during the year (2020 - Nil). Also no payments were made by the Company and the Group as professional fees for non-audit services during the year (2020 - 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 35 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 10 to 14.

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 2021, 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

The Stated Capital of the Company as at 31st March 2021 was Rs. 515.17Mn consisting of 30,391,538 Ordinary Shares. There was no change in the Stated Capital of the Company during the year.

15. DEEMED CAPITAL CONTRIBUTION

The Parent Company, Carson Cumberbatch PLC, on behalf of the Company, had provided a Corporate Guarantee to Commercial Bank of Ceylon PLC in 2005, in securing bank borrowing facilities extended under the 'Tsunami funding scheme' at concessionary rates.

Sri Lanka Accounting Standards (LKAS 39) - "Financial Instruments - Measurement and Recognition" require 'Financial Guarantee contracts' of this nature to be recognized at their fair value in the financial statements and accordingly an amount of Rs. 5,351,660/- was included in the "Stated Capital", being 'Deemed capital contribution' arising from the said transaction. 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 2021 (2020 - 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 2021 were 168 and 213 (2020 - 211 and 267) 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 2021.

22. OUTSTANDING LITIGATIONS

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 39 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 2021 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 37 to the financial statements.

27. SHARE INFORMATION

Information relating to share trading are given on pages 97 and 98 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 2021.

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Name of Shareholders	31-Mar-2021		31-Mar-2020	
	No. of shares	%	No. of shares	%
1 CARSON CUMBERBATCH PLC A/C NO. 02	27,347,485	89.98	27,347,485	89.98
2 BANSEI SECURITIES CAPITAL (PVT) LTD/R.C.J.GOONEWARDENE	364,706	1.20	100,000	0.33
3 MR. M.C.C.K. RODRIGO	364,361	1.20	364,952	1.20
4 MR. K.C. VIGNARAJAH	184,662	0.61	184,033	0.61
5 MRS. V.R. JAYASINGHE	141,923	0.47	134,303	0.44
6 MR. K.C. JAYAWARDENE	122,767	0.40	131,784	0.43
7 EST.OF.LAT H.A. VAN STARREX	90,000	0.30	90,000	0.30
8 MRS. N.A. EDIRIWEERA	75,000	0.25	75,000	0.25
9 MR. A.M. WEERASINGHE	57,500	0.19	57,500	0.19
10 PEOPLE'S LEASING & FINANCE PLC/L.P.HAPANGAMA	57,157	0.19	57,157	0.19
11 MRS. I. GWYN	55,000	0.18	55,000	0.18
12 J.B. COCOSHELL (PVT) LTD	50,004	0.16	60,000	0.20
13 MR. H.A.S. MADANAYAKE	50,000	0.16	50,000	0.16
14 CODE-GEN INTERNATIONAL PVT LTD	50,000	0.16	50,000	0.16
15 MISS. L.A. PIERIS	50,000	0.16	50,000	0.16
16 MR. D.J.N. HETTIARACHCHI	47,391	0.16	22,758	0.07
17 MRS. C.A.D.S. WOODWARD	42,679	0.14	42,679	0.14
18 MR. P. SOMADASA	34,132	0.11	43,295	0.14
19 MR. M.F.J. MACAN MARKAR	30,700	0.10	30,700	0.10
20 NANAYAKKARA MANAGEMENT SERVICES (PRIVATE) LIMITED	28,552	0.09	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 05th July 2021.

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

As permitted by Article 43(b) of the Articles of Association of the Company, the 55th Annual General Meeting of the Company will be held on Monday, 09th August 2021 at 2.30 p.m. at the 8th Floor, No. 65C, Dharmapala Mawatha, Colombo 07, Sri Lanka by means of audio or audio and visual technology.

The Notice of the Annual General Meeting is on page 102 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
05th July 2021

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

Mr.V.P. Malalasekera, Member/Chairman and Mr.F. Mohideen, Member of the RPTRC resigned from the Board of CCPLC w.e.f. 31st December 2020 and ceased to be Members of the RPTRC w.e.f. 31st December 2020.

On 1st January 2021 Mr.W.M.R.S. Dias, Non-Executive, Independent Director of CCPLC was appointed Chairman of the RPTRC and Mr.R. Theagarajah, Non-Executive, Independent Director of CCPLC was appointed as a Member of the RPTRC.

The Members of the RPTRC are as follows :

RPTRC Members	Executive/ Non-Executive/ Independent
Mr. W. M. R. S. Dias (<i>Appointed Chairman w.e.f. 1st January 2021</i>)	Non-Executive, Independent (CCPLC)
Mr. D. C. R. Gunawardena	Non-Executive (CCPLC)
Mr. H. Selvanathan	Executive (CCPLC)
Mr. M. Selvanathan	Executive (CCPLC)
Mr. S. K. Shah	Non-Executive (CCPLC)
Mr. R. Theagarajah (<i>Appointed Member w.e.f. 1st January 2021</i>)	Non-Executive, Independent (CCPLC)
Mr. V. P. Malalasekera (<i>Ceased to be Member/Chairman w.e.f. 31st December 2020</i>)	Non-Executive, Independent (CCPLC)
Mr. F. Mohideen (<i>Ceased to be a Member w.e.f. 31st December 2020</i>)	Non-Executive, Independent (CCPLC)

MEETINGS OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

As allowed by the Carsons Group Related Party Transactions Compliance Code (Carsons Group RPT Code), CCPLC-RPTRC held Four (04) Virtual Meetings during the financial year. In addition, the approval of the RPTRC Members were sought via 15 Circular Resolutions, as well as 06 Circular Letters were circulated for their information during the financial year.

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

	Meetings (virtual) attended (out of 04)
Mr. W. M. R. S. Dias (Chairman)*	01
Mr. D. C. R. Gunawardena	04
Mr. H. Selvanathan	01
Mr. M. Selvanathan	-
Mr. S. K. Shah	04
Mr. R. Theagarajah**	01
Mr. V. P. Malalasekera***	03
Mr. F. Mohideen****	01

*Appointed Chairman w.e.f. 1st January 2021

**Appointed Member w.e.f. 1st January 2021

***Ceased to be Member/Chairman w.e.f. 31st December 2020

****Ceased to be a Member w.e.f. 31st December 2020

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 Carsons Group 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.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

- 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 Carsons Group 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 Carsons Group RPT 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 the KMPs so designated, as relevant.

The Related Party Transactions of the Company for the period 1st April 2020 to 31st March 2021 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.)

W.M.R.S. Dias

*Chairman – Related Party Transactions Review Committee
Carson Cumberbatch PLC*

Colombo
5th July 2021

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, the Parent Company functions as the Audit Committee of the Company.

Mr.V.P. Malalasekera, Member/Chairman and Mr.F. Mohideen, Member of the Audit Committee resigned from the Board of CCPLC w.e.f. 31st December 2020 and ceased to be Members of the Audit Committee w.e.f. 31st December 2020.

On 1st January 2021 Mr.A.S. Amaratunga, Member of the Audit Committee was appointed Chairman of the Audit Committee and Mr.Y.H. Ong, Non-Executive, Independent Director of CCPLC was appointed a Member of the Audit Committee.

The Audit Committee consists of the following Members:

Audit Committee Members	Executive/ Non-Executive/ Independent
Mr. A. S. Amaratunga (<i>Appointed Chairman w.e.f. 1st January 2021</i>)	Non-Executive, Independent (CCPLC)
Mr. D. C. R. Gunawardena	Non-Executive (CCPLC)
Mr. Y. H. Ong (<i>Appointed Member w.e.f. 1st January 2021</i>)	Non-Executive, Independent (CCPLC)
Mr. V. P. Malalasekera (<i>Ceased to be Member/Chairman w.e.f. 31st December 2020</i>)	Non-Executive, Independent (CCPLC)
Mr. F. Mohideen (<i>Ceased to be a Member w.e.f. 31st December 2020</i>)	Non-Executive, Independent (CCPLC)

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

Mr.D.C.R. 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.Y.H. Ong is a Non-Executive, Independent Director of CCPLC. He is also an Independent Non-Executive Director, Member of the Executive Committee, Audit Committee and the Board Risk Committee of United Overseas Bank Ltd., Singapore. Mr.Ong

had served at Ernst & Young, Singapore for 30 years and was involved in audit and financial advisory work etc.

Mr.V.P. Malalasekera was a Non-Executive, Independent Director of CCPLC upto 31st December 2020 and was a former Director of Ceylon Tobacco Company PLC. Mr.F. Mohideen was a Non-Executive, Independent Director of CCPLC upto 31st December 2020 and was a former Deputy Secretary to the Treasury, a former Director of Bank of Ceylon and Securities and Exchange Commission of Sri Lanka.

MEETINGS OF THE AUDIT COMMITTEE

The audit aspects of Pegasus Hotels of Ceylon PLC are conducted within the Agenda of CCPLC-Audit Committee.

As allowed by the CCPLC-Audit Committee Charter, CCPLC-Audit Committee held Seven (07) virtual Meetings during the financial year to discuss matters relating to the Company.

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

	Meetings (virtual) Attended (out of seven)
Mr.A.S. Amaratunga (Chairman)	07
Mr.D.C.R. Gunawardena	07
Mr.Y.H. Ong *	02
Mr.V.P. Malalasekera**	05
Mr.F. Mohideen***	05

*Appointed Member w.e.f. 1st January 2021

**Ceased to be Member/Chairman w.e.f. 31st December 2020

***Ceased to be a Member w.e.f. 31st December 2020

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 Accounts at the completion stage of the audit.

AUDIT COMMITTEE REPORT

The Chairman-Audit Committee issues a written update for circulation to the Board following the Audit Committee Meetings, as relevant, indicating the important matters discussed and decisions taken in respect of the Company. In addition, Minutes/extracts of the Minutes of Audit Committee Meetings are circulated to the Board of Directors.

PURPOSE OF THE AUDIT COMMITTEE

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.

FINANCIAL STATEMENTS

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 discussed Audit Matters tabled by Messrs. KPMG for inclusion in the audit report.

The financial statements of Pegasus Hotels of Ceylon PLC for the year ended 31st March 2021 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.

INTERNAL AUDIT

The objectives of the Group Internal Audit work is 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 Audit Committee approved the audit plan for the financial year 2020/2021 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.

EXTERNAL AUDIT

The External Auditors' Letter of Engagement, was reviewed and discussed by the Committee with them and management prior to the commencement of the audit, and the Committee followed up on the observations noted by the External Auditors.

The Members of the Audit Committee have determined that the independence of Messrs.KPMG, Chartered Accountants has not been impaired by any event or service that gives rise to a conflict of interest. The Committee also reviewed the arrangements made by the Auditors to maintain their independence and confirmation has been received from the Auditors of their compliance with the independence guidance given in the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

The Members of the Audit Committee have 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 2022, subject to the approval of the shareholders of Pegasus Hotels of Ceylon PLC at the Annual General Meeting.

(Sgd.)

A.S. Amaratunga

Chairman – Audit Committee

Carson Cumberbatch PLC

5th July 2021



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FINANCIAL CALENDAR

Financial Year	31st March 2021
Announcement of Results	
1st Quarter	30th June 2020
Issued to Colombo Stock Exchange	14th August 2020
2nd Quarter	30th September 2020
Issued to Colombo Stock Exchange	13th November 2020
3rd Quarter	31st December 2020
Issued to Colombo Stock Exchange	12th February 2021
4th Quarter	31st March 2021
Issued to Colombo Stock Exchange	31st May 2021
Meetings	
54th Annual General Meeting	04th September 2020
55th Annual General Meeting	09th August 2021

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 2021, 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 36 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 2021, 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.

KPMG, a Sri Lankan Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by a guarantee. All rights reserved.

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

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA, W.A.A. Weerasekara FCA, ACMA, MRICS

INDEPENDENT AUDITORS' REPORT



01. Management assessment of the Group/ the Company ability to continue as going concern.

Refer the Note 37 to the financial statements

Risk Description	Our Response
<p>The Group and the Company have incurred a net loss of Rs. 229.8 Mn and Rs. 203.5 respectively for the year ended 31st March 2021. As disclosed in note 37, 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.</p> <p>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.</p> <p>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.</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none"> ■ Obtaining the Company's cash flow projections covering period of not less than twelve months from the reporting period end date and assessing 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.

02. Impairment of Investment in Subsidiary, Goodwill on consolidation

Refer the Note 19.1 / 20.1 to the financial statements

Risk Description	Our Response
<p>The Company has recorded investment in subsidiary amounting to Rs.60.5 Mn as at 31st March 2021. A goodwill of Rs. 65.5 Mn has been recognized in the consolidated financial statements as at 31st March 2021.</p> <p>Additionally, the Company has recognized Rs. 49.8 Mn as provision for impairment of investment in subsidiary and goodwill as at 31st March 2021.</p> <p>Management allocated goodwill to the respective cash generating units ("CGU") and disclosed in note 19.1 to the financial statements. The recoverable amounts of the identified CGUs have been determined based on Fair Value Less cost to Sell calculation. Management performed impairment assessment for investment in subsidiary where indications existed and determined their recoverable amounts.</p> <p>The carrying amount of these amounts could be materially misstated due to inappropriate judgments and estimates used by the management in calculating the recoverable amount for each cash generating units ("CGU") as part of their impairment assessment.</p> <p>We have identified the impairment of investments in subsidiary, goodwill on consolidation as a key audit matter due to the magnitude of the amounts recognized in the financial statements and impairment assessment performed by the management contain certain judgemental assumptions which could be subject to management bias</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none">■ Obtaining an understanding of management's impairment assessment process;■ Evaluating the carrying amounts and the recoverable amount of investment in order to identify impairment indications under accounting standards.■ With the assistance of our own internal valuation specialists assessed the basis used to determine the recoverable amount of this investment■ Evaluating the assumption & parameters which the management's assessment was based on and considering whether there were any indicators of management bias in the selection of the assumptions.■ Assessing the adequacy of disclosures in the Financial Statements in relation to impairment of investment in subsidiary and goodwill on consolidation.

INDEPENDENT AUDITORS' REPORT



03. Revaluation of Land & Building

Refer the Note 17.3 to the financial statements

Risk Description	Our Response
<p>As at 31st March 2021, the Group and Company have fair valued its Land and building amounting to Rs. 2,152Mn in Property, Plant and Equipment.</p> <p>The Group has engaged an independent professional Valuer with appropriate expertise to determine the fair value of these properties in accordance with recognized industry standards. The fair values of Land and Building are dependent on the significant estimate such as per perch price and value per square foot.</p> <p>We identified this as a key audit matter because of the magnitude of the amounts recognized in the financial statements and significant judgments and estimates involved in assessing the fair value of the Land and Building.</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none"> ■ Assessing the objectivity, independence, competence and qualifications of the external Valuer. ■ With the assistance of our own internal valuation specialists assessing the key assumptions applied and conclusions made in deriving the fair value of the Land & Building. In addition to that, we have assessed the valuation methodologies with reference to recognized industry standards. ■ Assessing the adequacy of disclosures in relation to fair value of Land & Building in the financial statements in accordance with the relevant 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

05th July 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	Group		Company	
		2021	2020	2021	2020
Revenue	11	197,547	598,632	151,200	521,461
Direct costs		(261,881)	(420,344)	(214,073)	(357,907)
Gross profit / (loss)		(64,334)	178,288	(62,873)	163,554
Other income	12	6,264	6,598	3,503	4,198
Selling and promotional expenses		(11,041)	(23,790)	(8,970)	(16,831)
Administrative expenses		(137,015)	(212,732)	(115,830)	(180,057)
Loss from operations	13	(206,126)	(51,636)	(184,170)	(29,136)
Impairment on goodwill / Investment in subsidiary	19.1/20.1	(49,772)	-	(49,772)	-
Finance income	14.1	11,163	19,102	10,867	18,611
Finance costs	14.2	(13,454)	(13,957)	(4,296)	(3,232)
Net finance income / (cost)	14	(2,291)	5,145	6,571	15,379
Loss before taxation		(258,189)	(46,491)	(227,371)	(13,757)
Income tax expenses	15.1	(3,714)	(925)	(3,714)	-
Deferred taxation	15.2	32,079	6,175	27,633	1,279
Loss for the year		(229,824)	(41,241)	(203,452)	(12,478)
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain / (loss) from valuation of employee benefits	30.2	(3,155)	325	(1,984)	416
Revaluation of property, plant and equipment	17	383,368	-	286,115	-
Related tax	29.1	(53,230)	(46)	(39,778)	(58)
Other comprehensive income / (expense) for the year		326,983	279	244,353	358
Total comprehensive income / (expense) for the year		97,159	(40,962)	40,901	(12,120)
Earnings / (loss) per share (Rs.)	16	(7.56)	(1.36)	(6.69)	(0.41)

The Notes from pages 40 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)

As at 31st March	Note	Group 2021	Group 2020	Company 2021	Company 2020
ASSETS					
Non-current assets					
Property, plant and equipment	17	2,301,175	2,000,757	1,980,722	1,765,594
Right-of-use assets	18	5,826	699	-	-
Intangible assets	19	66,859	116,967	-	-
Investment in subsidiary	20	-	-	60,451	110,223
Compensation receivable	21	24,759	24,759	24,759	24,759
Total non-current assets		2,398,619	2,143,182	2,065,932	1,900,576
Current assets					
Inventories	22	18,515	25,316	14,832	20,573
Investment in fixed deposits		131,720	87,964	131,720	80,464
Fair value through profit or loss financial assets	23	16,270	34,707	4,226	34,400
Trade and other receivables	24	33,644	54,962	25,347	43,022
Tax receivable		-	1,933	-	1,208
Cash and cash equivalents	25	7,103	101,844	6,645	99,165
Total current assets		207,252	306,726	182,770	278,832
Total assets		2,605,871	2,449,908	2,248,702	2,179,408
EQUITY AND LIABILITIES					
Equity					
Stated capital	26	515,170	515,170	515,170	515,170
Capital reserves	27	1,390,298	1,060,602	1,219,111	973,052
Revenue reserves	28	76,290	308,650	99,155	304,136
Total equity		1,981,758	1,884,422	1,833,436	1,792,358
Non-current liabilities					
Deferred tax liability	29	221,666	200,515	205,444	193,299
Employee benefits	30	28,784	22,287	21,762	16,092
Loans and borrowings	31	166,389	109,623	46,812	21,444
Total non-current liabilities		416,839	332,425	274,018	230,835
Current liabilities					
Trade and other payables	32	115,152	139,062	77,627	98,270
Current tax liabilities		939	-	1,473	-
Loans and borrowings	31	89,224	89,566	61,541	57,945
Bank overdraft	25	1,959	4,433	607	-
Total current liabilities		207,274	233,061	141,248	156,215
Total liabilities		624,113	565,486	415,266	387,050
Total equity and liabilities		2,605,871	2,449,908	2,248,702	2,179,408
Net assets per share (Rs.)		65.21	62.00	60.33	58.98

The Notes from pages 40 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 05th July 2021.

Approved and signed on behalf of the Managers,

Approved and signed on behalf of the Board,

(Sgd.)

A.P. Weeratunge

Director

Carsons Management Services (Private) Limited
05th July 2021

(Sgd.)

D.C.R. Gunawardena

Chairman

(Sgd.)

K. Selvanathan

Director

STATEMENT OF CHANGES IN EQUITY

(All figures in Sri Lankan Rupees thousands)

	Stated capital	Capital reserves Revaluation reserve	Capital accretion reserve	Revenue reserves General reserve	Retained earnings	Total equity attributable to equity holders of the parent company
Group						
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)
Forfeiture of unclaimed dividends	-	-	-	-	66	66
Balance as at 31st March 2020	515,170	1,045,458	15,144	176	308,474	1,884,422
Balance as at 1st April 2020	515,170	1,045,458	15,144	176	308,474	1,884,422
Loss for the year	-	-	-	-	(229,824)	(229,824)
Other comprehensive income / (expense) for the year	-	329,696	-	-	(2,713)	326,983
Total comprehensive income / (expense) for the year	-	329,696	-	-	(232,537)	97,159
Forfeiture of unclaimed dividends	-	-	-	-	177	177
Balance as at 31st March 2021	515,170	1,375,154	15,144	176	76,114	1,981,758
Company						
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)
Forfeiture of unclaimed dividends	-	-	-	-	66	66
Balance as at 31st March 2020	515,170	957,908	15,144	176	303,960	1,792,358
Balance as at 1st April 2020	515,170	957,908	15,144	176	303,960	1,792,358
Loss for the year	-	-	-	-	(203,452)	(203,452)
Other comprehensive income / (expense) for the year	-	246,059	-	-	(1,706)	244,353
Total comprehensive income / (expense) for the year	-	246,059	-	-	(205,158)	40,901
Forfeiture of unclaimed dividends	-	-	-	-	177	177
Balance as at 31st March 2021	515,170	1,203,967	15,144	176	98,979	1,833,436

The Notes from pages 40 to 93 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

STATEMENT OF CASH FLOWS

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	Group		Company	
		2021	2020	2021	2020
Cash flows from operating activities					
Loss before taxation		(258,189)	(46,491)	(227,371)	(13,757)
Adjustments for:					
Interest income on placements with banks and government securities	14.1	(10,202)	(13,069)	(10,100)	(13,018)
Net change in fair value through profit or loss financial assets - unit trust investments	14.1	(959)	(5,848)	(766)	(5,408)
Tax receivable written off		-	250	-	250
Interest expenses on loans and borrowings	14.2	13,454	13,957	4,296	3,232
Amortization of right of use assets	18	202	104	-	-
Amortization of intangible assets	19.2	336	-	-	-
Depreciation on property, plant and equipment	17	83,417	85,430	71,403	71,198
Loss on disposal of property, plant and equipment		68	177	68	177
Property, plant and equipment written off		-	940	-	940
Provision for employee benefits	30.2	5,385	4,525	4,311	3,426
Impairment on goodwill / Investment in subsidiary	19.1/20.1	49,772	-	49,772	-
Provision made for impairment of trade receivables	24.1	776	2,649	887	2,168
Operating profit / (loss) before working capital changes		(115,940)	42,624	(107,500)	49,208
(Increase) / decrease in inventories		6,801	(8,135)	5,741	(7,171)
(Increase) / decrease in trade and other receivables		19,966	15,466	15,755	19,471
Increase / (decrease) in trade and other payables		(23,845)	11,435	(20,547)	(2,222)
Cash generated from / (used in) operations		(113,018)	61,390	(106,551)	59,286
Employee benefits paid	30.1	(2,043)	(1,863)	(625)	(694)
Income tax paid		(266)	(881)	-	(318)
Net cash generated from / (used in) operating activities		(115,327)	58,646	(107,176)	58,274
Cash flows from investing activities					
Purchase of property, plant and equipment	17	(1,185)	(80,766)	(1,134)	(66,744)
Acquisition of intangible assets	19.2	-	(1,680)	-	-
Proceeds from disposal of property, plant and equipment		650	1,071	650	1,071
Net withdrawal of / (investment in) fixed deposits		(48,085)	29,904	(55,585)	37,404
Net disposal of fair value through profit or loss financial assets		19,396	623	30,940	490
Interest received		14,531	9,407	14,429	9,356
Net cash generated from / (used in) investing activities		(14,693)	(41,441)	(10,700)	(18,423)
Cash flows from financing activities					
Dividend paid		(4)	(889)	(4)	(889)
Lease rental paid	31.4	(721)	(721)	-	-
Bank borrowings obtained during the year	31.2	38,834	107,450	25,000	60,000
Bank borrowings repayments during the year	31.2	-	(12,804)	-	(7,500)
Interest paid on bank borrowings		(356)	(2,249)	(247)	(343)
Net cash generated from / (used in) financing activities		37,753	90,787	24,749	51,268
Net increase / (decrease) in cash and cash equivalents		(92,267)	107,992	(93,127)	91,119
Cash and cash equivalents at the beginning of the year		97,411	(10,581)	99,165	8,046
Cash and cash equivalents at the end of the year	25	5,144	97,411	6,038	99,165

The Notes from pages 40 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.

b) Consolidated Financial Statements

These consolidated financial statements for the year ended 31st March 2021 comprise the Company and its Subsidiary (together referred to as the 'Group' and individually as 'Group entities').

c) Subsidiary- Equity Hotels Limited

A fully owned subsidiary, Equity Hotels Limited was incorporated in 1970 under the Companies Act No. 07 of 2007.

d) Principal activities and nature of operations

The principal activity of the Group is hoteliering and leisure related activities and the subsidiary company is also engaged in the business of 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.

e) Parent enterprise and ultimate parent enterprise

The Company's Parent undertaking as at 31st March 2021 is Carson Cumberbatch PLC.

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

f) Number of employees

The number of employees of the Group at the end of the year was 213 (2020 – 267), and the Company – 168 (2020- 211).

g) 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 2021 is set out in detail in the Statement of Directors' Responsibility.

The financial statements of the Group for the year ended 31st March 2021 were authorized for issue in accordance with a resolution of the Board of Directors on 05th July 2021.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of the Group comprise 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 and Sri Lanka Accounting and Auditing Standards Act No.15 of 1995.

The Group did not adopt any inappropriate accounting treatment, which is not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the financial statements.

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 measured at revalued amounts – Note 17
- Financial Assets classified as FVTPL – Note 23
- Defined benefit obligations measured at its present value based on an actuarial valuation - Note 30.
- Compensation receivable measured at amortized cost - 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 the Company and its Subsidiary. All financial information presented have been rounded to the nearest thousand except where otherwise indicated as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of Financial Statements'.

d) Use of accounting judgments, estimates and assumptions

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;

- Impairment of goodwill / Investment in subsidiary (note 19.1 / 20.1)
- Deferred tax assets : Utilization of tax losses (note 29.5)
- Measurement of Defined benefit obligation: Key actuarial assumptions (note 30)
- Commitments and contingencies (note 34)
- Revaluation of Land and Buildings (note 33.6)

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 the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

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

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

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

Level 3: Inputs for the asset or liability that are not based on observable market data (Unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

Further information about the assumptions 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 as permitted by the Sri Lanka Accounting Standard – LKAS 1 ‘Presentation of Financial Statements’ and amendments to the LKAS 1 which was effective from 1st January 2020.

Notes to the financial statements are presented in a systematic manner which ensures the understandability and comparability of financial statements of the Group and the Company. Understandability of the financial statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

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 early 2020, and 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. Based on publicly available information at the date of these financial statements were authorized for issue, management considered a number of severe but possible scenarios with respect to the potential development of the outbreak and its expected impact on the entity and its economic environment, in which the entity operates, including the measures already taken by the Sri Lankan Government.

In preparing these financial statements, based on available information, the management has assessed the existing and anticipated effects of COVID-19 on the Group and the appropriateness of the use of the going concern basis.

In March 2021, the management has evaluated the resilience of the business of the Group and the Company, considering a wide range of factors such as current and expected profitability, the ability to defer non- essential capital expenditure, debt repayment schedules, if any, cash reserves and potential sources of financing facilities, if required, and the ability to continue providing goods and services.

Having presented the outlook of the Group to the Board, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

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

The Group has initially adopted Definition of a Business (Amendments to SLFRS 3) and Interest Rate Benchmark Reform (Amendments to SLFRS 9, LKAS 39 and SLFRS 7) from 1st January 2020. A number of other new standards are also effective from 1st January 2020 but they do not have a material effect on the Group's financial statements.

The Group applied the Definition of a Business (Amendments to SLFRS 3) to business combinations whose acquisition dates are on or after 1st January 2020 in assessing whether it had acquired a business or a group of assets.

a) Basis of consolidation

i. Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and the assets meet the definition of a

business and control is transferred to the Group. In determining whether the particular activities and the assets are a business, the Group assesses whether the set of activities and assets acquired include at minimum, an input and a substantive process and whether the acquired set of activities and assets has the ability to produce outputs.

The Group has an option to apply a 'Concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value as the identifiable net assets acquired. Any goodwill arising is tested annually for impairment. Any gain or 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 the amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition, if an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and the settlement is accounted for within equity. Otherwise other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in the profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for the awards held by the acquiree's employees (acquiree's awards) then all or the portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. The determination is based on the market-based

measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

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 have 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 non-controlling interest is not applicable.

iv. Loss of control

When a Group loses control over a Subsidiary, it derecognizes the assets 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 as at the

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

date that control is lost. Subsequently, It is accounted for an equity accounted investee or as a financial asset depending on the level of influence retained.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

v. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gain or losses) arising from intra-group transactions, are eliminated. Unrealized gains arising from the transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates as at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the 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.

c) Financial instruments

i. Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group and the 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 the 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 the Company's financial assets classified under amortised cost includes trade and other receivables, 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 is not designated as 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 the 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 the 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 the 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 the 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 the 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 the 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 the Company's claim to cash flows from specified assets (e.g. non-recourse features).

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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.

in which substantially all of the risks and rewards of ownership of the financial asset are transferred in which the Group and the 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 the 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 the Company derecognize a financial liability when its contractual obligation is discharged, cancelled, or expired. The Group and the 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.

iv. Derecognition ***1. Financial asset***

The Group and the 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

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 the 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 the Company recognise loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost.

The Group and the 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 the Company's historical experience and informed credit assessment and including forward-looking information.

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

The Group and the Company consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group and the Company in full, without recourse by the Group and the Company 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 and the Company are 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 and the Company expect 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.
- The disappearance of an active market for a security because of financial difficulties.

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(All figures in Sri Lankan Rupees thousands)

Presentation of allowance for ECL in the Statement of Financial Position

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

Write-off

The gross carrying amount of a financial asset is written off when the Group and the Company have no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group and the Company have a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group and the Company individually makes an assessment with respect to the timing and amount of writeoff based on whether there is a reasonable expectation of recovery. The Group and the Company expect no significant recovery from the amount written off. However financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures to recovery of amounts due.

3. Non-financial assets

The carrying amount of the Group's and the Company'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.

d) 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.

e) 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 Company 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.

The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended

use. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to the working condition of its intended use. This also includes costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

All items of property, plant and equipment are recognised initially at cost.

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 it is probable that the future economic benefits associated with the expenditure will flow to the Group and the Company and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are 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 or their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

	No of Years
Buildings – freehold	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.

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(All figures in Sri Lankan Rupees thousands)

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 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.

f) **Leases**

At inception of a contract, the Group and the Company assess 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 consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and the Company use the definition of a lease in SLFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group and the Company allocate 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 and the Company have elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group and the Company recognise 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 and the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Group and the Company 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 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 and the Company are reasonably certain to exercise an

extension option, and penalties for early termination of a lease unless the Group and the Company are 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 and the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Group and the Company change 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 and the Company present 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 and the Company have 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 and the Company recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease modifications

The Group and the Company shall account for a lease modification as a separate lease if both:

- a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group and the Company shall:

- a) allocate the consideration in the modified contract
- b) determine the lease term of the modified lease
- c) remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the Group and the Company shall account for the remeasurement of the lease liability by:

- a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognise in profit or loss any gain or loss relating to the partial or full termination of the lease.
- b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

g) 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.

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(All figures in Sri Lankan Rupees thousands)

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.

h) **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

i) **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 and the Company in the management of its short term commitments.

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

j) **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 have 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 the Group and the Company pay 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's and the Company's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in current and prior periods and discounting that amount.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognized immediately in OCI. The Group and the Company determine the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined liability, taking 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 are 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 have 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.

k) Provisions

A provision is recognized if, as a result of a past event, the Group and the Company have 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.

l) 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 do 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 do 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

m) Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group and the Company recognise 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.

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(All figures in Sri Lankan Rupees thousands)

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 beverages	The following services are rendered under this performance obligation: <ul style="list-style-type: none"> 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.

n) Other income

Rent and shop income represents the rental income arising from renting of property, plant and equipment. All revenue is recognized on a straight-line basis over the term of hire.

Dividend income is recognised when the right to receive dividends is established which is generally when the dividend is declared. Dividend income is included under other operating income.

Interest income is recognised as it accrues. Interest income included under finance income in the income statement.

o) Expenditure recognition

All expenditure 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 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 that are recognized in profit or loss and reclassifications of net gains previously recognized in other comprehensive income. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and corporate guarantee charges 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 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 and the Company expect, 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 and the Company take 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. STATEMENT OF CASH FLOWS

The cash flow statement has been prepared using the "Indirect Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flows', whereby operating activities, investing activities and financing activities are separately recognised.

Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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".

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(All figures in Sri Lankan Rupees thousands)

6. EARNINGS PER SHARE

The Group and the Company 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 Group 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

A number of new standards and amendments to standards are effective for annual periods beginning after 1st January 2021 and earlier application is permitted; however, the Group and the Company have not early adopted the new or amended standards in preparing these financial statements.

■ *COVID-19-Related Rent Concessions (Amendment to SLFRS 16)*

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient will only apply if

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease

The amendment applies to annual reporting periods beginning on or after 01st June 2020. The Group and the Company do not anticipate this amended to have a significant impact on the Company's financial statements.

■ *Interest Rate Benchmark Reform – Phase 2 (Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16)*

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting

The amendments will require an entity to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities. The Group and the Company are in the process of assessing the impact of this standard on its accounting and reporting. This amendment is effective for annual periods beginning on or after 1st January 2021.

■ ***Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16)***

This amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendment applies to annual reporting periods beginning on or after 1st January 2022.

■ ***Onerous contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37)***

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1st January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The Group and the Company do not anticipate this amended to have a significant impact.

■ ***Annual Improvements to SLFRS Standards 2018–2020.***

As part of its process to make non-urgent but necessary amendments to accounting Standards, the IASB International Accounting Standards Board (the Board) has issued the Annual Improvements to IFRS Standards 2018–2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Key aspects covered are as follows:

I. SLFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of SLFRS 1 for a subsidiary that becomes a first-time adopter of SLFRS Standards later than its parent.

II. SLFRS 9 Financial Instruments

This amendment clarifies that – for the purpose of performing the “10 per cent test” for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

■ ***Classification of Liabilities as Current or Non-current (Amendments to LKAS 1)***

The amendments in Classification of Liabilities as Current or Noncurrent (Amendments to LKAS 1) affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those item

The Key amendments are as follows:

- the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The standard also clarifies that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendment applies to annual reporting periods beginning on or after 1st January 2023.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March		Group		Company	
		2021	2020	2021	2020
11	REVENUE				
	Revenue analysis (net)				
	Room revenue	68,054	248,104	45,983	203,675
	Food and beverage revenue	125,169	338,790	101,276	308,315
	Other revenue	4,324	11,738	3,941	9,471
		197,547	598,632	151,200	521,461
12	OTHER INCOME				
	Rent income	3,152	4,128	722	1,728
	Club membership income	1,386	2,179	1,386	2,179
	Loss on disposal of property, plant and equipment	(68)	(177)	(68)	(177)
	Sundry income	1,794	468	1,463	468
		6,264	6,598	3,503	4,198
13	LOSS FROM OPERATIONS				
	Loss from operations is stated after charging all expenses including the following:				
	Auditors' remuneration				
	- Audit services	680	679	395	395
	Amortization of right of use assets (note 18)	202	104	-	-
	Amortization of intangible assets (note 19.2)	336	-	-	-
	Depreciation (note 13.1)	83,417	85,430	71,403	71,198
	Write-off of property, plant and equipment	-	940	-	940
	Provision for / (reversal of) impairment of trade receivables (note 24.1.1)	776	2,649	887	2,168
	Professional service costs (note 13.2)	2,006	2,374	1,632	1,996
	Nomination committee fees	50	50	50	50
	Personnel costs (note 13.3)	121,459	202,464	99,893	167,747
	Support service fees	400	8,625	400	8,625

For the year ended 31st March		Group		Company	
		2021	2020	2021	2020
13.1	Depreciation				
	Depreciation is included in the statement of profit or loss under the following headings:				
	Direct costs	62,356	65,621	51,822	52,616
	Administrative expenses	21,061	19,809	19,581	18,582
		83,417	85,430	71,403	71,198
13.2	Professional service costs				
	Legal services	832	650	692	510
	Valuation services	65	66	51	50
	Other services	1,109	1,658	889	1,436
		2,006	2,374	1,632	1,996
13.3	Personnel costs				
	Salaries, wages and other related expenses	100,281	179,982	82,699	149,583
	Defined benefits plan cost - employee benefits (note 30.2)	5,385	4,525	4,311	3,426
	Defined contribution plan cost - EPF and ETF	15,793	17,957	12,883	14,738
		121,459	202,464	99,893	167,747
	The above include:				
	Non executive directors' fees	770	440	770	440
	Directors' emoluments	-	-	-	-
		770	440	770	440
14	NET FINANCE INCOME / (COST)				
14.1	Finance income				
	Interest income on placements with banks and government securities	10,202	13,069	10,100	13,018
	Net change in fair value through profit or loss financial assets - unit trust investments	959	5,848	766	5,408
	Gain on foreign exchange transactions	2	185	1	185
		11,163	19,102	10,867	18,611

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March		Group		Company	
		2021	2020	2021	2020
14	NET FINANCE INCOME / COST CONTD.				
14.2	Finance costs				
	Interest expenses on loans and borrowings				
	- On bank borrowings	12,489	13,374	4,296	3,232
	- On lease liabilities	965	583	-	-
		13,454	13,957	4,296	3,232
	Net finance income / (cost)	(2,291)	5,145	6,571	15,379
15	INCOME TAX EXPENSES				
15.1	Current taxation				
	Current tax expenses (note 15.3)	2,608	-	2,608	-
	Under / (over) provision for previous years	1,106	925	1,106	-
		3,714	925	3,714	-
15.2	Deferred taxation				
	On origination and (reversal of) temporary differences (note 29.1)	(32,079)	(6,175)	(27,633)	(1,279)
		(32,079)	(6,175)	(27,633)	(1,279)
		(28,365)	(5,250)	(23,919)	(1,279)

For the year ended 31st March		Group		Company	
		2021	2020	2021	2020
15.3	Reconciliation between the accounting profit and the profit for tax purposes				
	Accounting profit / (loss) before taxation	(258,189)	(46,491)	(227,371)	(13,757)
	Aggregate disallowable expenses	97,119	103,789	80,355	85,791
	Aggregate allowable expenses	(69,992)	(78,095)	(55,108)	(63,847)
	Impairment on goodwill / Investment in subsidiary	49,772	-	49,772	-
	Adjustment on tax loss incurred during the year	192,156	39,714	163,218	10,239
	Interest income	(10,866)	(18,917)	(10,866)	(18,426)
	Adjusted Profit from operations for tax purposes	-	-	-	-
	Investment Income - Interest income	10,866	18,917	10,866	18,426
	Total Income	10,866	18,917	10,866	18,426
	Utilization of tax losses (notes 15.4)	-	(18,917)	-	(18,426)
	Assessable / Taxable income	10,866	-	10,866	-
	Tax @ 14%	-	-	-	-
	Tax @ 24%	2,608	-	2,608	-
	Taxation thereon (note 15.5 a)	2,608	-	2,608	-
15.4	Analysis of tax losses				
	Tax losses brought forward	129,097	103,538	72,651	76,076
	Tax loss incurred during the year	192,156	39,714	163,218	10,239
	Adjustment on finalization of tax liability	17,949	4,762	12,903	4,762
	Utilization of tax losses during the year (note 15.5 b)	-	(18,917)	-	(18,426)
	Tax losses carried forward	339,202	129,097	248,772	72,651

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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 and amendments thereto, income tax shall be calculated by applying the relevant rate set out under the First Schedule. As per the First Schedule, companies engaged in an undertaking for the promotion of tourism are liable to income tax at concessionary rate of 14%. Therefore, taxable income of the Company and its subsidiary are liable to income tax at 14%. (2020 - 14%). Other income are subject to tax at the standard rate of 24%. (2020 - 24% & 28%).
- (b) As per section 19 of the Inland Revenue Act No. 24 of 2017 and amendments thereto, any unclaimed tax losses incurred during the year could be carried forward for further six years. Such losses can be set off against profits without any limitation but subject to the limitation based on the tax rate applicable for source of income as provided in the Act. Company & its subsidiary have carried forward tax losses which are available to be set off against the future tax profits of the company.
- (c) 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% (2020 - 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".

For the year ended 31st March	Group		Company	
	2021	2020	2021	2020
Amount used as the numerator				
Profit / (loss) attributable to the ordinary shareholders of the Company	(229,824)	(41,241)	(203,452)	(12,478)
Amount used as the denominator				
Weighted average number of ordinary shares outstanding at the beginning of the year (In thousands)	30,392	30,392	30,392	30,392
Earnings / (loss) per share (Rs.)	(7.56)	(1.36)	(6.69)	(0.41)

Diluted Earnings / (loss) per share

There were no potentially dilutive ordinary shares as at 31st March 2021 and there have been no transactions involving ordinary shares or potential ordinary shares as at the reporting date which would require restatement of EPS.

17 PROPERTY, PLANT AND EQUIPMENT

17.1 Group

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Motor Vehicles	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2021	Total as at 31st March 2020
Cost/valuation										
Balance as at the beginning of the year	828,215	1,054,937	143,043	188,931	14,306	138,251	7,149	780	2,380,181	2,312,314
Additions during the year	-	-	-	14	40	1,033	-	75	1,185	80,766
Revaluation	92,605	290,763	-	-	-	-	-	-	383,368	-
Adjustment on revaluation	-	(114,234)	-	-	-	-	-	-	(114,234)	-
Disposal/write off during the year	-	-	(29)	(717)	(24)	(1,119)	-	-	(3,474)	(12,899)
Balance as at the end of the year	920,820	1,231,466	143,014	188,228	14,322	138,165	5,587	855	2,647,026	2,380,181
Depreciation										
Balance as at the beginning of the year	-	82,355	93,625	110,880	11,611	72,480	3,904	-	379,424	304,705
Charge for the year	-	31,879	7,730	21,799	1,378	19,684	-	-	83,417	85,430
Adjustment on revaluation	-	(114,234)	-	-	-	-	-	-	(114,234)	-
Disposal/write off during the year	-	-	(29)	(693)	(24)	(1,075)	-	-	(2,756)	(10,711)
Balance as at the end of the year	-	-	101,326	131,986	12,965	91,089	3,916	-	345,851	379,424
Net book value as at the end of the year	920,820	1,231,466	41,688	56,242	1,357	47,076	1,671	855	2,301,175	2,000,757

17.2 Company

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Motor Vehicles	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2021	Total as at 31st March 2020
Cost/valuation										
Balance as at the beginning of the year	828,215	836,205	117,105	161,574	12,852	122,115	5,493	780	2,088,908	2,035,063
Additions during the year	-	-	-	14	40	1,005	-	75	1,134	66,744
Revaluation	92,605	193,510	-	-	-	-	-	-	286,115	-
Adjustment on revaluation	-	(92,013)	-	-	-	-	-	-	(92,013)	-
Disposal/write off during the year	-	-	(29)	(717)	(24)	(1,119)	-	-	(3,474)	(12,899)
Balance as at the end of the year	920,820	937,702	117,076	160,871	12,868	122,001	3,908	855	2,280,670	2,088,908
Depreciation										
Balance as at the beginning of the year	-	66,973	80,200	96,862	11,317	60,568	2,825	-	323,314	262,827
Charge for the year	-	25,040	6,023	19,940	920	18,661	-	-	71,403	71,198
Adjustment on revaluation	-	(92,013)	-	-	-	-	-	-	(92,013)	-
Disposal/write off during the year	-	-	(29)	(693)	(24)	(1,075)	-	-	(2,756)	(10,711)
Balance as at the end of the year	-	-	86,194	116,109	12,213	78,154	2,709	-	299,948	323,314
Net book value as at the end of the year	920,820	937,702	30,882	44,762	655	43,847	1,199	855	1,980,722	1,765,594

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

17 PROPERTY, PLANT AND EQUIPMENT CONTD.

- 17.3 Freehold land and freehold building of the Company and the Group were revalued by an independent professional valuer Mr. S. Sivaskantha, F.I.V. (Sri Lanka) of Perera Sivaskantha & Company, Incorporated valuers, on the basis of Market Approach and Contractor's method as at 31st March 2021. 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 2021	Carrying value of revalued assets 2020
Pegasus Reef Hotel, Wattala.	Freehold land	Market approach	20,977	920,820	828,215
	Building	Contractor's method	545,880	937,702	769,232
Equity Hotels Limited, Giritale	Building	Contractor's method	96,657	293,764	203,350

As at 31st March		Group		Company	
		2021	2020	2021	2020
17.4	Analysis of Capital work-in-progress				
	Freehold building	855	780	855	780
		855	780	855	780
17.5	Details of fully depreciated assets in property, plant and equipment				
	Plant and machinery	69,806	61,850	59,637	53,145
	Equipment, furniture and fittings	73,891	65,184	57,191	50,952
	Computer equipment	11,375	10,197	10,290	9,571
	Motor vehicle	4,569	4,569	4,569	4,569
	Building	-	3,452	-	3,452
		159,641	145,252	131,687	121,689

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

No borrowing costs were capitalized during the year (2020 - Nil) on property, plant and equipment of the Company and the Group.

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 18 and 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.

As at 31st March		Group		Company	
		2021	2020	2021	2020
18	RIGHT-OF-USE ASSETS				
	Cost				
	Balance as at the beginning of the year	803	-	-	-
	Adjustment on recognition of right of use assets as per SLFRS 16	-	803	-	-
	Adjustment on lease modification	5,329	-	-	-
	Balance as at the end of the year	6,132	803	-	-
	Accumulated amortization				
	Balance as at the beginning of the year	104	-	-	-
	Amortization for the year	202	104	-	-
	Balance as at the end of the year	306	104	-	-
	Carrying amount as at the end of the year	5,826	699	-	-

The land where the Equity Hotels Limited is located, in Giritale, Polonnaruwa, is on a 30 year lease from 01st January 2020 to 31st December 2049 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.

During the year ended 31st March 2021 the lease consideration and the lease term have been changed, which is not part of it's precedent lease agreement nor original terms and conditions which have been accounted as a lease modification as per SLFRS 16.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

As at 31st March		Group		Company	
		2021	2020	2021	2020
19	INTANGIBLE ASSETS				
19.1	Goodwill on consolidation				
	Balance as at the beginning of the year	115,287	115,287	-	-
	Impairment (note 19.3)	(49,772)	-	-	-
	Balance as at the end of the year	65,515	115,287	-	-
19.2	Computer Software				
	Cost				
	Balance as at the beginning of the year	5,310	3,630	3,630	3,630
	Acquisitions during the year	-	1,680	-	-
	Balance as at the end of the year	5,310	5,310	3,630	3,630
	Accumulated amortization				
	Balance as at the beginning of the year	3,630	3,630	3,630	3,630
	Amortization	336	-	-	-
	Balance as at the end of the year	3,966	3,630	3,630	3,630
	Carrying value as at the end of the year	1,344	1,680	-	-
	Total intangible assets	66,859	116,967	-	-

- 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 is also used to identify any indication of an impairment.

Accordingly, as per the impairment test carried out as at 31st March 2021, goodwill on acquisition of Equity Hotels Limited was impaired by Rs. 49.8Mn.

As at 31st March		Group		Company	
		2021	2020	2021	2020
20	INVESTMENT IN SUBSIDIARY				
	Investment in subsidiary (note 20.2)	-	-	60,451	110,223
		-	-	60,451	110,223
20.1	Movement of investment in subsidiary				
	Balance as at the beginning of the year	-	-	110,223	110,223
	Impairment (note 20.3)	-	-	(49,772)	-
	Balance as at the end of the year	-	-	60,451	110,223

	No. of shares	Cost as at 31st March 2021	No. of shares	Cost as at 31st March 2020
20.2	Details of investment in subsidiary			
	Equity Hotels Limited	685,469	685,469	110,223
	Total investment in subsidiary	60,451		110,223

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

20.3 Impairment of investment in subsidiary

During the year under review, goodwill on acquisition of Equity Hotels Limited was reviewed to assess for any possible impairment losses. Accordingly, an impairment test was carried out based on the Net Asset Value of the Company and a recent comparable market transaction of a similar entity. Based on the impairment test performed on the basis of Net Asset Value, no provision was required to be made. However, as per the assessment based on the recent comparable transaction, the Company was required to make an impairment provision of Rs. 49.8 Mn.

Accordingly, the management is of the view that market transaction approach is a superior valuation methodology over the Net Asset based approach as it reflects the price at which similar businesses have actually traded in the market in the recent times. Therefore, an impairment provision of Rs. 49.8 Mn was made on the goodwill on acquisition of Equity Hotels Limited as of 31st March 2021.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

For the year ended / as at 31st March		2021	2020
20	INVESTMENT IN SUBSIDIARY CONTD.		
20.4	Summarised financials of subsidiary		
	Revenue	46,347	77,171
	Profit / (loss) for the year	(26,372)	(28,763)
	Total other comprehensive income / (expense) for the year	82,630	(79)
	Total comprehensive income / (expense) for the year	56,258	(28,842)
	Non current assets	327,623	237,542
	Current assets	24,482	27,894
	Total assets	352,105	265,436
	Non current liabilities	142,821	101,590
	Current liabilities	66,026	76,846
	Total liabilities	208,847	178,436
	Net assets	143,258	87,000
	Net cash generated from / (used in) operating activities	(8,151)	372
	Net cash generated from / (used in) investing activities	(3,993)	(23,018)
	Net cash generated from / (used in) financing activities	13,004	39,519
	Net increase / (decrease) in cash and cash equivalents	860	16,873

As at 31st March		Group		Company	
		2021	2020	2021	2020
21	COMPENSATION RECEIVABLE				
	Balance as at the beginning of the year	24,759	24,759	24,759	24,759
	Balance as at the end of the year	24,759	24,759	24,759	24,759

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 harbour.

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 harbour 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 the Company's inquiry from the Divisional Secretary, the Company was 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 the claim of compensation in respect of land extent of 353.89 perches, awarding a compensation of Rs. 5,459,500/- relating to the claim of Rs. 159.3 mn. The Company has 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 its 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, the Company 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

As at 31st March		Group		Company	
		2021	2020	2021	2020
22	INVENTORIES				
	Food	5,689	5,839	4,755	4,712
	Beverage	4,259	4,875	3,393	3,891
	Engineering spares	2,554	2,606	2,382	2,498
	Linen	2,513	8,597	1,540	6,368
	Others	3,500	3,399	2,762	3,104
		18,515	25,316	14,832	20,573
23	FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS				
	Investment in unit trusts - unquoted	16,270	34,707	4,226	34,400
		16,270	34,707	4,226	34,400
23.1	Movement in fair value through profit or loss financial assets				
	Balance as at the beginning of the year	34,707	29,482	34,400	29,482
	Investments during the year	79,951	276,577	65,700	256,576
	Disposals during the year	(99,347)	(277,200)	(96,640)	(257,066)
	Fair value adjustment	959	5,848	766	5,408
	Balance as at the end of the year	16,270	34,707	4,226	34,400

As at 31st March		2021			2020		
		No. of units	Cost	Fair value	No. of units	Cost	Fair value
23.2	Investment in unit trusts - unquoted						
	Group						
	Guardian Acuity Money Market Fund	795,603	16,056	16,270	1,786,123	34,070	34,707
			16,056	16,270		34,070	34,707
	Company						
	Guardian Acuity Money Market Fund	206,672	4,182	4,226	1,770,328	33,773	34,400
			4,182	4,226		33,773	34,400

Valuation of investments in unit trusts are based on the unit prices published by the Investment Managers as at 31st March 2021.

As at 31st March		Group		Company	
		2021	2020	2021	2020
24	TRADE AND OTHER RECEIVABLES				
	Financial				
	Trade receivables (note 24.1)	10,381	32,958	8,847	26,273
	Other receivables	18,496	15,267	12,364	10,309
	Loans given to company staff (note 24.2)	45	413	45	399
		28,922	48,638	21,256	36,981
	Non-financial				
	Advances and prepaid expenses	4,722	6,324	4,091	6,041
		4,722	6,324	4,091	6,041
		33,644	54,962	25,347	43,022
24.1	Trade receivables				
	Trade debtors	18,393	40,194	16,229	32,768
	Less: Provision for impairment (note 24.1.1)	(8,012)	(7,236)	(7,382)	(6,495)
		10,381	32,958	8,847	26,273
24.1.1	Impairment of trade receivables				
	Balance as at the beginning of the year	7,236	4,587	6,495	4,327
	Provision during the year	995	2,766	995	2,285
	Reversal during the year	(219)	(117)	(108)	(117)
	Balance as at the end of the year	8,012	7,236	7,382	6,495
24.2	Loans given to company staff				
	Balance as at the beginning of the year	413	386	399	386
	Loans granted during the year	-	1,960	-	1,190
	Settlements during the year	(368)	(1,933)	(354)	(1,177)
	Balance as at the end of the year	45	413	45	399

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

As at 31st March		Group		Company	
		2021	2020	2021	2020
25	CASH AND CASH EQUIVALENTS				
	Cash at bank and in hand	7,103	101,844	6,645	99,165
	Total cash and cash equivalents	7,103	101,844	6,645	99,165
	Bank overdraft	(1,959)	(4,433)	(607)	-
	Net cash and cash equivalents for the cash flow statement purpose	5,144	97,411	6,038	99,165
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		Company	
		2021	2020	2021	2020
27	CAPITAL RESERVES				
	Revaluation reserve	1,375,154	1,045,458	1,203,967	957,908
	Capital accretion reserve	15,144	15,144	15,144	15,144
		1,390,298	1,060,602	1,219,111	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 in revaluation of an asset relating to a previous decrease in carrying amount, which was 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.

The movement in above reserves are given in the Statement of Changes in Equity.

27.2 Capital accretion reserve

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

As at 31st March	Group		Company	
	2021	2020	2021	2020
28 REVENUE RESERVES				
General reserve	176	176	176	176
Retained earnings	76,114	308,474	98,979	303,960
	76,290	308,650	99,155	304,136

28.1 General reserves

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

As at 31st March	Group		Company	
	2021	2020	2021	2020
29 DEFERRED TAX LIABILITY				
Balance as at the beginning of the year	200,515	206,644	193,299	194,520
Charge / (reversal) for the year (note 29.1)	21,151	(6,129)	12,145	(1,221)
Balance as at the end of the year	221,666	200,515	205,444	193,299
29.1 Charge / (reversal) for the year				
The amounts recognized in the statement of profit or loss are as follows;				
Property, plant and equipment	(666)	(1,259)	(1,731)	(1,073)
Employee benefits	(468)	(373)	(516)	(382)
Tax losses	(29,414)	(3,579)	(24,657)	480
Lease creditor on right of use assets	(780)	(593)	-	-
Provision for bad debts	(751)	(371)	(729)	(304)
	(32,079)	(6,175)	(27,633)	(1,279)
The amounts recognized in the statement of other comprehensive income are as follows;				
Employee benefits	(442)	46	(278)	58
Revaluation of property, plant and equipment	53,672	-	40,056	-
	53,230	46	39,778	58
Charge / (reversal) for the year	21,151	(6,129)	12,145	(1,221)

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

As at 31st March		Group		Company	
		2021	2020	2021	2020
29	DEFERRED TAX LIABILITY CONTD.				
29.2	Deferred tax assets				
	Tax effect on employee benefits	4,030	3,120	3,047	2,253
	Tax effect on tax losses	47,488	18,074	34,828	10,171
	Tax effect on lease creditor on right of use assets	1,373	593	-	-
	Tax effect on provision for bad debts	1,122	371	1,033	304
	Total deferred tax assets	54,013	22,158	38,908	12,728
29.3	Deferred tax liability				
	Tax effect on property, plant and equipment	275,679	222,673	244,352	206,027
	Total deferred tax liability	275,679	222,673	244,352	206,027
	Net deferred tax liability	221,666	200,515	205,444	193,299

29.4 Tax on land Valuation

As per the Inland Revenue Act No 24 of 2017, applicable from 1st April 2018, any gains 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 acquisition 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. 899,843,800/- as at 31st March 2021, 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. 125,978,132/- 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 2020/21 Group incurred a tax loss of Rs 192.2 Mn increasing cumulative tax losses to Rs. 339.2 Mn. Management has determined the recoverability of cumulative tax losses based on five year business plan and taking into account the timing of expected reversal of the 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. Such changes to the estimates will be adjusted during the period the change occurs.

As at 31st March		Group		Company	
		2021	2020	2021	2020
30	EMPLOYEE BENEFITS				
30.1	The movement of the liability recognized in the Statement of Financial Position is as follows;				
	Balance as at the beginning of the year	22,287	19,950	16,092	13,776
	Provision for the year (note 30.2)	8,540	4,200	6,295	3,010
	Payments made during the year	(2,043)	(1,863)	(625)	(694)
	Balance as at the end of the year	28,784	22,287	21,762	16,092
30.2	Provision for the year				
	The amounts recognized in the statement of profit or loss are as follows;				
	Current service cost	3,045	2,330	2,621	1,911
	Interest cost	2,340	2,195	1,690	1,515
		5,385	4,525	4,311	3,426
	The amount recognised in the statement of other comprehensive income is as follows;				
	Actuarial (gains) / losses	3,155	(325)	1,984	(416)
		3,155	(325)	1,984	(416)
	Provision for the year	8,540	4,200	6,295	3,010

"The Employee benefits" as at 31st March 2021 amounting to Rs. 21,762,060/- and Rs. 28,784,434/- (2020 - Rs. 16,092,409/- and Rs. 22,287,806/-) 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 7.5% p.a. (2020 - 10.5% p.a.)
- Rate of pay increase 10% p.a. (2020 - 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

30 EMPLOYEE BENEFITS CONTD.

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,

As at 31st March	Group		Company	
	2021	2020	2021	2020
1% increase in discount rate	(1,942)	(1,391)	(1,532)	(1,008)
1% decrease in discount rate	2,211	1,565	1,761	1,142
1% increase in salary escalation rate	2,271	1,665	1,797	1,211
1% decrease in salary escalation rate	(2,034)	(1,504)	(1,596)	(1,086)

30.4 Maturity analysis of the payment

Within next 12 months	4,457	1,350	4,049	1,068
Between 1-2 years	3,081	5,254	2,239	4,654
Between 2-5 years	5,931	4,811	3,813	2,675
Between 5-10 years	8,407	6,630	5,147	4,096
Beyond 10 years	6,908	4,242	6,514	3,599
Total	28,784	22,287	21,762	16,092

As at 31st March	Group		Company	
	2021	2020	2021	2020
31 LOANS AND BORROWINGS				
31.1 Non-current liabilities				
Bank borrowings	157,185	105,546	46,812	21,444
Lease creditor on right of use asset	9,204	4,077	-	-
	166,389	109,623	46,812	21,444
Current liabilities				
Bank borrowings	88,620	89,408	61,541	57,945
Lease creditor on right of use asset	604	158	-	-
	89,224	89,566	61,541	57,945
	255,613	199,189	108,353	79,389

As at 31st March	Group		Company	
	2021	2020	2021	2020
31.2 Movement of bank borrowings				
Balance as at the beginning of the year	194,954	89,184	79,389	24,000
Moratoriums received	12,017	11,124	3,964	2,889
Bank borrowings obtained during the year	38,834	107,450	25,000	60,000
Bank borrowings repayments during the year	-	(12,804)	-	(7,500)
Balance as at the end of the year	245,805	194,954	108,353	79,389

Bank	Interest rate	Year of maturity	Repayment terms	2021		2020	
				Face value	Carrying amount	Face value	Carrying amount
31.3 Details of long-term borrowings							
Group							
Sampath Bank PLC	Fixed rate	2025	50 equal monthly instalments of Rs. 229,000 and a final instalment of Rs. 222,000 from October 2021.	11,672	11,672	11,672	11,672
Sampath Bank PLC	Fixed rate	2024	35 equal monthly instalments of Rs. 47,466 from October 2021.	1,661	1,661	1,484	825
Sampath Bank PLC	Fixed rate	2024	31 equal monthly instalments of Rs. 594,000 and a final instalment of Rs. 580,000 from October 2021.	18,994	18,994	18,994	18,994
Sampath Bank PLC	Fixed rate	2024	35 equal monthly instalments of Rs. 54,701 from October 2021.	1,915	1,915	1,610	895
Peoples Bank	Fixed rate	2023	17 equal monthly instalments of Rs. 725,000 and a final instalment of Rs. 675,000 from October 2021.	13,000	13,000	-	-
Commercial Bank PLC	Variable rate	2026	59 equal monthly instalments of Rs. 666,000 and a final instalment of Rs. 706,000 from October 2021.	40,000	40,000	40,000	40,000
Commercial Bank PLC	Variable rate	2023	24 equal monthly instalments of Rs. 379,830 from October 2021.	9,116	9,116	5,327	5,327
Commercial Bank PLC	Variable rate	2023	24 equal monthly instalments of Rs. 833,333 from October 2021.	20,000	20,000	20,000	20,000
Commercial Bank PLC	Variable rate	2023	24 equal monthly instalments of Rs. 122,178 from October 2021.	2,932	2,932	1,188	1,188
Commercial Bank PLC	Fixed rate	2023	23 equal monthly instalments of Rs. 834,000 and a final instalment of Rs. 818,000 from October 2021.	20,000	17,498	20,000	16,664
Commercial Bank PLC	Fixed rate	2023	24 equal monthly instalments of Rs. 27,673 from October 2021.	664	664	-	-
Commercial Bank PLC	Variable rate	N/A	Repayment terms to be mutually agreed with the bank by September 2021.	24,000	24,000	24,000	24,000
Commercial Bank PLC	Variable rate	2023	24 equal monthly instalments of Rs. 202,580 from October 2021.	4,862	4,862	2,889	2,889

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

	Interest rate	Year of maturity	Repayment terms	2021		2020	
				Face value	Carrying amount	Face value	Carrying amount
31 LOANS AND BORROWINGS CONTD.							
31.3 Details of long-term borrowings Contd.							
Group Contd.							
Commercial Bank PLC	Fixed rate	2023	Rs. 15,000,000 in October 2021 and the balance in 18 equal monthly instalments of Rs. 2,500,000.	60,000	52,500	60,000	52,500
Commercial Bank PLC	Fixed rate	2023	24 equal monthly instalments of Rs. 82,955 from October 2021.	1,991	1,991	-	-
Peoples Bank	Fixed rate	2023	17 equal monthly instalments of Rs. 1,388,000 from October 2021 onwards and a final instalment of Rs. 1,404,000.	25,000	25,000	-	-
				255,807	245,805	207,164	194,954
Company							
Commercial Bank PLC	Variable rate	N/A	Repayment terms to be mutually agreed with the bank by September 2021.	24,000	24,000	24,000	24,000
Commercial Bank PLC	Variable rate	2023	24 equal monthly instalments of Rs. 202,580 from October 2021.	4,862	4,862	2,889	2,889
Commercial Bank PLC	Fixed rate	2023	Rs. 15,000,000 in October 2021 and the balance in 18 equal monthly instalments of Rs. 2,500,000.	60,000	52,500	60,000	52,500
Commercial Bank PLC	Fixed rate	2023	24 equal monthly instalments of Rs. 82,955 from October 2021.	1,991	1,991	-	-
Peoples Bank	Fixed rate	2023	17 equal monthly instalments of Rs. 1,388,000 from October 2021 onwards and a final instalment of Rs. 1,404,000.	25,000	25,000	-	-
				115,853	108,353	86,889	79,389

As at 31st March		Group	
		2021	2020
31.4	Movement of lease creditor		
	Balance as at the beginning of the year	4,235	-
	Recognition of operating lease liability under SLFRS 16	-	4,373
	Adjustment on lease modification	5,329	-
	Payment of lease liabilities	(721)	(721)
	Interest expense charged to income statement	965	583
	Balance as at the end of the year	9,808	4,235
31.5	Lease commitments		
	Contractual undiscounted cash flows		
	Lease rentals payable within one year	721	721
	Lease rentals payable within one to five years	3,355	4,058
	Lease rentals payable after five years	33,705	1,894
	Total	37,781	6,673
31.6	Amounts recognised in profit or loss		
	Interest on lease liabilities	965	583
31.7	Amounts recognised in the Statement of cash flows		
	Total cash out flow on leases	721	721

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

As at 31st March		Group		Company	
		2021	2020	2021	2020
32	TRADE AND OTHER PAYABLES				
	Financial				
	Trade payables	47,387	57,274	40,523	42,302
	Other payables	17,406	17,452	11,986	15,360
	Amounts due to related company (note 35.5)	21,954	16,954	-	-
		86,747	91,680	52,509	57,662
	Non financial				
	Deposits and advances	19,601	11,257	16,926	9,295
	Provisions and accrued expenses	8,804	36,125	8,192	31,313
		28,405	47,382	25,118	40,608
		115,152	139,062	77,627	98,270

33 FINANCIAL INSTRUMENTS

Overview of the Financial Risk Management

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 its 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.

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.

As at 31st March	Group		Company	
	2021	2020	2021	2020
Financial assets at fair value through profit or loss				
Investment in unit trusts - unquoted (note 23)	16,270	34,707	4,226	34,400
Financial assets at amortized cost				
Compensation receivable (note 21)	24,759	24,759	24,759	24,759
Investment in fixed deposits	131,720	87,964	131,720	80,464
Trade and other receivables (note 24)	28,922	48,638	21,256	36,981
Cash and cash equivalents (note 25)	7,103	101,844	6,645	99,165
	208,774	297,912	188,606	275,769

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

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 Money Market 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.

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.

As at 31st March	Group		Company	
	2021	2020	2021	2020
Corporate customers	3,848	9,052	2,884	7,899
Tour operators	13,508	30,660	12,734	24,767
Others	1,037	482	611	102
	18,393	40,194	16,229	32,768

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

As at 31st March	Group		Company	
	2021	2020	2021	2020
1-30 days	3,595	7,586	2,544	7,324
31-90 days	1,155	18,967	1,117	15,278
91-120 days	-	3,360	-	1,182
121 days above	13,643	10,281	12,568	8,984
	18,393	40,194	16,229	32,768

A provisions of Rs. 8.0 mn and Rs. 7.4 mn have been made by the Group and the Company respectively as impairment of trade receivables as at the year end (2020 - Rs. 7.2 mn and Rs. 6.5 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 behavior and extensive analysis of the respective customers.

d. Cash and cash equivalents

Cash and cash equivalents of Rs. 7.1 mn and Rs. 6.6 mn held by the Group and the Company respectively as at 31st March 2021 (2020 – Rs. 101.8 mn and Rs. 99.2 mn) represent their maximum credit exposure on these assets. These are held with bank and financial institution counterparties, which are rated AAA(Ika) to BBB(Ika), 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

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

31st March 2021	Carrying amount	Contractual cash flows					
		Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Trade payables	47,387	47,387	47,387	-	-	-	-
Other payables	17,406	17,406	17,406	-	-	-	-
Amounts due to related Company	21,954	21,954	21,954	-	-	-	-
Bank borrowings	245,805	245,805	-	88,620	99,207	53,942	4,036
Lease creditor	9,808	37,781	120	601	758	2,597	33,705
Bank overdraft	1,959	1,959	1,959	-	-	-	-
	344,319	372,292	88,826	89,221	99,965	56,539	37,741

31st March 2020	Carrying amount	Contractual cash flows					
		Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Trade payables	57,274	57,274	57,274	-	-	-	-
Other payables	17,452	17,452	17,452	-	-	-	-
Amounts due to related Company	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	6,673	120	601	812	3,246	1,894
Bank overdraft	4,433	4,433	4,433	-	-	-	-
	295,302	297,740	105,642	80,600	60,985	43,919	6,594

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. 7.1 mn and Rs. 6.6 mn (2020 - Rs. 101.8 mn and Rs. 99.2 mn), short term deposits amounted to Rs. 131.7 mn and Rs. 131.7 mn (2020- Rs. 88 mn Rs. 80.5 mn) and investment in unit trust amounted to Rs. 16.3 mn and Rs. 4.2 mn (2020 - Rs. 34.7 mn and Rs. 34.4 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

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.

As at 31st March	Group		Company	
	2021	2020	2021	2020
Variable rate instruments				
Financial assets - Fair value through profit or loss financial assets	16,270	34,707	4,226	34,400
Financial liabilities - Bank overdraft	(1,959)	(4,433)	(607)	-
- Bank borrowings	(100,910)	(93,404)	(28,862)	(26,889)
	(86,599)	(63,130)	(25,243)	7,511
Fixed rate instruments				
Financial assets - Investment in fixed deposits	131,720	87,964	131,720	80,464
Financial liabilities - Bank borrowings	(144,895)	(101,550)	(79,491)	(52,500)
	(13,175)	(13,586)	52,229	27,964
	(99,774)	(76,716)	26,986	35,475

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 2021				
Variable rate instruments	(866)	866	(252)	252
As at 31st March 2020				
Variable rate instruments	(631)	631	75	(75)

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 2021	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	-	131,720	-	131,720	131,720
Fair value through profit or loss financial assets - unit trust	16,270	-	-	16,270	16,270
Trade and other receivables	-	28,922	-	28,922	28,922
Cash and cash equivalents	-	7,103	-	7,103	7,103
	16,270	192,504	-	208,774	208,774
Loans and borrowings			255,613	255,613	255,613
Trade and other payables	-	-	86,747	86,747	86,747
Bank overdraft			1,959	1,959	1,959
	-	-	344,319	344,319	344,319

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
Loans and borrowings	-	-	199,189	199,189	199,189
Trade and other payables	-	-	91,680	91,680	91,680
Bank overdraft	-	-	4,433	4,433	4,433
	-	-	295,302	295,302	295,302

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

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 2021				
Fair value through profit or loss financial assets	-	16,270	-	16,270
Property, plant and equipment - Land and Buildings	-	-	2,152,286	2,152,286
	-	16,270	2,152,286	2,168,556
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

There were no transfers between Level 1, Level 2 and Level 3 during the financial period under review (2020 - 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 recognized professional qualifications and recent experience in the location and category of the properties being valued.

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

Company	Location	Valuation technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
				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 price per perch Rs. 510,000/-.	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 Rs. 4,500 - Rs. 15,500.	Cost per square feet was higher/ (lower)
Equity Hotels Limited	Giritale		Depreciation rate for the usage of assets 40% - 45%.	Depreciation rate for usage lower/ (higher)
			Capitalization rate of return at 10%.	Capitalization Rate of return lower / (higher)

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

33 FINANCIAL INSTRUMENTS CONTD.

Sensitivity Analysis

Significant judgment is required to determine the inputs when evaluating the fair value of land and buildings. Possible reasonable changes at the reporting date to one of the relevant assumptions, holding other assumptions constant, would have affected the fair value of the properties as shown below.

As at 31st March 2021	Group		Company	
	Increase	Decrease	Increase	Decrease
Price per Perch - Rs.10,000 movement	18,306	(18,244)	18,055	(18,055)
Construction cost per square feet - Rs.1,000 movement	99,937	(99,835)	72,757	(72,757)
Capitalization Rate - 1% movement	(25,138)	28,953	-	-
Depreciation rate - 5% movement	(109,907)	110,006	(85,246)	85,246

34 COMMITMENTS AND CONTINGENCIES

34.1 Capital commitments

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

34.2 Financial commitments

The Company and the Group do not have significant financial commitments as at the reporting date, other than disclosed in note 35.4.

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 judgement of the District Court is still pending. 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.

For the year ended 31st March	Group		Company	
	2021	2020	2021	2020
35.2.1 Key management personnel compensation				
Short-term employee benefits	820	490	820	490
Post-employment benefits	-	-	-	-
Termination benefits	-	-	-	-
Non-cash benefits	-	-	-	-
Other long-term benefits	-	-	-	-
	820	490	820	490

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

35.3 Group entities

Name of the subsidiary	% equity interest	
	2021	2020
Equity Hotels Limited	99.9%	99.9%

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		Company	
			2021	2020	2021	2020
Parent entity						
Carson Cumberbatch PLC	D.C.R. Gunawardena	Short term advances received	5,000	16,954	-	-
Fellow subsidiaries						
Carsons Management services (Private) Limited (CMSL)	K. Selvanathan	Computer charges	150	150	150	150
	V.R. Wijesinghe	Secretarial fees	556	558	444	444
		Support service fee	400	8,625	400	8,625
Agro Harpan Lestari (Pvt) Ltd		Providing hotel services	-	258	-	258
Lion Brewery (Ceylon) PLC	D.C.R. Gunawardena K. Selvanathan	Providing hotel services	-	1,156	-	1,156

Short-term advances 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 2021 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

35 RELATED PARTY TRANSACTIONS CONTD.

35.4 Transactions with Related Companies Contd.

Related company	Type of guarantee	Outstanding balance as at 31st March	
		2021	2020
Carson Cumberbatch PLC	Letter of Comfort	20,000	20,000
Pegasus Hotels of Ceylon PLC	Corporate Guarantee	40,000	40,000
		60,000	60,000

As at 31st March	Group		Company	
	2021	2020	2021	2020
35.5 Amounts due to related company				
Carson Cumberbatch PLC	21,954	16,954	-	-
	21,954	16,954	-	-

36 COMPARATIVE FIGURES

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

37 IMPACT OF COVID 19 ON THE OPERATIONS AND GROUP'S /COMPANY'S ABILITY TO CONTINUE AS A GOING CONCERN.

The operations of the two hotels of the Group were interrupted on several occasions during the first nine months of the financial year 2020/21 due to the initial island-wide lockdown and several localised lockdowns that followed to prevent the spread of COVID-19 in the country. However, with minimal such interruptions during the final quarter, both hotels of the Group saw gradual recovery of occupancy levels and revenue, yet substantially below par compared to a normal operational period. Accordingly, during the year ended 31st March 2021, the Group and the Company recorded losses of Rs. 229.8 Mn and Rs. 203.5 Mn respectively (2019/20: Loss of Rs. 41.2 Mn & Rs. 12.5 Mn respectively)

With reference to Note 2.g, the Financial Statements of the Group and the Company have been prepared on a going concern basis, following a review of the Group and the Company's affairs including but not limited to the cash flow, revenue, and profitability forecasts for the next financial year and by having an outlook beyond 31st March 2022 based on information available up to the date of approving these financial statements. Accordingly, the Board of Directors are of the view that it is appropriate to prepare these financial statements on a going concern basis. Further, the Board of Directors do not have any intention to liquidate the Company or its Subsidiary, or to cease their operations in the foreseeable future.

Further, subsequent to the reporting date, in consideration of the prevailing situation in the country due to the increase in the spread of COVID-19 and related strict hotel operating guidelines issued by authorities, the Board of Pegasus Hotels of Ceylon PLC has offered Pegasus Reef Hotel as a temporary Intermediate Care Center (ICC) of Asiri Group of Hospitals for COVID patients in this time of need from 19th May 2021. The hotel has allocated 100 rooms for this purpose.

38 DIRECTORS' RESPONSIBILITY

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

39 EVENTS AFTER THE REPORTING DATE

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

FIVE YEAR SUMMARY

(All figures in Sri Lankan Rupees thousands)

For the year ended / As at 31st March	Group				
	2021	2020	2019	2018	2017
Trading Results					
Revenue	197,547	598,632	677,550	684,841	543,200
Profit / (loss) from operations	(206,126)	(51,636)	44,058	81,240	16,722
Net finance income / (cost)	(2,291)	5,145	17,374	27,702	27,276
Profit / (loss) before taxation	(258,189)	(46,491)	(83,775)	108,942	43,998
Income taxation	28,365	5,250	(8,514)	(24,614)	(2,455)
Profit / (loss) for the year	(229,824)	(41,241)	(92,289)	84,328	41,543
Other comprehensive income / (expense) for the year	326,983	279	155	(112,673)	605,622
Total comprehensive income / (expense) for the year	97,159	(40,962)	(92,134)	(28,345)	647,165
Shareholders' Funds					
Stated capital	515,170	515,170	515,170	515,170	515,170
Reserves	1,466,588	1,369,252	1,410,148	1,518,997	1,685,052
Shareholders' funds	1,981,758	1,884,422	1,925,318	2,034,167	2,200,222
Assets Employed					
Property, plant and equipment	2,301,175	2,000,757	2,007,609	1,887,516	2,010,067
Right-of-use assets	5,826	699	-	-	-
Intangible assets	66,859	116,967	115,287	115,287	115,287
Investment in fixed deposits	-	-	20,575	-	-
Compensation receivable	24,759	24,759	24,759	169,966	152,396
Non current assets	2,398,619	2,143,182	2,168,230	2,172,769	2,277,750
Current assets	207,252	306,726	227,296	236,022	148,473
Current liabilities	(207,274)	(233,061)	(186,302)	(134,097)	(136,451)
Working capital	(22)	73,665	40,994	101,925	12,022
Assets employed	2,398,597	2,216,847	2,209,224	2,274,694	2,289,772
Non-current liabilities					
Loans and borrowings	(166,389)	(109,623)	(57,312)	(26,503)	(6,550)
Deferred tax liability	(221,666)	(200,515)	(206,644)	(196,774)	(66,979)
Employee benefits	(28,784)	(22,287)	(19,950)	(17,250)	(16,021)
Total non-current liabilities	(416,839)	(332,425)	(283,906)	(240,527)	(89,550)
Net assets	1,981,758	1,884,422	1,925,318	2,034,167	2,200,222

For the year ended / As at 31st March	Group				
	2021	2020	2019	2018	2017
Cash Flow Statement					
Net cash inflows / (outflows) from;					
Operating activities	(115,327)	58,646	116,273	146,800	83,776
Investing activities	(14,693)	(41,441)	(181,870)	(161,205)	(66,708)
Financing activities	37,753	90,787	36,027	(8,060)	(8,590)
Net increase / (decrease) in cash and cash equivalents	(92,267)	107,992	(29,570)	(22,465)	8,478
Capital expenditure	1,185	80,766	188,999	49,300	261,024
Profitability Ratios					
Net (Loss) / profit margin (%)	(116)	(7)	(14)	12	8
Return on shareholders' funds (%)*	(12)	(2)	(5)	4	2
Liquidity Ratios					
Current ratio (times)	1.00	1.32	1.22	1.76	1.09
Debt equity (%)	12.90	10.57	4.63	1.55	0.30
Investor Ratios					
Earnings / (loss) per share (Rs.)	(7.56)	(1.36)	(3.04)	2.77	1.37
Dividend per share (Rs.)	-	-	0.55	0.55	0.50
Net assets per share (Rs.)	65.21	62.00	63.35	66.93	72.40
Market price per share (Rs.)	29.20	19.10	24.00	28.00	32.50
Dividend yield (%)	-	-	2.29	1.96	1.54
Dividend payout (%)	-	-	N/A	20.67	48.79
Hotel Operations					
Occupancy (%) (Calculated based on the rooms available to sell)	13	44	65	62	47

Notes

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

STATEMENT OF VALUE ADDED

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	2021	%	2020	%
Revenue	197,547		598,632	
Other income including finance income	17,427		25,700	
Cost of materials and services bought from outside	(205,061)		(368,972)	
	9,913		255,360	
Distributed as follows:				
To employees				
as remuneration	121,459	1,225	202,464	79
To government				
as taxation*	3,714	37	925	-
To providers of capital				
as interest and other charges	13,454	136	13,957	5
Retained in the business				
as deferred taxation	(32,079)	(324)	(6,175)	(2)
as depreciation	83,417	842	85,430	34
as impairment on goodwill	49,772	502	-	-
as profit for the year (adjusted for dividends)	(229,824)	(2,318)	(41,241)	(16)
	9,913	100	255,360	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.

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

2 ORDINARY SHAREHOLDERS

As at 31st March	2021	2020
Number of Shareholders	2,857	2,993

3 FREQUENCY DISTRIBUTION OF SHAREHOLDINGS AS AT 31ST MARCH 2021

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	2,626	287,667	0.95	20	4,781	0.02	2,646	292,448	0.97
1001-10,000	169	512,087	1.68	2	6,236	0.02	171	518,323	1.70
10,001-100,000	32	957,184	3.15	2	97,679	0.32	34	1,054,863	3.47
100,001-1,000,000	5	1,178,419	3.88	-	-	-	5	1,178,419	3.88
Above 1,000,000	1	27,347,485	89.98	-	-	-	1	27,347,485	89.98
Grand Total	2,833	30,282,842	99.64	24	108,696	0.36	2,857	30,391,538	100.00

4 CATEGORIES OF SHAREHOLDERS AS AT 31ST MARCH 2021

	No. of Shareholders	No. of Shares	%
Individual	2,787	2,324,926	7.65
Institutions	70	28,066,612	92.35
Total	2,857	30,391,538	100.00

5 The number of shares held by non-residents as at 31st March 2021 was 108,696 (2020 - 108,696) which amounts to 0.36% (2020 - 0.36%) of the total number of shares in issue.

6 PUBLIC HOLDING

The Company is in compliance with the Minimum Public Holding requirements 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 2021

Market Capitalization of the Public Holding	Rs.88.83 Million
Percentage of ordinary shares held by the public	10.01%
Number of Public Shareholders	2,854

7 DIVIDENDS

There were no distributions made during the financial year.

INFORMATION TO SHAREHOLDERS AND INVESTORS

8 MARKET PERFORMANCE - ORDINARY SHARES

For the year ended 31st March	2021	2020
As at 31st March (Rs.)	29.20	19.10
Highest (Rs.)	40.00	30.00
Lowest (Rs.)	18.00	19.00
Value of shares traded (Rs.)	14,082,130	7,009,967
No. of shares traded	501,805	289,450
Volume of transactions (Nos.)	1,474	788

9 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. 887,432,909/60 as at 31st March 2021 (2020 - Rs. 580,478,375/80).

10 VALUE OF THE PROPERTIES - LAND AND BUILDING

Location	2021 Land extent (in hectares)	2021 Number of Buildings	Market value 2021 Rs.'000	Date of professional valuation
Pegasus Reef Hotel, Wattala	5.45	1	1,858,522	31st March 2021
Equity Hotels Limited, Polonnaruwa (Building)	6.03	1	293,764	31st March 2021

11 NUMBER OF EMPLOYEES

The number of employees at the end of the year was 168 and 213 (2020 - 211 and 267) for the Company and the Group respectively.

NOTES

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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 55th Annual General Meeting of **Pegasus Hotels of Ceylon PLC** will be held on Monday, 09th August 2021 at 2.30 p.m. at the 8th Floor, No.65C, Dharmapala Mawatha, Colombo 07, Sri Lanka by means of audio or audio and visual technology for the following purposes:

1. To consider the Annual Report of the Board of Directors including the Financial Statements of the Company for the financial year ended 31st March 2021, together with the report of the Auditors thereon.
2. To re-elect Mr. K. Selvanathan who retires by rotation in term of Articles 72, 73 & 74 of the Articles of Association of the Company.
3. To re-appoint Mr. M. Dayananda as a Director of the Company who is over seventy years of age and to consider and if deemed fit to pass the following resolution:

"IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act, No. 07 of 2007 shall not be applicable to Mr. M Dayananda who is 75 years of age and that he be re-appointed as a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year."

4. To re-appoint Mr. D. C. R. Gunawardena as a Director of the Company who is seventy years of age and to consider and if deemed fit to pass the following resolution:

"IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act, No. 07 of 2007 shall not be applicable to Mr. D. C. R. Gunawardena who is 70 years of age and that he be re-appointed as a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year."

5. To re-appoint Messrs. 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.

By Order of the Board

(Sgd.)

K. D. De Silva (Mrs.)

Director

Carsons Management Services (Private) Limited
Secretaries

Colombo
05th July 2021

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 09th August 2021'**, which is enclosed with the Annual Report.
2. The Annual Report 2020/21 and the Notice convening the Annual General Meeting (AGM), together with the Procedure to be followed at the AGM will be posted to the Shareholders, provided that the postal department is in operation at the time of posting the said documents. In the event restrictions are imposed to control the COVID-19 pandemic and the postal operations are curtailed at the time of posting, the Notice convening the AGM will be published in one issue of a daily newspaper/ e-newspaper in Sinhala, English and Tamil languages.
3. 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/annual_reports_2020_2021/pegasus-hotel-annual-report-2020-2021.pdf
4. Having considered the prevailing COVID-19 pandemic situation in the country and the health and safety guidelines issued by the Health Authorities in order to prevent the spread of COVID-19, the Board of Directors decided on 05th July 2021 to convene the AGM of the Company through an "audio-visual" technology in conformity with the applicable regulatory provisions and Article 43(b) of the Articles of Association of the Company.
5. Shareholders who wish to participate at the AGM through the online platform are kindly requested to complete and forward the **"Registration Form (Annexure 1)"** as morefully explained in the said **"Procedure to be followed at the Annual General Meeting of the Company scheduled for 09th August 2021"** enclosed with the Annual Report.
6. 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.
7. The completed **Form of Proxy** and **Registration Form (Annexure 1)**, as relevant, must be submitted to the Company **not later than 4.45 p.m. on 07th August 2021.**
 - via email to PEGAGM2021@carcumb.com, or
 - via WhatsApp or Viber to mobile no. +94 764 765 463 or +94 712 791 246, or
 - by hand or post to the registered office of the Company, No. 61, Janadhipathi Mawatha, Colombo 1.
8. 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.
9. The transfer books of the Company will remain open.

FORM OF PROXY

I/Weof
 being *a
 Shareholder / Shareholders of **PEGASUS HOTELS OF CEYLON PLC** hereby appoint
 ofbearing
 NIC No./ Passport No. or failing him/her.

Don Chandima Rajakaruna Gunawardena or failing him,
 Mahendra Dayananda or failing him,
 Krishna Selvanathan or failing him,
 Sujendra Ranjanan Mather or failing him,
 Michael Timothy Leon Elias or failing him,
 Vibath Wijesinghe

as *my/our proxy to attend at the 55th Annual General Meeting of the Company to be held on Monday, 09th August 2021 at 2.30 p.m., at the 8th Floor, No. 65C, Dharmapala Mawatha, Colombo 07, 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 re-elect Mr. K. Selvanathan who retires by rotation in terms of Articles 72, 73 & 74 of the Articles of Association of the Company.		
2. To re-appoint Mr. M. Dayananda who is over seventy years of age as a Director of the Company.		
3. To re-appoint Mr. D. C. R. Gunawardena who is seventy years of age as a Director of the Company.		
4. To re-appoint Messrs. 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 One.

.....
 Signature /s

Note:

- * Please delete the inappropriate words.
- 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.
- A Shareholder is not entitled to appoint more than one proxy to attend on the same occasion.
- 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 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 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** together with the **Registration Form (Annexure 1)** should be submitted to the Company **not later than 4.45 p.m. on 07th August 2021.**
 - via email to PEGAGM2021@carcumb.com, or
 - via WhatsApp or Viber to mobile no. +94 764 765 463 or +94 712 791 246, or
 - by hand or post 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 together with the Registration Form (Annexure 1) **not later than 4.45 p.m. on 07th August 2021.** 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 09th August 2021**', enclosed with the Annual Report.
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)**, enclosed herewith to the Company.

Please fill in the following details:

Name & contact no. of Shareholder :

CDS Account No. / Folio No. :

Name & contact no. 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. M. T. L. Elias
Mr. M. Dayananda (*vacated office w.e.f. 13/06/2020 & appointed w.e.f. 04/09/2020*)
Mr. V. R. Wijesinghe

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

COMMITTEE OF MANAGEMENT

Pegasus Hotels of Ceylon PLC

Mr. Amila Alwis - *General Manager*
Mr. Kapila Gunathilake - *Head of Finance*
Mr. Dushmantha Fernando - *Head of Sales & Marketing*
Ms. Mala Munasinghe - *Executive Housekeeper*
Mr. Nilanka Dissanayake - *Senior Food & Beverage Assistant Manager*
Ms. Pramila Samarakoon - *Front Office Manager*
Mr. Nalinda Abeyratne - *Executive Chef*
Mr. Kolitha Perera - *Chief Engineer*

EQUITY HOTELS LIMITED

Committee of Management

Mr. Thiagarajah Ganeshan - *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

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emagewise

Digital plates and printing by Gunaratne Offset (Pvt) Ltd



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