



Pegasus Hotels of Ceylon PLC
A Carson Cumberbatch Company



PEGASUS REEF
the city resort that's just right!

Annual Report 2021/22

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<http://www.carsoncumberbatch.com>



CHAIRMAN'S STATEMENT

“In spite of the upheaval in business conditions, your Company navigated the financial year 2021/22 with operational agility”

Dear Shareholder,

On behalf of the Board, it gives me great pleasure to welcome you to the 56th Annual General Meeting of Pegasus Hotels of Ceylon PLC. I am pleased to present to you the annual report and financial statements of the Company and the Group for the financial year ended 31st March 2022.

The past year was yet another difficult and turbulent one, particularly for those of us in the hospitality industry. On the positive side, it was reassuring to note the overall improved travel sentiment due to the progress of vaccination against the COVID-19 pandemic and the relaxation of strict border policies. Global travel, however, was far from reaching pre-pandemic levels as recovery was derailed by multiple headwinds, including soaring inflationary pressures and economic woes across the world, knock-on effects of China's continued lockdowns on global economies and the tragic advent of the Russia-Ukraine crisis.

For Sri Lanka, tourist arrivals did not display a steady rebound until the final months of 2021 due to the repercussions of the pandemic. Despite the reopening of borders for travellers in early 2021, the country's tourism sector stumbled on several occasions with fresh waves of COVID-19 waves impeding its much-needed recovery efforts. However, I must applaud the health authorities for eventually controlling the rate of infections to a vast extent through the adequate rollout of vaccines to every corner of the country.

Having witnessed one crisis after another since 2019, our industry has been envisaging a 'turning point' that offers some degree of hope. Unfortunately, there seems to be no end in sight for our challenges, as the nation is haunted today by the worst economic turmoil encountered since 1948. At this point

in time where our motherland is bound by a severe foreign exchange crisis, record-high inflation levels and scarcity of essential goods, it is very disheartening to note its devastating impact on society at large. The state of the economic crisis is further exacerbated by the travel advisories issued for Sri Lanka by multiple countries at the time of composing this message. Hence, it is imperative that the nation's political leadership unite to take expedient action to address these economic and societal shocks, even though we may be a long way away from achieving a complete recovery.

In spite of the upheaval in business conditions, your Company navigated the financial year 2021/22 with operational agility. At both hotels, we enacted various adaptive measures to enhance our revenues and rationalise our expenditure. With COVID-19 infections in the country rising, Pegasus Reef Hotel was temporary converted into an Intermediate Care Centre (ICC) of Asiri Central Hospital for a duration of five months in the concluded financial year. From November 2021 onwards, the hotel returned to regular operations and executed pragmatic business strategies within the Rooms, Weddings and MICE segments in a fiercely competitive marketplace. Similarly, the hotel stringently focused on operational cost management and the deferment of all non-critical capital expenditure while giving due emphasis to guest expectations and quality standards.

The above initiatives underpinned our performance, enabling Pegasus Reef to achieve an annual occupancy of 33% and register cash profits in the latter months of financial year 2021/22. Likewise, Giritale Hotel achieved an annual occupancy of 28%, primarily riding on the improved business evident within the local market. More details on our operational context will follow in the Management Discussion and Analysis section of this report.

In this challenging phase, the biggest concern that the industry faces is the high staff turnover rate. On top of the already apparent shortage of skilled staff in the market, this has created additional burdens for hoteliers, as a majority of the employees prefer to seek new career paths or consider migrating to other nations due to the unforeseen challenges of the present day. Given such vulnerabilities in the labour market, we have taken every measure as a responsible hotelier to ensure that our staff feel content and empowered at all times, including ensuring meaningful career progression and succession planning, addressing their learning gaps and ultimately recognising and rewarding their success. During these difficult times, we distributed essential dry rations to support all our staff and their families along with the delivery of emergency rations to affected households in our locality. Moreover, we opted to upgrade the staff quarters of our workforce who have been the cornerstone of our success in these exceptionally challenging periods. Concurrently, we are also exploring options to attract new talent by extending training opportunities to the youth in local communities.

With respect to financial performance, on a consolidated basis, your Company was able to record a revenue of Rs. 386.1 Mn for the concluded financial year, denoting a YoY increase of 95%, while the loss for year reduced by 16% YoY to reach Rs. 193.6 Mn. The net debt position on a consolidated basis was observed at Rs. 177.2 Mn. In April 2022, the Company announced that it will be raising a sum of Rs. 75.98 Mn by means of a rights issue, where the generated proceeds will be utilised to subscribe for the rights issue of Equity Hotels Limited (EHL). The objective of the above capital raise is to partially settle EHL's existing borrowings and restructure its remaining debt to facilitate the financial flexibility of the Subsidiary.

Over the past three years of unprecedented hardship, the macro-level relief granted to the industry via debt service relief and other non-financial support were instrumental in manoeuvring through the crisis. As dark clouds continue to loom, the industry is in dire need of sustained macro-level support, specifically to restructure its existing debt burdens on more sustainable terms. Hence, I propose that authorities consider new options for debt restructuring upon the expiry of debt moratorium, by allowing extensions for grace periods and payment terms, and introducing concessionary interest rates for loans in order to relieve the financial distress experienced by all local hospitality-related establishments at present. As further means of support, hotels could be permitted to

accumulate foreign reserves to hedge against future cost increases pertaining to their capital investments. I believe that at this juncture, such policy action focused on liquidity management would be fundamental to keep the industry alive and rekindle its growth.

It is reasonable to assume that the road ahead for the industry will be an uphill climb, as uncertainty lingers in the economy due to the gravity of socio-economic concerns emerging from the present debt crisis. Tourism plays an integral role as a key foreign exchange earner and driver of gross domestic product of our country. It is therefore an industry whose recovery and resilience plans should never be undermined; as its revival would undoubtedly strengthen the influx of crucial foreign exchange into the island nation.

However unclear the outlook may seem, the final pace of returning to normalcy will certainly depend on credible policy measures and the timely execution thereof. Perhaps, a good starting point here would be to establish a conducive environment for travel and tourism activities within the country in order to restore confidence among foreign travellers. In the meantime, we will continue to meet the crisis at hand by being adaptive and prudent in our operational strategy while doing our part to assist communities to emerge from the present crisis.

As I sign off, I wish to thank my fellow Board members and the members of the Audit Committee, Remuneration Committee, Nomination Committee and the Related Party Transactions Review Committee for their valued guidance. Further, I acknowledge the overwhelming support extended to us by all our business partners and other stakeholders during the past period. My gratitude and appreciation also extend to our valued employees for all their hard work and accomplishments during the year. Most importantly, I wish to thank all our shareholders for your continued trust and faith in us.

(Sgd.)

D.C.R. Gunawardena
Chairman

27th June 2022

MANAGEMENT DISCUSSION & ANALYSIS

“Against the present economic misery and uncertainty, we will continue to expand our value creation by enhancing value additions and flexibility for guests who patronise our hotels”

GLOBAL CONTEXT

Since early 2020, the hospitality industry has been among the sectors hardest hit by the COVID-19 pandemic, which created exogenous shocks on global economies and communities. The mobility limitations across countries and new COVID-19 waves noticeably repelled activity within the global tourism and its associated industries encompassing travel and transportation, accommodation, food and beverage, entertainment and recreation, substantially tainting the growth of tourism-dependent economies. However, strong vaccination efforts against COVID-19 contained the rate of infections across the globe to a satisfactory extent, leading the way for a majority of countries to eventually relax travel restrictions and permit quarantine-free travel for international travellers.

Accordingly, as per the preliminary estimates of United Nations World Tourism Organization (UNWTO), global tourist arrivals expanded by 4% YoY in 2021 to reach 415 million arrivals, led by the American and European regions, yet remained at 72% less than pre-pandemic levels. The pace of recovery was slow due to varying degrees of travel restrictions, weaker economic conditions, high inflation levels and China's COVID-19 lockdowns which primarily triggered a 94% YoY drop in arrivals to the Asia-Pacific region.

In early 2022, the global tourism industry indicated a promising recovery, fuelled by the pent-up demand for cross-border travel. However, the recent onset of the Russia-Ukraine conflict and sanctions against Russia has re-escalated uncertainty in global travel landscape. Moreover, consumer purchasing power continues to shrink owing to the rapid surge in inflation levels across economies, which could further diminish the growth momentum of the industry in the upcoming period.

SRI LANKAN CONTEXT

Despite the airport opening for tourists on 21st January 2021, Sri Lanka's tourism-related activities were considerably impacted due to the re-emergence of COVID-19 infections, thereby warranting intermittent lockdowns. Accordingly, total tourist arrivals to the country in 2021 remarkably declined by 61.7% YoY to reach 194,495 tourists. Subsequently, earnings from tourism declined by 26% YoY to reach USD 507 Mn in 2021 in comparison to USD 682 Mn in 2020. As for the key markets, India dominated the arrivals by accounting for approximately 29% of the country's visitor traffic, while Europe emerged as the dominant region by contributing towards 48% of the total arrivals to the country. However, arrivals from the nation's major source market, i.e. China, suffered a substantial decline as a consequence of its border closures.

Nonetheless, tourist traffic witnessed a rebound from September 2021 onwards with the strong vaccine rollout and relaxed health protocols for vaccinated travellers. The upward trend in arrivals observed at the end of 2021 continued into the beginning of 2022, where Sri Lanka attracted 285,334 tourist arrivals in the first quarter of 2022, which was 46% higher than the total number of arrivals achieved in 2021. However, such progress was short-lived, as the tourism growth trajectory was disrupted once more due to the onset of the Russia-Ukraine conflict and the heightened economic concerns in Sri Lanka arising from its fiscal and external imbalances. At the time of writing, uncertainty and scepticism among potential foreign travellers had dissolved expectations of a speedy recovery of the industry.

In the current context, local hospitality establishments face a myriad of challenges in managing daily operations. Among those, major concerns relate to the shortage of essential items, restrictions imposed on imported goods, the spiralling cost of inputs and other utilities, disruptions to operations from regular power outages and inconveniences due to the long queues for fuel and gas.

To relieve the crisis-stricken industry, the Government and relevant authorities extended numerous financial and non-financial assistance over the past period. Most importantly, the debt moratoria which were previously granted to the industry was further extended until July 2022. Additionally, concessionary loans which were granted under the “Saubagya COVID-19 Renaissance” refinancing scheme addressed the urgent working capital demands of hospitality ventures during the past period. In view of the prevailing muted growth conditions, industry stakeholders continue to plead for further relief from policymakers especially by way of long-term debt restructuring options.

OUR OPERATIONAL CONTEXT

In financial year 2021/22, both Pegasus Reef Hotel and Giritale Hotel focused on attracting increased business from the domestic market given the lacklustre growth exhibited among foreign markets. Nonetheless, rising COVID-19 infections in the country intermittently interrupted our hotel operations. For five months from 19th May 2021 to 15th October 2021, Pegasus Reef Hotel was converted into an Intermediate Care Centre (ICC) of Asiri Central Hospital. Following the containment of the nation's COVID-19 infection rate, Pegasus Reef Hotel resumed normal hotel operations from 01st November 2021 onwards. Operations of Giritale Hotel were halted nearly for two months due to inter-provincial travel restrictions and the quarantine curfew imposed in the country.

During the concluded year, sales and marketing efforts of both hotels were refined with an emphasis on effective and efficient digital channels to reach new consumers. As the competitive business climate demanded extremely flexible and differentiated offerings, our hotels managed to introduce attractive staycations and other packaged offers coupled with unique events, themed food nights, entertainment options, adventures and other value-added experiences. In addition, we capitalised on the pent-up demand for weddings by introducing customised and competitive packages to the market while hosting wedding shows with the participation of other leading industry vendors. Maximising our MICE business via special packages to corporates further enabled the stabilisation of our revenue streams during the year under review.

FINANCIAL PERFORMANCE

Company

For the year ended 31st March 2022, Pegasus Reef Hotel achieved a revenue of Rs. 325.1 Mn with a YoY growth of 115%, driven by improvements in occupancy and Average Room Rate (ARR). The hotel recorded an occupancy of 33% during the year relative to 10% in the prior year, on the back of ICC operations and the improved business witnessed from November 2021 onwards. Accordingly, during the financial year 2021/22, the ARR pertaining to hotel operations stood at Rs. 11,523 which notably improved from the previous year's Rs. 9,386 as the hotel had to revise its selling prices in order to mitigate the impact of the cost increases. However, the ARR for the year was weighed down by the impact of ICC operations, which stood at Rs. 9,273. In line with increased occupancy, room revenue of the hotel saw a 227% YoY increase, while food and beverage income registered a growth of 63% with the business improvement observed in the MICE business, Weddings and “The Fishery” restaurant.

The direct cost of the hotel for the year increased by 37% YoY to reach Rs. 293 Mn, in line with the aforementioned volume growth. The cost increase was primarily driven by room cost and food cost which increased by 176% and 82% respectively over the past financial year. During the year, operating costs were significantly impacted by the rising commodity cost and utility cost against mounting inflation, currency depreciation and shortage of items. Accordingly, the hotel continued to adhere to prudent cost management strategies where possible in order to maximise efficiencies during the period under review. With the hotel being operational throughout the year, overall personnel cost of the hotel increased by 22% relative to the financial year 2020/21, driven by increased business activity. Moreover, repair and maintenance expenses of the hotel increased by Rs. 4.5 Mn YoY whereby only critical and preventive maintenance activities were undertaken during the year to avoid compromising on guest satisfaction and safety standards. Total administrative expenses of the hotel observed an increase of 25% YoY to reach Rs. 144.7 Mn. Moreover, selling and promotional expenses saw a marginal increase of 4% to reach Rs. 9.3 Mn owing to increased marketing efforts directed towards the domestic consumer.

MANAGEMENT DISCUSSION & ANALYSIS

Meanwhile, the finance income of the hotel increased by 17% YoY to reach Rs. 12.7 Mn, augmented by foreign exchange gains recorded during the year. Nevertheless, interest income from investments reduced due to the withdrawal of funds for working capital requirements along with the reduction in interest rates compared to the last year. Simultaneously, the finance cost of the hotel notably increased by 79% YoY due to new concessionary loans obtained by the hotel during the year. Accordingly, the total debt of the hotel increased to Rs. 158.6 Mn from Rs. 109 Mn as at the beginning of the financial year while the net debt position as at end of the financial year stood at Rs. 31.5 Mn in comparison to a net cash position of Rs. 33.6 Mn witnessed at the commencement of the financial year.

Reinforced by an expanded top-line and effective cost management strategies, at the Company level Pegasus Hotels of Ceylon PLC managed a reduction of 51% YoY in its loss after tax for the year which stood at Rs. 99.7 Mn. The cash loss of the Company without the effects of depreciation and impairment for year ended 31st March 2022 was observed at Rs. 24.8 Mn in comparison to a cash loss of Rs. 82.3 Mn witnessed in the financial year 2020/21.

GROUP INCLUDING THE RESULTS OF THE SUBSIDIARY

On a consolidated basis, Pegasus Hotels of Ceylon PLC recorded a revenue of Rs. 386.1 Mn, indicating a significant increase of 95% YoY. During the financial year 2021/22 Giritale Hotel managed to expand its revenue by 32% YoY to Rs. 60.9 Mn. Therefore, in line with the aforementioned revenue increases and efficient cost management, the Group managed to reduce its operational loss after tax in the financial year 2021/22 to Rs. 128.1 Mn, denoting a 29% YoY reduction over the prior year.

Based on impairment tests carried out for Goodwill during the year, the Group had to account for Rs. 65.5 Mn in order to fully impair the remaining goodwill of Equity Hotels Limited, which was subject to an impairment of Rs. 49.8 Mn in the previous financial year. Accordingly, after factoring the above impairment charges, the Group recorded a loss after tax of Rs. 193.6 Mn in the financial year 2021/22 in comparison to the preceding year's loss after tax of Rs. 229.8 Mn.

The cash loss of the Group without the effects of depreciation, amortisation and impairment charges amounted Rs. 37.9 Mn in comparison to a cash loss of Rs. 96.1 Mn witnessed in the financial year 2020/21. In the year under consideration, the Group recorded Rs. 393.4 Mn as revaluation gains on freehold land due to increased land prices which arose from improved connectivity via highways.

The Group's net debt position as at 31st March 2022 was Rs. 177.2 Mn, an increase of 91% over the preceding year. At present, Giritale Hotel is evaluating restructuring options for its present debt commitments in order to relieve its cash flow pressures and to enhance financial flexibility. As a part of this restructuring exercise, in April 2022, Pegasus Hotels of Ceylon PLC announced that it will be raising a sum of Rs. 75.98 Mn by means of a rights issue, where such proceeds would be utilised to partially relieve the debt burden of Giritale Hotel in the ongoing financial year.

FUTURE OUTLOOK

As a country with a high-reliance on tourism, the adverse impact to Sri Lanka's tourism activity from the present economic crisis would reciprocally create considerable pressure on the recovery of the economy. Hence, it is crucial that major breakthroughs are achieved in the near-term with respect to restoring tourism growth and strengthening its earnings through suitable policy decisions, as this will significantly abate the current external sector pressures experienced within the country.

Against the present economic misery and uncertainty, we will continue to expand our value creation by enhancing value additions and flexibility for guests who patronise our hotels. At the same time, we will consistently pursue the right growth strategies by broadening our customer reach to new attractive customer niches while upholding strong operational discipline to deliver sustainable results.

Carsons Management Services (Private) Limited

27th June 2022

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

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.

DIRECTORS PROFILES

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

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.

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.

RISK MANAGEMENT

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>The international travel industry is severely affected from the COVID-19 pandemic.</p> <p>But, with the progress of vaccination against the Covid-19 pandemic and relaxation of strict border policies, tourism sector travel sentiment improved.</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>The Company has taken steps to enact various adaptive measures to enhance revenues and rationalize expenditures.</p>
Market Risk	<p>Inability to achieve business objectives due to market volatility.</p> <p>Recent changes in the macro-economic environment of Sri Lanka will have direct impact on business activities of the group.</p>	<p>The Group manages this risk by means of the following actions and procedures.</p> <ul style="list-style-type: none"> • 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. • Management is also taking its best endures to source required items and utilities to ensure minimum disruption to the operations of the Hotels.

Risk	Impact	Risk Responses and Strategies
Liquidity Risk	Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are to be settled by delivering cash or any other financial asset.	<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>To ensure financial flexibility of its subsidiary, Equity Hotels Limited, the Company announced a rights issue of shares in order to raise funds to subscribe for a right issue of Equity Hotels Limited to partially settle bank borrowings and to fully settle related-party advances obtained by Equity Hotels Limited related to its room refurbishment project in FY 2018/19.</p>
Credit Risk	Credit risk is the risk of financial loss to the company, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, which arises principally from the Company's receivables from customers and placements with banking institutions, investment 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	<p>Foreign currency risk is the risk of volatility in foreign exchange rates.</p> <p>Even though the Group's income and expenses arising from its operations, assets and liabilities are denominated in Sri Lankan Rupees which is the functional currency of the Company, expenses stemming from these have seen notable escalations following recent Rupee depreciation. Especially food cost, renovation and maintenance cost and insurance premium etc. The continuous lack of availability of foreign currency at Bank levels further adds to the challenge.</p>	<ul style="list-style-type: none"> • The Group monitors fluctuations in exchange rates and takes precautionary measures to revise its fee quotes on a regular basis, to mitigate the exposure to currency risk. Across the industry, hotel rates targeting tourists, are quoted in US Dollar terms, and contracted in advance with tour operators. This constitutes a significant volume of business to the Group. • Closely monitor costs and adjust selling prices accordingly on an on-going basis.

RISK MANAGEMENT

Risk	Impact	Risk Responses and Strategies
Interest Rate Risk	Interest rate risk is the risk arising due to the volatility of the interest rates in the markets subsequently affecting the future cash flow of the Group. With the adjustment of policy rates by Central Bank, interest rates have shown a sharp increase.	The Group has borrowings at fixed rates as well as linked to variable interest rates such as AWPLR. Variable rates have 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).
Human Resource Risk	Attracting, developing, and retaining talented employees are essential to deliver the Company's objectives. Failure to determine the appropriate mix of skills required to implement the Company strategies and failure to retain or develop the right number of appropriately qualified staff could affect the achievement of the Company's objectives.	The following initiatives have been implemented by the Group. <ul style="list-style-type: none"> • Ensure recruitments are carried out to hire employees with required qualifications, knowledge and experience. • HR policies are focused on encouraging continuous training and development and ensuring appropriate compensation as per market rates to retain and develop employees. • Source talent from the local community itself by introducing meaningful training opportunities.
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"> • 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.
Legal & Regulatory Compliance Risk	Failure to comply with regulatory and legal framework applicable to the Company.	The management proactively identifies and establishes appropriate systems and processes for legal regulatory compliance with respect to the Group's operations. <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.

Risks of losses 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 2022.

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 27th June 2022.

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 2022 are set out on pages 34 to 94. 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	
	2022	2021	2022	2021
Loss for the year	(193,630)	(229,824)	(99,656)	(203,452)
Other comprehensive income/ (expense) for the year, adjusted for revaluation of property, plant and equipment and related tax	7,396	(2,713)	5,136	(1,706)
Total comprehensive income / (expense) for the year	(186,234)	(232,537)	(94,520)	(205,158)
Retained earnings as at the beginning of the year	76,114	308,474	98,979	303,960
Forfeited dividends	90	177	90	177
Retained earnings / (accumulated losses) as at the end of the year	(110,030)	76,114	4,549	98,979

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 38 to 56.

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 2022 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 2022 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 36.

5. STATEMENT OF DIRECTORS RESPONSIBILITIES

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

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

The financial statements comprise of *inter alia*:

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

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

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

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

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

These financial statements have been prepared on a going concern basis since the Directors are of the view

that the Company 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 2022 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 36 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 36 and the Directors of the Company did not have any interests in ordinary shares of the Company during the period from 1st April 2021 to 31st March 2022.

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 Appointment of Directors who are over 70 years of age

7.1.1 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 09th August 2021 for a period of one year commencing from the conclusion of the said AGM, i.e. till 09th August 2022.

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.

7.1.2 Mr. D. C. R. Gunawardena - Non-Executive Director who was 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 09th August 2021 for a period of one year commencing from the conclusion of the said AGM, i.e. till 09th August 2022.

Upon the recommendation of the Nomination Committee of the Company and the Board, it is recommended that Mr. D. C. R. Gunawardena 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 Director to retire by rotation

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

8. CORPORATE GOVERNANCE

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

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

8.1. Board of Directors

The following Directors held office during the period under review and their brief profiles are given on pages 7 to 8 of the Annual Report.

Directors	Executive/ Non-Executive/Independent
Mr. D. C. R. Gunawardena (Chairman)	Non-Executive
Mr. M. Dayananda*	Non-Executive/ Independent
Mr. K. Selvanathan	Executive
Mr. S. R. Mather	Non-Executive/ Independent
Mr. 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 10th June 2022, in order to enable the Board of Directors to determine the Independence/ Non-Independence of each of the Non-Executive Directors, in terms of Rule 7.10.3.(a) of the Listing Rules of the CSE.

* The Board has determined that Mr. M. Dayananda is an Independent/ Non-Executive Director in spite of being on the Board of Bukit Darah PLC, (the ultimate parent Company of Pegasus Hotels of Ceylon PLC) since he is not directly involved in the management of the Company.

8.2. Directors' Meetings attendance

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	4/4
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 Remuneration Committee has established a formal and transparent procedure for the development of a remuneration policy which will be reviewed by the Committee when deemed necessary.

The remuneration policy has been formulated based on market and industry factors with appropriate incentives to encourage enhanced performance and also in a fair and responsible manner 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 two (02) virtual meetings during the period under review.

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

Reporting and Responsibilities

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

Aggregated remuneration paid to the Non-Executive Directors of the Company is disclosed in note 13 on page 58 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	Non-Executive/ Independent Director of CCPLC
Mr. D. C. R. Gunawardena	Non-Executive Director of CCPLC
Mr. Y.H. Ong	Non-Executive/ Independent Director of CCPLC

The Audit Committee Report is given on pages 25 and 26 of this Annual Report.

8.5. Nomination Committee

The Nomination Committee of the Company comprises of the following members;

Nomination Committee Members	Executive/ Non-Executive/ Independent
Mr. M. Dayananda	Non-Executive / Independent Director
Mr. D.C.R. Gunawardena	Non-Executive Director

Scope and objective

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

Functions and Proceedings

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

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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 two (02) virtual meetings during the period under review.

Nomination Committee Members	Attended Meetings
Mr. M. Dayananda	2/2
Mr. D.C.R. Gunawardena	2/2

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 (Chairman)	Non-Executive/Independent Director of CCPLC
Mr. R. Theagarajah	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

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 2022, did not exceed 10% of Equity or 5% of the Total Assets of the Company as at 31st March 2022.

The details of the Related Party Transactions are given in note 36 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 2022.

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 2022.

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. 435,000/- and Rs. 750,000/- were paid to them by the Company and the Group respectively, as audit fees for the year ended 31st March 2022 (2021 - Rs. 395,000/- and Rs. 680,000/-). The Auditors were not paid fees on audit related services during the year (2021 - Nil). Also no payments were made by the Company and the Group as professional fees for non-audit services during the year (2021 - 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 29 to 33 of this Report.

10. INTERNAL CONTROL AND RISK MANAGEMENT

The ultimate responsibility to establish, monitor and review a group-wide internal control system rests with the Board of Directors. The intensity, depth and the tolerance limits for each component of the internal control system would be based on the weight of the element of risk imposed on the sustenance of the business by the respective area of operation. Whilst a strong internal control system would mitigate the crystallization of risk elements to a greater extent, employment of external support structures would also be necessary based on the risk assessments made thereon.

Effective maintenance of internal controls, risk identification and mitigation is handed down to the respective members of senior management within the guidelines of benchmark policies, procedures and authority limits clearly laid down.

Group Internal Audit, whose scope of scrutiny is entirely driven by the grading of the risk involved, will be monitoring and providing the feedback to the management and to the respective Audit Committee. Regular submission of compliance and internal solvency certificates vouched by the Heads of the respective divisions as a mandatory agenda item keeps the Directors abreast of the position of the Company's and the Group's resource base and governance requirements.

This allows the Board to have total control of the fulfilment of governance requirements by providing opportunity to take timely preventive action in case of potential deterioration of status quo. More detailed description of the risk management strategies of the Company and the Group are given on pages 9 to 12.

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 2022, 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 2022 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,

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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 2022 (2021 - 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 2022 were 178 and 225 (2021 - 168 and 213) 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 2022.

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 41 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 2022 are given in note 35 to the Financial Statements.

26. IMPACT OF COVID-19 PANDEMIC AND CHALLENGING ECONOMIC ENVIRONMENT

The business impact of the COVID-19 pandemic and challenging economic environment to the Group is given in note 38 to the financial statements.

27. SHARE INFORMATION

Information relating to share trading are given on pages 98 and 99 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 2022.

	Name of Shareholders	31-Mar-2022	%	31-Mar-2021	%
		No. of shares		No. of shares	
1	CARSON CUMBERBATCH PLC A/C NO.2	27,347,485	89.98	27,347,485	89.98
2	HATTON NATIONAL BANK PLC/ROHAN CHANAKA JOSEPH GOONEWARDENA	370,325	1.22	-	-
3	MR. M.C.C.K. RODRIGO	345,535	1.14	364,361	1.20
4	MR. K.C. VIGNARAJAH	185,955	0.61	184,662	0.61
5	MRS. V.R. JAYASINGHE	148,849	0.49	141,923	0.47
6	MERCHANT BANK OF SRI LANKA LTD/C. SATHKUMARA	105,841	0.36	-	-
	MR.C.SATHKUMARA	82,074	0.27	23,563	0.08
7	MR.K.C.JAYAWARDENA	100,000	0.33	122,767	0.40
8	MR. N.W.N. JAYASIRI	80,000	0.26	-	-
9	MRS. N.A. EDIRIWEERA	75,000	0.25	75,000	0.25
10	MR. A.M. WEERASINGHE	57,500	0.19	57,500	0.19
11	MRS. I. GWYN	55,000	0.18	55,000	0.18
12	J.B. COCOSHELL (PVT) LTD	50,004	0.16	50,004	0.16
13	ACUITY PARTNERS (PVT) LIMITED/ MR. DON JANAKA NISHAN HETTIARACHCHI	45,541	0.15	-	-
14	MR. H.A.S. MADANAYAKE	40,000	0.13	50,000	0.16
15	MR. P. SOMADASA	30,961	0.13	34,132	0.11
16	MR. K.K.D. SENANAYAKE	35,000	0.12	-	-
17	MR. M.F.J. MACAN MARKAR	29,580	0.10	30,700	0.10
18	MISS. L.A. PIERIS	28,000	0.09	50,000	0.16
19	DFCC BANK PLC / DR. RAMASUBBU	24,895	0.08	24,895	0.08
20	MR.H. TIRATHDAS	23,289	0.08	23,289	0.08

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 27th June 2022.

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. RIGHTS ISSUE

The Board via circular resolution dated 27th April 2022 resolved to recommend to the Shareholders of the Company a Rights Issue of Shares and was subject to the Colombo Stock Exchange (CSE) approving 'in principle' the issue and listing of shares and obtaining Shareholder approval for same at a General Meeting.

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The details of the Rights Issue are as follows,

The number of shares to be issued	3,376,838 Ordinary Shares
The proportion in which the shares are to be issued	One (01) new Ordinary Share for every nine (09) existing issued Ordinary Shares
The consideration for which the shares are to be issued	Rs.22/50 per share
The current stated capital of the Company	Rs.515,169,680/50
The purpose for which the proceeds of the issue are to be utilized	The proceeds of the Rights Issue will be utilized to subscribe for the rights issue of Equity Hotels Limited, subsidiary of PEGASUS no later than 31st October 2022. In the event of any delays in utilizing the proceeds of the Rights Issue for the said objective, the Company would opt to invest the same during the interim period in savings or term deposits at the prevailing market rates.

The Company has obtained 'in principle' approval from the CSE on 20th June 2022 and is required to convene a General Meeting to seek shareholder approval for the said Rights Issue.

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

Further details in relation to the Rights Issue is explained in the Circular to Shareholders dated 27th June 2022, which is enclosed with this Annual Report 2021/22.

31. ANNUAL GENERAL MEETING

As permitted by Article 43(b) of the Articles of Association of the Company, the 56th Annual General Meeting of the Company will be held on **Friday, 22nd July 2022 at 9.30 a.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 pages 101 and 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
27th June 2022

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

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

COMPOSITION OF THE COMMITTEE

The Members of the RPTRC are as follows :

RPTRC Members	Executive/ Non-Executive/ Independent
Mr. W.M.R.S. Dias (Chairman)	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	Non-Executive, Independent (CCPLC)

**Executive Director of CCPLC up to 30th June 2021 &
Non-Executive Director of CCPLC w.e.f. 1st July 2021*

MEETINGS OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

CCPLC-RPTRC held One (01) virtual Meeting in each calendar quarter and a total of Four (04) RPTRC Meetings were held during the financial year. In addition, the approval of the RPTRC Members were sought via 10 Circular Resolutions, as well as 12 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)	4/4
Mr.D.C.R. Gunawardena	4/4
Mr. H. Selvanathan	3/4
Mr. M. Selvanathan	4/4
Mr. S.K. Shah	4/4
Mr. R. Theagarajah	3/4

PURPOSE OF THE COMMITTEE

The objective of the RPTRC is to review all Related Party Transactions (RPTs) of the Listed Companies of the Carsons Group, other than those exempted by the 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.
- 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.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

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 2021 to 31st March 2022 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
27th June 2022

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.

The Audit Committee consists of the following Members:

Audit Committee Members	Executive/ Non-Executive/ Independent
Mr. A.S. Amaratunga (Chairman)	Non-Executive, Independent (CCPLC)
Mr. D.C.R. Gunawardena	Non-Executive (CCPLC)
Mr. Y.H. Ong	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, Member of MAS Holdings-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 an Independent Non-Executive Director, Chairman of the Audit Committee and Member of the Nominating Committee of Singapore Power Ltd. and Capitaland Group Pte Ltd. He has served as Independent Director of United Overseas Bank Ltd., Singapore. Mr. Ong had also served at Ernst & Young, Singapore for 30 years and was involved in audit and financial advisory work.

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 six (06) 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 06)
Mr. A.S. Amaratunga (Chairman)	6/6
Mr.D.C.R. Gunawardena	6/6
Mr. Y.H. Ong	6/6

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. Committee also provides the opportunity to the External Auditors to provide matters of importance via a private audience.

Following the Audit Committee Meetings, the Chairman-Audit Committee issues a written update for circulation to the Board, 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. Also, to select the Company's External Auditors and implement a direct reporting relationship with them and ensuring their independence.

AUDIT COMMITTEE REPORT

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 approval by the Board of Directors and 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 2022 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-a-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 2021/2022 and the Group Internal Audit 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 issues raised 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 2023, 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

27th June 2022



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FINANCIAL CALENDAR

Financial Year	31st March 2022
Announcement of Results	
1st Quarter	30th June 2021
Issued to Colombo Stock Exchange	13th August 2021
2nd Quarter	30th September 2021
Issued to Colombo Stock Exchange	12th November 2021
3rd Quarter	31st December 2021
Issued to Colombo Stock Exchange	14th February 2022
4th Quarter	31st March 2022
Issued to Colombo Stock Exchange	31st May 2022
Meetings	
55th Annual General Meeting	09th August 2021
56th Annual General Meeting	22nd July 2022

INDEPENDENT AUDITORS' REPORT



KPMG
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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 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 34 to 94.

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 2022, 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 guarantee.

P. Y. S. Perera FCA
W. J. C. Perera FCA
W. K. D. C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA

C. P. Jayatilake FCA
Ms. S. Joseph FCA
S. T. D. L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA

T. J. S. Rajakarier FCA
Ms. S.M.B. Jayasekara FCA
G. A. U. Karunaratne FCA
R. H. Rajan FCA
A.M.R.P. Alahakoon ACA

Principals: S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, W. A. A. Weerasekara CFA, ACMA, MRICS

INDEPENDENT AUDITORS' REPORT



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

Refer the Note 38 to the financial statements

Risk Description	Our Response
<p>The Group and the Company has incurred a net loss of Rs. 193.6 Million and Rs. 99.7 Million respectively for the year ended 31st March 2022, The Group and the Company has also incurred negative operational cash flows of Rs. 48.4 Mn and Rs. 43.5Mn respectively for the year ended 31st March 2022. As, of that date, the Group had net current liability position of Rs.65.7 Million and total borrowing of Rs.306 Mn</p> <p>As disclosed in note 38, this area continues to be considered an area of risk for 2021/2022 year given the prevailing uncertain and volatile macro-economic environment. The Group is required to make regular debt repayments and there are restrictive covenants over its debt. These factors coupled with the continued volatility in commodity prices, fuel shortages, foreign currency issue and recent social unrest have led to our increased focus on this area.</p> <p>The directors evaluated the Group's ability to continue as a going concern based on projections of the Group's profit and cash inflows from operations and the ability of the Group to obtain or renew bank loans and other financing facilities. As a result of their assessment, the directors believe that the Group will generate sufficient cash flows to meet its liabilities as and when they fall due and payable in the next twelve months and concluded that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.</p> <p>Significant management judgement is involved in assessing the ability of the Group to meet its financial obligations and manage its liquidity position as part of management's assessment of the going concern assumption used in the preparation of the financial statements due to the prevailing uncertain macro-economic environment. As such, we determined this to be a key audit matter.</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 the prevailing uncertain and volatile macro-economic environment and implication of COVID-19 pandemic 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 20/19.1 to the financial statements

Risk Description	Our Response
<p>The Company holds investment in subsidiary amounting to Rs.60.5 Million as at 31st March 2022. The goodwill at the consolidation have been fully impaired in the consolidated financial statements as at 31st March 2022.</p> <p>Accordingly, a provision of Rs. 65.5 Million is recognized as provision for impairment of goodwill as at 31st March 2022.</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. The recoverable amounts of the identified CGUs have been determined based on the value-in-use method.</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 judgmental 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.• 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.

03. Revaluation of Land & Building

Refer the Note 17.3 to the financial statements

Risk Description	Our Response
<p>As at reporting date, 31st March 2022, Land and building carried at fair value and classified as property plant and equipment in the group amounted to Rs 2,589 Mn.</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.• Assessing the key inputs used in the valuation by the independent external valuer against our expectations based on our experience, externally published market comparable and our knowledge of property market, consultation with internal valuation specialist• Assessing the adequacy of disclosures in relation to fair value of Land & Building in the financial statements in accordance with the relevant accounting standards

INDEPENDENT AUDITORS' REPORT



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

27th June 2022

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	
		2022	2021	2022	2021
Revenue	11	386,075	197,547	325,117	151,200
Direct costs		(350,070)	(261,881)	(292,981)	(214,073)
Gross profit / (loss)		36,005	(64,334)	32,136	(62,873)
Other income	12	3,895	6,264	940	3,503
Selling and promotional expenses		(11,803)	(11,041)	(9,348)	(8,970)
Administrative expenses		(170,510)	(137,015)	(144,720)	(115,830)
Loss from operations	13	(142,413)	(206,126)	(120,992)	(184,170)
Impairment of goodwill / Investment in subsidiary	19.1 / 20.1	(65,515)	(49,772)	-	(49,772)
Finance income	14.1	12,992	11,163	12,748	10,867
Finance costs	14.2	(19,517)	(13,454)	(7,704)	(4,296)
Net finance income / (cost)	14	(6,525)	(2,291)	5,044	6,571
Loss before taxation		(214,453)	(258,189)	(115,948)	(227,371)
Income tax expenses	15.1	-	(3,714)	-	(3,714)
Deferred taxation	15.2	20,823	32,079	16,292	27,633
Loss for the year		(193,630)	(229,824)	(99,656)	(203,452)
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain / (loss) from valuation of employee benefits	30.2	8,600	(3,155)	5,972	(1,984)
Revaluation of property, plant and equipment	17	465,706	383,368	436,951	286,115
Related tax	29.1	(66,403)	(53,230)	(62,009)	(39,778)
Other comprehensive income for the year		407,903	326,983	380,914	244,353
Total comprehensive income for the year		214,273	97,159	281,258	40,901
Earnings / (loss) per share (Rs.)	16	(6.37)	(7.56)	(3.28)	(6.69)

The notes from pages 38 to 94 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 2022	Group 2021	Company 2022	Company 2021
ASSETS					
Non-current assets					
Property, plant and equipment	17	2,699,883	2,301,175	2,363,151	1,980,722
Right-of-use assets	18	5,624	5,826	-	-
Intangible assets	19	1,008	66,859	-	-
Investment in subsidiary	20	-	-	60,451	60,451
Compensation receivable	21	24,759	24,759	24,759	24,759
Total non-current assets		2,731,274	2,398,619	2,448,361	2,065,932
Current assets					
Inventories	22	22,778	18,515	18,361	14,832
Investment in fixed deposits		36,276	131,720	36,276	131,720
Fair value through profit or loss financial assets	23	12,998	16,270	12,959	4,226
Trade and other receivables	24	57,500	33,644	46,751	25,347
Tax receivable		1,668	-	1,134	-
Cash and cash equivalents	25	79,920	7,103	77,915	6,645
Total current assets		211,140	207,252	193,396	182,770
Total assets		2,942,414	2,605,871	2,641,757	2,248,702
EQUITY AND LIABILITIES					
Equity					
Stated capital	26	515,170	515,170	515,170	515,170
Capital reserves	27	1,790,805	1,390,298	1,594,889	1,219,111
Revenue reserves	28	(109,854)	76,290	4,725	99,155
Total equity		2,196,121	1,981,758	2,114,784	1,833,436
Non-current liabilities					
Deferred tax liability	29	267,246	221,666	251,161	205,444
Employee benefits	30	15,729	28,784	12,165	21,762
Loans and borrowings	31	176,982	157,185	73,177	46,812
Lease liability	32	9,505	9,204	-	-
Total non-current liabilities		469,462	416,839	336,503	274,018
Current liabilities					
Trade and other payables	33	146,824	115,152	105,014	77,627
Current tax liabilities		-	939	-	1,473
Loans and borrowings	31	129,434	88,620	85,456	61,541
Lease liability	32	573	604	-	-
Bank overdraft	25	-	1,959	-	607
Total current liabilities		276,831	207,274	190,470	141,248
Total liabilities		746,293	624,113	526,973	415,266
Total equity and liabilities		2,942,414	2,605,871	2,641,757	2,248,702
Net assets per share (Rs.)		72.26	65.21	69.58	60.33

The notes from pages 38 to 94 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 27th June 2022.

Approved and signed on behalf of the Managers,

(Sgd.)

A.P. Weeraratunge

Director

Approved and signed on behalf of the Board,

(Sgd.)

D.C.R. Gunawardena

Chairman

(Sgd.)

K. Selvanathan

Director

Carsons Management Services (Private) Limited
27th June 2022

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 / (accumulated losses)	Total equity attributable to equity holders of the parent company
Group						
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
Balance as at 1st April 2021	515,170	1,375,154	15,144	176	76,114	1,981,758
Loss for the year	-	-	-	-	(193,630)	(193,630)
Other comprehensive income / (expense) for the year	-	400,507	-	-	7,396	407,903
Total comprehensive income / (expense) for the year	-	400,507	-	-	(186,234)	214,273
Forfeiture of unclaimed dividends	-	-	-	-	90	90
Balance as at 31st March 2022	515,170	1,775,661	15,144	176	(110,030)	2,196,121
Company						
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
Balance as at 1st April 2021	515,170	1,203,967	15,144	176	98,979	1,833,436
Loss for the year	-	-	-	-	(99,656)	(99,656)
Other comprehensive income / (expense) for the year	-	375,778	-	-	5,136	380,914
Total comprehensive income / (expense) for the year	-	375,778	-	-	(94,520)	281,258
Forfeiture of unclaimed dividends	-	-	-	-	90	90
Balance as at 31st March 2022	515,170	1,579,745	15,144	176	4,549	2,114,784

The notes from pages 38 to 94 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	
		2022	2021	2022	2021
Cash flows from operating activities					
Loss before taxation		(214,453)	(258,189)	(115,948)	(227,371)
Adjustments for:					
Interest income on placements with banks and government securities	14.1	(6,260)	(10,202)	(6,211)	(10,100)
Net change in fair value through profit or loss financial assets - unit trust investments	14.1	(1,127)	(959)	(932)	(766)
Interest expenses on loans and borrowings	14.2	18,526	12,489	7,704	4,296
Interest expenses on lease liability	14.2	991	965	-	-
Amortization of right of use assets	18	202	202	-	-
Amortization of intangible assets	19.2	336	336	-	-
Depreciation on property, plant and equipment	17	89,661	83,417	74,831	71,403
Loss on disposal of property, plant and equipment		906	68	906	68
Property, plant and equipment written off		350	-	350	-
Provision for employee benefits	30.2	1,960	5,385	1,727	4,311
Impairment of goodwill / Investment in subsidiary	19.1 / 20.1	65,515	49,772	-	49,772
Provision made for impairment of trade receivables	24.1	489	776	489	887
Operating profit / (loss) before working capital changes		(42,904)	(115,940)	(37,084)	(107,500)
(Increase) / decrease in inventories		(4,263)	6,801	(3,529)	5,741
(Increase) / decrease in trade and other receivables		(26,952)	19,966	(24,500)	15,755
Increase / (decrease) in trade and other payables		32,159	(23,845)	26,979	(20,547)
Cash generated from / (used in) operations		(41,960)	(113,018)	(38,134)	(106,551)
Employee benefits paid	30.1	(6,415)	(2,043)	(5,352)	(625)
Income tax paid		-	(266)	-	-
Net cash generated from / (used in) operating activities		(48,375)	(115,327)	(43,486)	(107,176)
Cash flows from investing activities					
Purchase of property, plant and equipment	17	(25,363)	(1,185)	(21,890)	(1,134)
Proceeds from disposal of property, plant and equipment		325	650	325	650
Net withdrawal of / (investment in) fixed deposits		95,513	(48,085)	95,513	(55,585)
Net disposal of / (investment in) fair value through profit or loss financial assets		4,399	19,396	(7,801)	30,940
Interest received		6,191	14,531	6,142	14,429
Net cash generated from / (used in) investing activities		81,065	(14,693)	72,289	(10,700)
Cash flows from financing activities					
Dividend paid		(1)	(4)	(1)	(4)
Lease rental paid	32.1	(721)	(721)	-	-
Loans and borrowings obtained during the year	31.1	50,000	38,834	50,000	25,000
Loans and borrowings repaid during the year	31.1	(3,439)	-	(3,439)	-
Interest paid on loans and borrowings		(3,753)	(356)	(3,486)	(247)
Net cash generated from / (used in) financing activities		42,086	37,753	43,074	24,749
Net increase / (decrease) in cash and cash equivalents		74,776	(92,267)	71,877	(93,127)
Cash and cash equivalents at the beginning of the year		5,144	97,411	6,038	99,165
Cash and cash equivalents at the end of the year	25	79,920	5,144	77,915	6,038

The notes from pages 38 to 94 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 2022 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 2022 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 225 (2021 – 213), and the Company – 178 (2021- 168).

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 2022 is set out in detail in the Statement of Directors' Responsibility.

The financial statements of the Group for the year ended 31st March 2022 were authorized for issue in accordance with a resolution of the Board of Directors on 27th June 2022.

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 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 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 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 35)
- Revaluation of Land and Buildings (note 34.6)

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 34.6.

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 Group operates in the tourism sector that has been significantly affected by the COVID – 19 pandemic. Further, the challenging economic environment faced by Sri Lanka due to the current shortage of foreign currency reserves and political instability may create economic uncertainties and thus impact the normal operations of the businesses in the country.

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

In March 2022, 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, 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 Company and the Group have consistently applied the following accounting policies to all periods presented in these financial statements.

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 derecognises 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 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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).

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

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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.

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.

iv. **Derecognition**

1. **Financial asset**

The Group and the Company derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred in which the Group and 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 derecognised.

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

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

2. **Financial liabilities**

The Group and the Company derecognise a financial

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 to a security because of financial difficulties.

Presentation of allowance for ECL in the Statement of Financial Position

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

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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 write-off 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 two (2) 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 derecognised.

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

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

iv. Derecognition

An item of property, plant and equipment is derecognised upon disposal of or when no future economic benefits are expected from its use or disposal. The gains or losses arising on derecognition (disposal or retirement) of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized net within 'other income' in the Statement of Profit or Loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

v. Capital work-in-progress

Capital work-in-progress represents the accumulated cost of material and other costs directly related to the construction of an asset. Capital work-in-progress is transferred to the respective asset accounts at the time it is substantially completed and ready for its intended use.

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 standalone 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 and the Company determine the 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 and the Company 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 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:

- c) allocate the consideration in the modified contract
- d) determine the lease term of the modified lease
- e) 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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.

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.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company and the Group recognize gain or losses on the settlement of a defined plan when the settlement occurs.

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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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.

m)

Income Statement

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.

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.

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 ii. Provision of food and beverages - Revenue is recognised at the time of sale and invoice to the customers at the time of consumption.
Provision of laundry, telephone, sports, etc.	These services are provided to customers as they are implied as business practices in the industry and create a valid expectation of the customer. Revenue is recognised at the time of provision of service and an invoice is raised at the time service is consumed.

o) Expenditure recognition

All 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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".

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 ISSUED BUT NOT YET EFFECTIVE AS AT THE REPORTING DATE**

A number of new standards and amendments to standards are effective for annual periods beginning after 1st January 2022 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.

The following new and amended standards are not expected to have a significant impact on the Group's and the Company's financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023.

Annual Improvements to SLFRS Standards 2018–2020

The amendments are effective for annual reporting periods beginning on or after 1 January 2022

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 SLFRS Standards 2018–2020. Key Aspects covered is as follows.

- 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. The Group and the Company do not anticipate this amended to have a significant impact.

- 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. The Group and the Company do not anticipate this amended to have a significant impact.

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 1 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.

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

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

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 Group and the Company do not anticipate this amended to have a significant impact.

Definition of Accounting Estimates (Amendments to LKAS 8)

The amendments introduce a new definition for accounting estimates clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. Additionally, the amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. The amendment applies to annual reporting periods beginning on or after 1 January 2023.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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

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

The amendments in Classification of Liabilities as Current or Non-current (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 items.

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 Group and the Company do not anticipate this amended to have a significant impact.

Disclosure of Accounting Policies (Amendments to LKAS 1).

The amendment applies to annual reporting period beginning on or after 1 January 2023

The key amendments include,

- requiring companies to disclose their material accounting policies rather than their significant accounting policies.
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to the financial statements. The Group and the Company do not anticipate this amended to have a significant impact.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to SFRS 16).

In May 2020, the International Accounting Standards Board issued COVID-19-Related Rent Concessions (the 2020 amendments), which amended IFRS 16 Leases. The 2020 amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. Under that practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications, instead accounting for them in accordance with other applicable guidance.

For the year ended 31st March		Group		Company	
		2022	2021	2022	2021
11	REVENUE				
	Revenue analysis (net)				
	Room revenue	185,143	68,054	150,356	45,983
	Food and beverage revenue	190,462	125,169	165,469	101,276
	Other revenue	10,470	4,324	9,292	3,941
		386,075	197,547	325,117	151,200
12	OTHER INCOME				
	Rent income	3,642	3,152	1,002	722
	Club membership income	635	1,386	635	1,386
	Loss on disposal of property, plant and equipment	(906)	(68)	(906)	(68)
	Sundry income	524	1,794	209	1,463
		3,895	6,264	940	3,503
13	LOSS FROM OPERATIONS				
	Loss from operations is stated after charging all expenses including the following:				
	Auditor's remuneration				
	- Audit services	750	680	435	395
	Amortization of right of use assets (note 18)	202	202	-	-
	Amortization of intangible assets (note 19.2)	336	336	-	-
	Depreciation (note 13.1)	89,661	83,417	74,831	71,403
	Write-off of property, plant and equipment	350	-	350	-
	Provision for impairment of trade receivables (net) (note 24.1.1)	489	776	489	887
	Professional service costs (note 13.2)	4,842	2,006	4,416	1,632
	Nomination committee fees	50	50	50	50
	Personnel costs (note 13.3)	147,402	121,459	122,041	99,893
	Support service fees	4,515	400	4,515	400

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(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March		Group		Company	
		2022	2021	2022	2021
13.1	Depreciation				
	Depreciation is included in the statement of profit or loss under the following headings:				
	Direct costs	70,491	62,356	57,004	51,822
	Administrative expenses	19,170	21,061	17,827	19,581
		89,661	83,417	74,831	71,403
13.2	Professional service costs				
	Legal services	1,329	832	1,139	692
	Valuation services	142	65	131	51
	Other services	3,371	1,109	3,146	889
		4,842	2,006	4,416	1,632
13.3	Personnel costs				
	Salaries, wages and other related expenses	132,104	100,281	109,604	82,699
	Defined benefits plan cost - employee benefits (note 30.2)	1,960	5,385	1,727	4,311
	Defined contribution plan cost - EPF and ETF	13,338	15,793	10,710	12,883
		147,402	121,459	122,041	99,893
	The above includes:				
	Non executive directors' fees	880	770	880	770
	Directors' emoluments	-	-	-	-
		880	770	880	770
14	NET FINANCE INCOME / (COST)				
14.1	Finance income				
	Interest income on placements with banks and government securities	6,260	10,202	6,211	10,100
	Net change in fair value through profit or loss financial assets - unit trust investments	1,127	959	932	766
	Gain on foreign exchange transactions	5,605	2	5,605	1
		12,992	11,163	12,748	10,867

For the year ended 31st March		Group		Company	
		2022	2021	2022	2021
14.2	Finance costs				
	Interest expenses on loans and borrowings				
	- On loans and borrowings	18,526	12,489	7,704	4,296
	- On lease liability	991	965	-	-
		19,517	13,454	7,704	4,296
	Net finance income / (cost)	(6,525)	(2,291)	5,044	6,571
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	-	1,106
		-	3,714	-	3,714
15.2	Deferred taxation				
	On origination and (reversal of) temporary differences (note 29.1)	(20,823)	(32,079)	(16,292)	(27,633)
		(20,823)	(32,079)	(16,292)	(27,633)
		(20,823)	(28,365)	(16,292)	(23,919)

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

15 INCOME TAX EXPENSES CONTD.

For the year ended 31st March		Group		Company	
		2022	2021	2022	2021
15.3	Reconciliation between the accounting profit and the profit for tax purposes				
	Accounting profit / (loss) before taxation	(214,453)	(258,189)	(115,948)	(227,371)
	Aggregate disallowable expenses	104,722	97,119	85,216	80,355
	Aggregate allowable expenses	(79,111)	(69,992)	(64,848)	(55,108)
	Impairment of goodwill / Investment in subsidiary	65,515	49,772	-	49,772
	Tax loss incurred during the year	123,327	192,156	95,580	163,218
	Interest income	-	(10,866)	-	(10,866)
	Adjusted Profit from operations for tax purposes	-	-	-	-
	Investment Income - Interest income	-	10,866	-	10,866
	Total Income	-	10,866	-	10,866
	Utilization of tax losses (notes 15.4)	-	-	-	-
	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	339,202	129,097	248,772	72,651
	Tax loss incurred during the year	123,327	192,156	95,580	163,218
	Adjustment on finalization of tax liability	5,340	17,949	3,162	12,903
	Utilization of tax losses during the year (note 15.5 b)	-	-	-	-
	Tax losses carried forward	467,869	339,202	347,514	248,772

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%. (2021 - 14%). Other income are subject to tax at the standard rate of 24%. (2021 - 24%).
- (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% (2021 - 14%) for both the Company and the Group.

15.6 Surcharge tax

As per the provisions of Surcharge Tax Act No. 14 of 2022, although Pegasus Hotels of Ceylon PLC, the Company, and its subsidiary did not become liable to pay surcharge tax as stand-alone entities, the Company and the Group are liable for surcharge tax on the basis that the companies are part of the Carson Cumberbatch PLC group, of which the aggregate taxable income exceeded the threshold as stipulated in the aforesaid Act. Accordingly, the Company/ Group is liable for a surcharge tax of Rs. 2,716,611/- out of the taxable income of Rs. 10,866,445/- pertaining to the year of assessment 2020/21.

The said Surcharge Tax Bill was approved by the parliament on 8th April 2022, hence cannot be considered as enacted as at the reporting date. Accordingly, the Company/ Group has not provided for the surcharge tax liability in the financial statements for the year ended 31st March 2022 in accordance with the 'Statement of Alternative Treatment on Accounting for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022' issued by the Institute of Chartered Accountants of Sri Lanka on 22nd April 2022.

15.7 Value Added Tax (VAT)

In accordance with the Gazette No. 2282/26 enacted on 31st May 2022, Value Added Tax (VAT) as per the Value Added Tax Act No. 14 of 2002 as amended by Act No. 6 of 2005, has been increased to 12% from 0% effective from 1st June 2022.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

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	
	2022	2021	2022	2021
Amount used as the numerator				
Profit / (loss) attributable to the ordinary shareholders of the Company (In Rupees thousands)	(193,630)	(229,824)	(99,656)	(203,452)
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.)	(6.37)	(7.56)	(3.28)	(6.69)

Diluted Earnings / (loss) per share

There were no potentially dilutive ordinary shares as at 31st March 2022 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 and equipment	Motor vehicles	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2022	Total as at 31st March 2021
Cost / valuation										
Balance as at the beginning of the year	920,820	1,231,466	143,014	189,228	14,322	138,165	4,569	855	2,647,026	2,380,181
Additions during the year	-	13,893	-	645	3,066	6,309	-	1,099	25,363	1,185
Revaluation	393,439	72,267	-	-	-	-	-	-	465,706	383,368
Adjustment on revaluation	-	(42,180)	-	-	-	-	-	-	(42,180)	(114,234)
Adjustment	-	-	-	(1,119)	-	-	-	-	(1,119)	-
Disposal/write off during the year	-	(1,109)	(168)	(1,054)	(203)	(2,127)	-	(350)	(5,011)	(3,474)
Balance as at the end of the year	1,314,259	1,274,337	142,846	186,700	17,185	142,347	4,569	1,604	3,089,785	2,647,026
Depreciation										
Balance as at the beginning of the year	-	-	101,326	131,986	12,965	91,089	4,569	-	345,851	379,424
Charge for the year	-	42,611	7,271	20,023	1,414	17,755	-	587	89,661	83,417
Adjustment on revaluation	-	(42,180)	-	-	-	-	-	-	(42,180)	(114,234)
On disposal during the year	-	(431)	(168)	(863)	(203)	(1,761)	(4)	-	(3,430)	(2,756)
Balance as at the end of the year	-	-	108,429	151,146	14,176	107,083	4,569	-	389,902	345,851
Net book value as at the end of the year	1,314,259	1,274,337	34,417	35,554	3,009	35,264	-	1,439	2,699,883	2,301,175

17.2 Company

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer and equipment	Motor vehicles	Cutlery crockery and glassware	Capital work-in progress	Total as at 31st March 2022	Total as at 31st March 2021
Cost / valuation										
Balance as at the beginning of the year	920,820	937,702	117,076	160,871	12,868	122,001	4,569	855	2,280,670	2,088,908
Additions during the year	-	12,101	-	645	3,029	5,821	-	294	21,890	1,134
Revaluation	393,439	43,512	-	-	-	-	-	-	436,951	286,115
Adjustment on revaluation	-	(31,963)	-	-	-	-	-	-	(31,963)	(92,013)
Disposal/write off during the year	-	(1,109)	(168)	(1,054)	(203)	(2,127)	-	(350)	(5,011)	(3,474)
Balance as at the end of the year	1,314,259	960,243	116,908	160,462	15,694	125,695	4,569	505	2,702,537	2,280,670
Depreciation										
Balance as at the beginning of the year	-	-	86,194	116,109	12,213	78,154	4,569	-	299,948	323,314
Charge for the year	-	32,394	5,756	18,304	982	16,844	-	551	74,831	71,403
Adjustment on revaluation	-	(31,963)	-	-	-	-	-	-	(31,963)	(92,013)
On disposal during the year	-	(431)	(168)	(863)	(203)	(1,761)	(4)	-	(3,430)	(2,756)
Balance as at the end of the year	-	-	91,782	133,550	12,992	93,237	4,569	-	339,386	299,948
Net book value as at the end of the year	1,314,259	960,243	25,126	26,912	2,702	32,458	-	505	2,363,151	1,980,722

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

17 PROPERTY, PLANT AND EQUIPMENT CONTD.

- 17.3 Due to market price changes, 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 2022. 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 2022	Carrying value of revalued assets 2021
Pegasus Reef Hotel, Wattala.	Freehold land	Market approach	20,977	1,314,259	920,820
	Building	Contractor's method	544,879	960,243	937,702
Equity Hotels Limited, Giritale.	Building	Contractor's method	91,634	314,094	293,764

As at 31st March		Group		Company	
		2022	2021	2022	2021
17.4	Analysis of Capital work-in-progress				
	Freehold building	775	855	505	855
	Equipment	829	-	-	-
		1,604	855	505	855
17.5	Details of fully depreciated assets in property, plant and equipment				
	Plant and machinery	71,056	69,806	59,469	59,637
	Equipment, furniture and fittings	148,420	73,891	127,372	57,191
	Computer equipment	12,774	11,375	11,566	10,290
	Motor vehicle	4,569	4,569	4,569	4,569
		236,819	159,641	202,976	131,687

17.6 Capitalization of borrowing costs into property, plant and equipment

No borrowing costs were capitalized during the year (2021 - 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	
		2022	2021	2022	2021
18	RIGHT-OF-USE ASSETS				
	Cost				
	Balance as at the beginning of the year	6,132	803	-	-
	Adjustment on lease modification	-	5,329	-	-
	Balance as at the end of the year	6,132	6,132	-	-
	Accumulated amortization				
	Balance as at the beginning of the year	306	104	-	-
	Amortization for the year	202	202	-	-
	Balance as at the end of the year	508	306	-	-
	Carrying amount as at the end of the year	5,624	5,826	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

As at 31st March		Group		Company	
		2022	2021	2022	2021
19	INTANGIBLE ASSETS				
19.1	Goodwill on consolidation				
	Balance as at the beginning of the year	65,515	115,287	-	-
	Impairment (note 19.3)	(65,515)	(49,772)	-	-
	Balance as at the end of the year	-	65,515	-	-
19.2	Computer Software				
	Cost				
	Balance as at the beginning of the year	5,310	5,310	3,630	3,630
	Acquisitions during the year	-	-	-	-
	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	3,966	3,630	3,630	3,630
	Amortization	336	336	-	-
	Balance as at the end of the year	4,302	3,966	3,630	3,630
	Carrying value as at the end of the year	1,008	1,344	-	-
	Total intangible assets	1,008	66,859	-	-

- 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 the CGU was based on its Value-In-Use ("VIU"), determined by discounting the future cash flows to be generated from the continuing use of the CGU. Further, the net assets of the CGU is also used to identify any indication of an impairment.

Accordingly, as per the impairment tests carried out, the remaining goodwill on acquisition of Equity Hotels Limited was fully impaired by Rs. 65.5 Mn as at 31st March 2022 (2021 - Rs. 49.8 Mn).

As at 31st March		Group		Company	
		2022	2021	2022	2021
20	INVESTMENT IN SUBSIDIARY				
	Investment in subsidiary (note 20.2)	-	-	60,451	60,451
		-	-	60,451	60,451
20.1	Movement of investment in subsidiary				
	Balance as at the beginning of the year	-	-	60,451	110,223
	Impairment (note 20.3)	-	-	-	(49,772)
	Balance as at the end of the year	-	-	60,451	60,451

		As at 31st March 2022			As at 31st March 2021		
		No. of shares	Cost	Carrying value	No. of shares	Cost	Carrying value
20.2	Details of investment in subsidiary						
	Equity Hotels Limited	685,469	110,223	60,451	685,469	110,223	60,451
	Total investment in subsidiary		110,223	60,451		110,223	60,451

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

Impairment tests for the investment in subsidiary were carried out based on the Net Asset Value of the Subsidiary, cash flow projections based on financial budgets and recent comparable market transaction of a similar entity.

Accordingly, as per the impairment tests carried out, no further impairment was required for the investment in subsidiary as at 31st March 2022 (2021 - Rs. 49.8 Mn).

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

For the year ended / as at 31st March		2022	2021
20	INVESTMENT IN SUBSIDIARY CONTD.		
20.4	Summarised financials of subsidiary		
	Revenue	60,958	46,347
	Profit / (loss) for the year	(28,459)	(26,372)
	Other comprehensive income for the year	26,989	82,630
	Total comprehensive income / (expense) for the year	(1,470)	56,258
	Non current assets	343,364	327,623
	Current assets	17,744	25,016
	Total assets	361,108	352,639
	Non current liabilities	132,959	142,821
	Current liabilities	86,361	66,560
	Total liabilities	219,320	209,381
	Net assets	141,788	143,258
	Net cash generated from / (used in) operating activities	(4,889)	(8,151)
	Net cash generated from / (used in) investing activities	8,776	(3,993)
	Net cash generated from / (used in) financing activities	(988)	13,004
	Net increase / (decrease) in cash and cash equivalents	2,899	860

As at 31st March		Group		Company	
		2022	2021	2022	2021
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 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 litigation described in Note 35.3. 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 litigation described in Note 35.3. The District Court case was determined in favour of the Company and the individual who had filed the case has appealed to the Civil Appellate High Court of the Western Province in Negombo and the said appeal is currently pending argument. If the ruling is accepted by the losing party then the value determination of the claim would take place henceforth. However, a further appeal is available for both parties to the Supreme Court, if either party decided to contest the verdict of the said Civil Appellate High Court. In the opinion of the lawyer's a time estimation cannot be given for the finality of appeal if any. Under these circumstances, even if a valuation is determined by the Government, such value will not be disclosed till the litigation has come to a finality.

The full compensation claim for the total land acquired of 1,605 perches stood at Rs. 722 mn as of the reporting date, whilst the carrying value of the compensation receivable stood at Rs. 24.8 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	
		2022	2021	2022	2021
22	INVENTORIES				
	Food	9,677	5,689	8,064	4,755
	Beverage	3,765	4,259	2,845	3,393
	Engineering spares	2,761	2,554	2,651	2,382
	Linen	92	2,513	73	1,540
	Others	6,483	3,500	4,728	2,762
		22,778	18,515	18,361	14,832
23	FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL ASSETS				
	Investment in unit trusts - unquoted	12,998	16,270	12,959	4,226
		12,998	16,270	12,959	4,226
23.1	Movement in fair value through profit or loss financial assets				
	Balance as at the beginning of the year	16,270	34,707	4,226	34,400
	Investments during the year	73,201	79,951	72,001	65,700
	Disposals during the year	(77,600)	(99,347)	(64,200)	(96,640)
	Fair value adjustment	1,127	959	932	766
	Balance as at the end of the year	12,998	16,270	12,959	4,226

As at 31st March		2022			2021		
		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	600,990	12,822	12,998	795,603	16,056	16,270
			12,822	12,998		16,056	16,270
	Company						
	Guardian Acuity Money Market Fund	599,182	12,784	12,959	206,672	4,182	4,226
			12,784	12,959		4,182	4,226

Valuation of investments in unit trusts are based on the unit prices published by the Investment Managers as at 31st March 2022.

As at 31st March		Group		Company	
		2022	2021	2022	2021
24	TRADE AND OTHER RECEIVABLES				
	Financial				
	Trade receivables (note 24.1)	24,170	10,381	21,839	8,847
	Other receivables	26,447	18,496	19,149	12,364
	Loans given to company staff (note 24.2)	329	45	268	45
		50,946	28,922	41,256	21,256
	Non-financial				
	Advances and prepaid expenses	6,554	4,722	5,495	4,091
		6,554	4,722	5,495	4,091
		57,500	33,644	46,751	25,347
24.1	Trade receivables				
	Trade debtors	26,878	18,393	24,547	16,229
	Less: Provision for impairment (note 24.1.1)	(2,708)	(8,012)	(2,708)	(7,382)
		24,170	10,381	21,839	8,847
24.1.1	Impairment of trade receivables				
	Balance as at the beginning of the year	8,012	7,236	7,382	6,495
	Provision during the year	498	995	498	995
	Reversal during the year	(9)	(219)	(9)	(108)
	Write off during the year	(5,793)	-	(5,163)	-
	Balance as at the end of the year	2,708	8,012	2,708	7,382
24.2	Loans given to company staff				
	Balance as at the beginning of the year	45	413	45	399
	Loans granted during the year	1,765	-	1,492	-
	Settlements during the year	(1,481)	(368)	(1,269)	(354)
	Balance as at the end of the year	329	45	268	45

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

As at 31st March		Group		Company	
		2022	2021	2022	2021
25	CASH AND CASH EQUIVALENTS				
	Cash at bank and in hand	35,906	7,103	33,901	6,645
	Placements with banking and financial institutions	44,014	-	44,014	-
	Total cash and cash equivalents	79,920	7,103	77,915	6,645
	Bank overdraft	-	(1,959)	-	(607)
	Net cash and cash equivalents for the cash flow statement purpose	79,920	5,144	77,915	6,038
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	
		2022	2021	2022	2021
27	CAPITAL RESERVES				
	Revaluation reserve	1,775,661	1,375,154	1,579,745	1,203,967
	Capital accretion reserve	15,144	15,144	15,144	15,144
		1,790,805	1,390,298	1,594,889	1,219,111

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.

27.2 Capital accretion reserve

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

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

As at 31st March	Group		Company	
	2022	2021	2022	2021
28 REVENUE RESERVES				
General reserve	176	176	176	176
Retained earnings	(110,030)	76,114	4,549	98,979
	(109,854)	76,290	4,725	99,155

28.1 General reserves

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

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

As at 31st March	Group		Company	
	2022	2021	2022	2021
29 DEFERRED TAX LIABILITY				
Balance as at the beginning of the year	221,666	200,515	205,444	193,299
Charge / (reversal) for the year (note 29.1)	45,580	21,151	45,717	12,145
Balance as at the end of the year	267,246	221,666	251,161	205,444
29.1 Charge / (reversal) for the year				
The amounts recognized in the statement of profit or loss are as follows;				
Property, plant and equipment	(4,138)	(666)	(3,630)	(1,731)
Employee benefits	624	(468)	508	(516)
Tax losses	(18,014)	(29,414)	(13,824)	(24,657)
Lease creditor on right of use assets	(38)	(780)	-	-
Provision for bad debts	743	(751)	654	(729)
	(20,823)	(32,079)	(16,292)	(27,633)
The amounts recognized in the statement of other comprehensive income are as follows;				
Employee benefits	1,204	(442)	836	(278)
Revaluation of property, plant and equipment	65,199	53,672	61,173	40,056
	66,403	53,230	62,009	39,778
Charge / (reversal) for the year	45,580	21,151	45,717	12,145

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(All figures in Sri Lankan Rupees thousands)

As at 31st March		Group		Company	
		2022	2021	2022	2021
29	DEFERRED TAX LIABILITY CONTD.				
29.2	Deferred tax assets				
	Tax effect on employee benefits	2,202	4,030	1,703	3,047
	Tax effect on tax losses	65,502	47,488	48,652	34,828
	Tax effect on lease creditor on right of use assets	1,411	1,373	-	-
	Tax effect on provision for bad debts	379	1,122	379	1,033
	Total deferred tax assets	69,494	54,013	50,734	38,908
29.3	Deferred tax liability				
	Tax effect on property, plant and equipment	336,740	275,679	301,895	244,352
	Total deferred tax liability	336,740	275,679	301,895	244,352
	Net deferred tax liability	267,246	221,666	251,161	205,444

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. 1,293,282,375 /- as at 31st March 2022, 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. 181,059,533 /- 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 2021/22 Group incurred a tax loss of Rs 123.3 Mn increasing cumulative tax losses to Rs. 467.9 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	
		2022	2021	2022	2021
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	28,784	22,287	21,762	16,092
	Provision for the year (note 30.2)	(6,640)	8,540	(4,245)	6,295
	Payments made during the year	(6,415)	(2,043)	(5,352)	(625)
	Balance as at the end of the year	15,729	28,784	12,165	21,762
30.2	Provision for the year				
	The amounts recognized in the statement of profit or loss are as follows;				
	Current service cost	1,366	3,045	1,176	2,621
	Past service credit	(1,565)	-	(1,081)	-
	Interest cost	2,159	2,340	1,632	1,690
		1,960	5,385	1,727	4,311
	The amount recognised in the statement of other comprehensive income is as follows;				
	Actuarial (gain) / loss	(8,600)	3,155	(5,972)	1,984
		(8,600)	3,155	(5,972)	1,984
	Provision for the year	(6,640)	8,540	(4,245)	6,295

"The Employee benefits" as at 31st March 2022 amounting to Rs. 12,165,389 /- and Rs. 15,729,708 /- (2021 - Rs. 21,762,060/- and Rs. 28,784,434/-) 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 15.20% p.a. (2021 - 7.5% p.a.)
- Rate of pay increase 10% p.a. (2021 - 10% p.a.)
- Retirement age 60 years (2021 - 55 years)
- Mortality A 67/70 mortality table, issued by the Institute of Actuaries, London was used.
- Withdrawal rate 5% for age up to 54 and zero thereafter (2021 - 5% for age up to 49 and zero thereafter)
- The Company is a going concern.

As a result of the change in retirement age as per 'Minimum Retirement Age of Workers Act, No. 28 of 2021', past service credit was recognised during the year.

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	
	2022	2021	2022	2021
1% increase in discount rate	(929)	(1,942)	(712)	(1,532)
1% decrease in discount rate	1,037	2,211	797	1,761
1% increase in salary escalation rate	1,150	2,271	884	1,797
1% decrease in salary escalation rate	(1,042)	(2,034)	(798)	(1,596)

30.4 Maturity analysis of the payment

Within next 12 months	1,654	4,457	1,375	4,049
Between 1-2 years	3,494	3,081	2,811	2,239
Between 2-5 years	2,414	5,931	1,971	3,813
Between 5-10 years	4,518	8,407	3,230	5,147
Beyond 10 years	3,649	6,908	2,778	6,514
Total	15,729	28,784	12,165	21,762

As at 31st March	Group		Company	
	2022	2021	2022	2021
31 LOANS AND BORROWINGS				
Non-current liability	176,982	157,185	73,177	46,812
Current liability	129,434	88,620	85,456	61,541
	306,416	245,805	158,633	108,353

As at 31st March		Group		Company	
		2022	2021	2022	2021
31.1	Movement of loans and borrowings				
	Balance as at the beginning of the year	245,805	194,954	108,353	79,389
	Interest accrued during the year	14,050	12,017	3,719	3,964
	Loans and borrowings obtained during the year	50,000	38,834	50,000	25,000
	Loans and borrowings repayments during the year	(3,439)	-	(3,439)	-
	Balance as at the end of the year	306,416	245,805	158,633	108,353

Bank	Interest rate	Year of maturity	Repayment terms	2022		2021	
				Face value	Carrying amount	Face value	Carrying amount
Details of long-term borrowings							
Group							
Sampath Bank PLC	Fixed rate	2026	50 equal monthly instalments of Rs. 229,000 and a final instalment of Rs. 222,000 from July 2022.	11,672	11,672	11,672	11,672
Sampath Bank PLC	Fixed rate	2025	35 equal monthly instalments of Rs. 70,385 from July 2022.	2,463	2,463	1,661	1,661
Sampath Bank PLC	Fixed rate	2025	31 equal monthly instalments of Rs. 594,000 and a final instalment of Rs. 580,000 from July 2022.	18,994	18,994	18,994	18,994
Sampath Bank PLC	Fixed rate	2025	35 equal monthly instalments of Rs. 156,615 from July 2022.	5,481	5,481	1,915	1,915
Peoples Bank	Fixed rate	2023	17 equal monthly instalments of Rs. 725,000 and a final instalment of Rs. 675,000 from July 2022.	13,000	13,000	13,000	13,000
Commercial Bank PLC	AWPLR linked	2027	59 equal monthly instalments of Rs. 666,000 and a final instalment of Rs. 706,000 from July 2022.	40,000	40,000	40,000	40,000
Commercial Bank PLC	AWPLR linked	2024	24 equal monthly instalments of Rs. 532,781 from July 2022.	12,787	12,787	9,116	9,116
Commercial Bank PLC	AWPLR linked	2024	24 equal monthly instalments of Rs. 833,333 from July 2022.	20,000	20,000	20,000	20,000
Commercial Bank PLC	AWPLR linked	2024	24 equal monthly instalments of Rs. 192,403 from July 2022.	4,618	4,618	2,932	2,932
Commercial Bank PLC	Fixed rate	2024	23 equal monthly instalments of Rs. 834,000 and a final instalment of Rs. 818,000 from July 2022.	20,000	17,498	20,000	17,498
Commercial Bank PLC	Fixed rate	2024	24 equal monthly instalments of Rs. 52,899 from July 2022.	1,270	1,270	664	664
Commercial Bank PLC	AWPLR linked	N/A	Repayment terms to be mutually agreed with the bank by June 2022.	24,000	24,000	24,000	24,000
Commercial Bank PLC	AWPLR linked	2024	24 equal monthly instalments of Rs. 281,851 from July 2022.	6,765	6,765	4,862	4,862
Commercial Bank PLC	Fixed rate	2023	18 equal monthly instalments of Rs. 2,500,000 with Rs. 15,000,000 to be paid in July 2022.	60,000	52,500	60,000	52,500

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

31 LOANS AND BORROWINGS CONTD.

31.2 Details of long-term borrowings Contd. Group Contd.

Bank	Interest rate	Year of maturity	Repayment terms	2022		2021	
				Face value	Carrying amount	Face value	Carrying amount
Commercial Bank PLC	Fixed rate	2024	24 equal monthly instalments of Rs. 158,643 from July 2022.	3,807	3,807	1,991	1,991
Peoples Bank	Fixed rate	2023	17 equal monthly instalments of Rs. 1,388,000 and a final instalment of Rs. 1,404,000 from July 2022.	25,000	24,894	25,000	25,000
Sampath Bank PLC	Fixed rate	2026	59 equal monthly instalments of Rs. 833,300 from Dec 2021 and a final instalment of Rs. 835,300.	50,000	46,667	-	-
				319,857	306,416	255,807	245,805

Company	Interest rate	Year of maturity	Repayment terms	2022		2021	
				Face value	Carrying amount	Face value	Carrying amount
Commercial Bank PLC	AWPLR linked	N/A	Repayment terms to be mutually agreed with the bank by June 2022.	24,000	24,000	24,000	24,000
Commercial Bank PLC	AWPLR linked	2024	24 equal monthly instalments of Rs. 281,851 from July 2022.	6,765	6,765	4,862	4,862
Commercial Bank PLC	Fixed rate	2023	18 equal monthly instalments of Rs. 2,500,000 with Rs. 15,000,000 to be paid in July 2022.	60,000	52,500	60,000	52,500
Commercial Bank PLC	Fixed rate	2024	24 equal monthly instalments of Rs. 158,643 from July 2022.	3,807	3,807	1,991	1,991
Peoples Bank	Fixed rate	2023	17 equal monthly instalments of Rs. 1,388,000 and a final instalment of Rs. 1,404,000 from July 2022.	25,000	24,894	25,000	25,000
Sampath Bank PLC	Fixed rate	2026	59 equal monthly instalments of Rs. 833,300 from Dec 2021 and a final instalment of Rs. 835,300.	50,000	46,667	-	-
				169,572	158,633	115,853	108,353

31.3 Debt moratorium

The Government of Sri Lanka through the CBSL has offered debt moratorium on the capital and interest payments of bank loans of the leisure sector establishments of Sri Lanka following Easter Sunday attacks in 2019 and extended till 30th June 2022 for Covid-19 affected businesses and individuals in the tourism industry in accordance with CBSL circular No. 10 of 2021. The moratorium is applicable to all loans of the Group except for the Rs. 50 Mn loan obtained from Sampath Bank by the Company.

As at 31st March		Group	
		2022	2021
32	LEASE LIABILITY		
	Non-current liability	9,505	9,204
	Current liability	573	604
		10,078	9,808
Lease liability is recognised on the right to use of the lease hold land of Equity Hotels Limited.			
32.1	Movement of lease creditor		
	Balance as at the beginning of the year	9,808	4,235
	Adjustment on lease modification	-	5,329
	Payment of lease liability	(721)	(721)
	Interest expense charged to income statement	991	965
	Balance as at the end of the year	10,078	9,808
32.2	Lease commitments		
	Contractual undiscounted cash flows		
	Lease rentals payable within one year	757	721
	Lease rentals payable within one to five years	3,463	3,355
	Lease rentals payable after five years	32,840	33,705
	Total	37,060	37,781
32.3	Amounts recognised in profit or loss		
	Interest on lease liability	991	965
32.4	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	
		2022	2021	2022	2021
33	TRADE AND OTHER PAYABLES				
	Financial				
	Trade payables	57,742	47,387	48,453	40,523
	Other payables	23,137	17,406	18,044	11,986
	Amounts due to related companies (note 36.5)	26,643	21,954	4,689	-
		107,522	86,747	71,186	52,509
	Non financial				
	Deposits and advances	22,962	19,601	20,025	16,926
	Provisions and accrued expenses	16,340	8,804	13,803	8,192
		39,302	28,405	33,828	25,118
		146,824	115,152	105,014	77,627

34 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 the respective members of senior management within the guidelines of benchmark policies, procedures and authority limits clearly laid down; 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 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.

34.1 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.

Following downgrades to the sovereign credit rating, international rating agencies have placed the country's domestically significant banks on a rating switch. However, the Group is closely monitoring the credit quality of all its financial assets. Also, the Group is continually evaluating and making necessary decisions on acquiring new investments in line with the changing risk landscape. Special attention has also been placed on recovering trade receivables with the aim of minimizing defaults.

34.1.1 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	
	2022	2021	2022	2021
Financial assets at fair value through profit or loss				
Investment in unit trusts - unquoted (note 23)	12,998	16,270	12,959	4,226
Financial assets at amortized cost				
Compensation receivable (note 21)	24,759	24,759	24,759	24,759
Investment in fixed deposits	36,276	131,720	36,276	131,720
Trade and other receivables (note 24)	50,946	28,922	41,256	21,256
Cash and cash equivalents (note 25)	79,920	7,103	77,915	6,645
	204,899	208,774	193,165	188,606

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

34 FINANCIAL INSTRUMENTS CONTD.

34.1.1 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 litigation relating to land as mentioned above and in Note 21.1 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, a further appeal is available for both parties to the Supreme Court if either party decided to contest the verdict of the Civil Appellate High Court. Upon completion of the legal procedure the Company also has 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	
	2022	2021	2022	2021
Corporate customers	8,782	3,848	8,458	2,884
Tour operators	13,482	13,508	11,593	12,734
Others	4,614	1,037	4,496	611
	26,878	18,393	24,547	16,229

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

As at 31st March	Group		Company	
	2022	2021	2022	2021
1-30 days	14,660	3,595	13,290	2,544
31-90 days	4,548	1,155	3,800	1,117
91-120 days	662	-	606	-
121 days above	7,008	13,643	6,851	12,568
	26,878	18,393	24,547	16,229

A provision of Rs. 2.7 mn has been made by the Group and the Company as impairment of trade receivables as at the year end (2021 - Group Rs. 8.0 mn and Company Rs. 7.4 mn).

The Group believes that the unimpaired amounts that are past due by more than 90 days are still collectible in full, based on historic payment behaviour and extensive analysis of the respective customers.

d. Cash and cash equivalents

Cash and cash equivalents of Rs. 79.9 mn and Rs. 77.9 mn held by the Group and the Company respectively as at 31st March 2022 (2021 – Rs. 7.1 mn and Rs. 6.6 mn) represent their maximum credit exposure on these assets. These are held with bank and financial institution counterparties, which are rated AAA(Ika) to A+(Ika), based on Fitch Ratings.

34.2 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)

34 FINANCIAL INSTRUMENTS CONTD.

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

31st March 2022	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	57,742	57,742	57,742	-	-	-	-
Other payables	23,137	23,137	23,137	-	-	-	-
Amounts due to related companies	26,643	26,643	26,643	-	-	-	-
Loans and borrowings	306,416	306,416	1,667	127,767	101,584	73,360	2,038
Lease liability	10,078	37,060	120	637	866	2,597	32,840
	424,016	450,998	109,309	128,404	102,450	75,957	34,878

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 companies	21,954	21,954	21,954	-	-	-	-
Loans and borrowings	245,805	245,805	-	88,620	99,207	53,942	4,036
Lease liability	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

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.

34.2.2 *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.79.9 mn and Rs.77.9 mn (2021 - Rs. 7.1 mn and Rs. 6.6 mn), short term deposits amounted to Rs.36.3 mn and Rs. 36.3 mn (2021 - Rs.131.7 mn Rs.131.7 mn) and investment in unit trust amounted to Rs.13.0 mn and Rs.13.0 mn (2021 - Rs. 16.3 mn and Rs. 4.2 mn) respectively.

As explained in note 39, to ensure financial flexibility of its subsidiary, Equity Hotels Limited, the Company announced a rights issue of shares in order to raise funds to subscribe for a right issue of Equity Hotels Limited to partially settle bank borrowings and to fully settle related-party advances obtained by Equity Hotels Limited related to its room refurbishment project in FY 2018/19.

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.

34.3 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.

34.3.1 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 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, if required.

Foreign currency sensitivity

The following table demonstrate the sensitivity to a reasonably possible change in the US Dollars (USD), Sterling Pound (GBP) and Euro (EUR) exchange rate, with all other variables held constant.

	Increase/(decrease) in profit/loss			
	Group		Company	
	2022	2021	2022	2021
USD weakened by 1%	174	-	174	-
USD strengthened by 1%	(174)	-	(174)	-
EUR weakened by 1%	12	-	12	-
EUR strengthened by 1%	(12)	-	(12)	-
GBP weakened by 1%	3	-	3	-
GBP strengthened by 1%	(3)	-	(3)	-

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

34 FINANCIAL INSTRUMENTS CONTD.

34.3.2 Interest rate risk

Interest rate risk is the risk of fluctuation of the value or cash flows of an instrument due to changes in the market interest rates.

The Group has borrowings with variable interest rates (AWPLR) and would expose the Group's cash flow/ profits as the amount of interest paid / changed would depend on market interest rates.

The Central Bank of Sri Lanka adopted a tightening monetary policy stance during the latter half of the financial year, resulting an upward trend in interest rates. Elevated pressures on inflation on account of many factors including increases in global commodity prices, food prices and the sharp depreciation of the currency in March 2022 have resulted in strong policy actions by the CBSL on monetary policy post the end of the reporting period. Such actions have raised monetary policy rates significantly.

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	
		2022	2021	2022	2021
Variable rate instruments					
Financial assets	- Fair value through profit or loss financial assets	12,998	16,270	12,959	4,226
Financial liabilities	- Bank overdraft	-	(1,959)	-	(607)
	- Loans and borrowings	(108,170)	(100,910)	(30,765)	(28,862)
		(95,172)	(86,599)	(17,806)	(25,243)
Fixed rate instruments					
Financial assets	- Investment in fixed deposits	36,276	131,720	36,276	131,720
Financial liabilities	- Loans and borrowings	(198,246)	(144,895)	(127,868)	(79,491)
		(161,970)	(13,175)	(91,592)	52,229
		(257,142)	(99,774)	(109,398)	26,986

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 2022				
Variable rate instruments	(952)	952	(178)	178
As at 31st March 2021				
Variable rate instruments	(866)	866	(252)	252

34.4 Accounting classifications and fair values

Financial instruments are measured either at fair value or amortised cost. 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

34 FINANCIAL INSTRUMENTS CONTD.

34.5 Fair value vs carrying amounts

As at 31st March 2022	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	-	36,276	-	36,276	36,276
Fair value through profit or loss financial assets - unit trust	12,998	-	-	12,998	12,998
Trade and other receivables	-	50,946	-	50,946	50,946
Cash and cash equivalents	-	79,920	-	79,920	79,920
	12,998	191,901	-	204,899	204,899
Loans and borrowings	-	-	306,416	306,416	306,416
Lease liability	-	-	10,078	10,078	10,078
Trade and other payables	-	-	107,522	107,522	107,522
	-	-	424,016	424,016	424,016
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	-	-	245,805	245,805	245,805
Lease liability	-	-	9,808	9,808	9,808
Trade and other payables	-	-	86,747	86,747	86,747
Bank overdraft	-	-	1,959	1,959	1,959
	-	-	344,319	344,319	344,319

34.6 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 2022				
Fair value through profit or loss financial assets	-	12,998	-	12,998
Property, plant and equipment - Land and Buildings	-	-	2,588,596	2,588,596
	-	12,998	2,588,596	2,601,594
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

There were no transfers between Level 1, Level 2 and Level 3 during the financial period under review (2021 - 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

34 FINANCIAL INSTRUMENTS CONTD.

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 - Lands	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 range between Rs. 637,500/- to Rs. 1,350,000/-.	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. 5,000 - Rs. 16,500. Depreciation rate for the usage of assets 40% - 47.5%. Capitalization rate of return at 12%.	Cost per square feet was higher/ (lower) Depreciation rate for usage lower/ (higher) Capitalization Rate of return lower / (higher)
Equity Hotels Limited	Giritale			

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 2022	Group		Company	
	Increase	Decrease	Increase	Decrease
Price per Perch - Rs.10,000 movement	19,806	(19,822)	19,644	(19,644)
Construction cost per square feet - Rs.1,000 movement	95,221	(95,209)	69,450	(69,450)
Capitalization Rate - 1% movement	(21,378)	24,289	-	-
Depreciation rate - 5% movement	(117,819)	117,831	(91,452)	91,452

35 COMMITMENTS AND CONTINGENCIES

35.1 Capital commitments

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

35.2 Financial commitments

The Company and the Group do not have significant financial commitments as at the reporting date, other than disclosed in note 36.4.

35.3 Contingent liabilities

An individual after having lost the case he filed in the District Court of Negombo claiming declaratory title from court stating that he is the co-owner of 127.5 perches of land that belonged to the Company, has appealed to the Civil Appellate Court of Negombo. The said appeal is still pending argument. 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 said Civil Appellate Court case followed by an available appeal process thereafter and the subsequent value determination of the claim by the Government valuer, said contingent liability cannot be quantified.

36 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.

36.1 Parent and ultimate controlling entity

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.

36.2 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.

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

36 RELATED PARTY TRANSACTIONS CONTD.

For the year ended 31st March	Group		Company	
	2022	2021	2022	2021
36.2.1 Key management personnel compensation				
Short-term employee benefits	930	820	930	820
Post-employment benefits	-	-	-	-
Termination benefits	-	-	-	-
Non-cash benefits	-	-	-	-
Other long-term benefits	-	-	-	-
	930	820	930	820

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

36.3 Group entities

Name of the subsidiary	% equity interest	
	2022	2021
Equity Hotels Limited	99.9%	99.9%

36.4 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	
			2022	2021	2022	2021
Parent entity						
Carson Cumberbatch PLC	D.C.R. Gunawardena	Short term advances received	-	5,000	-	-
Fellow subsidiaries						
Carsons Management services (Private) Limited (CMSL)	K. Selvanathan	Computer charges	150	150	150	150
	V.R. Wijesinghe	Secretarial fees	556	556	444	444
		Support service fees	4,935	820	4,755	640

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 2022 is given in note 36.5 to the financial statements.

Support service fee and other expenses charged are based on the respective services provided by CMSL as per the service agreements signed between the companies.

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

Related company	Type of guarantee	Outstanding balance as at 31st March	
		2022	2021
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	
	2022	2021	2022	2021
36.5 Amounts due to related companies				
Carson Cumberbatch PLC	21,954	21,954	-	-
Carsons Management Services (Private) Limited	4,689	-	4,689	-
	26,643	21,954	4,689	-

The above balances are payable on demand and on interest free basis.

37 COMPARATIVE FIGURES

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

38 GOING CONCERN

The Group operates in the tourism sector, which has been significantly affected by the COVID – 19 pandemic. In consideration of the increased spread of COVID-19 in the country seen during the first few months of the financial year, and resultant limiting hotel operating guidelines issued by authorities, the Board of Pegasus Hotels of Ceylon PLC offered Pegasus Reef Hotel as a temporary Intermediate Care Centre (ICC) of Asiri Group of Hospitals for COVID patients in a time of need from 19th May 2021 to 15th October 2021. Pegasus Reef Hotel resumed its normal hotel operations from 1st November 2021.

Further, the present challenging circumstances of the country in the forms of shortage of foreign currency reserves, interruptions to the smooth supply of essential items and utilities, and continuing political instability may create economic uncertainties and thus impact the normal operations of many businesses in the country. In this context, local hospitality establishments face a multitude of challenges in managing daily operations. Among those, major concerns relate to the shortage of essential items, restrictions imposed on imported goods, spiralling cost of inputs and other utilities, disruptions to operations from frequent power outages and scarcity of fuel and gas. The management is closely monitoring the economic environment of the country and the Group's operating activities are being accordingly adjusted to ensure its business continuity. Additionally, the Group is continuously evaluating and revising selling prices in line with costs.

For the year ended 31st March 2022, the Group and the Company recorded losses of Rs.193.6 Mn and Rs. 99.7 Mn, respectively (2021 - Rs. 229.8 Mn and Rs. 203.5 Mn). As at 31st March 2022, accumulated losses of the Group amounted to Rs. 110 Mn (2021- retained earnings of Rs. 76.1 Mn) and; retained earnings of the Company amounted to Rs. 4.5 Mn (2021: Rs. 99 Mn). Further, the Group's current liabilities exceeded its current assets by Rs. 65.7 Mn (2021: Nil) as at 31st March 2022. However, the Group's and the Company's net assets stood at Rs. 2,196.1 Mn and Rs. 2,114.8 Mn, respectively as at 31st March 2022 (2021 – Rs. 1,981.8 Mn and Rs. 1,833.4 Mn).

NOTES TO THE FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees thousands)

As explained in note 39, to ensure financial flexibility of its subsidiary, Equity Hotels Limited, the Company announced a rights issue of shares in order to raise funds to subscribe for a rights issue of Equity Hotels Limited to partially settle bank borrowings and to fully settle related-party advances obtained by Equity Hotels Limited related to its room refurbishment project in FY 2018/19.

Accordingly, 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 revenue, profitability forecasts and cash flow including settlement of liabilities when they fall due for the next financial year and by having an outlook beyond 31st March 2023 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.

39 RIGHTS ISSUE OF SHARES

Pegasus Hotels of Ceylon PLC ('the Company') announced to the Colombo Stock Exchange on 29th April 2022 that the Board of Directors of the Company resolved to recommend to the shareholders of the Company a Rights Issue of shares. Accordingly, a total number of 3,376,838 ordinary shares are to be issued at Rs.22/50 per share in the proportion of 1 new ordinary share for every 9 existing issued ordinary shares. The proceeds of the Rights Issue will be utilized to subscribe for the Rights Issue of Equity Hotels Limited, subsidiary of the Company, in order to partially settle its bank borrowings and to fully settle related-party advances. The Company has obtained 'in principle' approval from the CSE and is required to seek Shareholder approval for the said Rights Issue at a General Meeting of the Company. Approval of the Shareholders are sought at the AGM as included in the Notice convening the Meeting.

40 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.

41 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, other than disclosed in note 15.6, 15.7 and 39.

FIVE YEAR SUMMARY

(All figures in Sri Lankan Rupees thousands)

For the year ended / As at 31st March	Group				
	2022	2021	2020	2019	2018
Trading Results					
Revenue	386,075	197,547	598,632	677,550	684,841
Profit / (loss) from operations	(142,413)	(206,126)	(51,636)	44,058	81,240
Net finance income / (cost)	(6,525)	(2,291)	5,145	17,374	27,702
Profit / (loss) before taxation	(214,453)	(258,189)	(46,491)	(83,775)	108,942
Income taxation	20,823	28,365	5,250	(8,514)	(24,614)
Profit / (loss) for the year	(193,630)	(229,824)	(41,241)	(92,289)	84,328
Other comprehensive income / (expense) for the year	407,903	326,983	279	155	(112,673)
Total comprehensive income / (expense) for the year	214,273	97,159	(40,962)	(92,134)	(28,345)
Shareholders' Funds					
Stated capital	515,170	515,170	515,170	515,170	515,170
Reserves	1,680,951	1,466,588	1,369,252	1,410,148	1,518,997
Shareholders' funds	2,196,121	1,981,758	1,884,422	1,925,318	2,034,167
Assets Employed					
Property, plant and equipment	2,699,883	2,301,175	2,000,757	2,007,609	1,887,516
Right-of-use assets	5,624	5,826	699	-	-
Intangible assets	1,008	66,859	116,967	115,287	115,287
Investment in fixed deposits	-	-	-	20,575	-
Compensation receivable	24,759	24,759	24,759	24,759	169,966
Non current assets	2,731,274	2,398,619	2,143,182	2,168,230	2,172,769
Current assets	211,140	207,252	306,726	227,296	236,022
Current liabilities	(276,831)	(207,274)	(233,061)	(186,302)	(134,097)
Working capital	(65,691)	(22)	73,665	40,994	101,925
Assets employed	2,665,583	2,398,597	2,216,847	2,209,224	2,274,694
Non-current liabilities					
Loans and borrowings	(176,982)	(157,185)	(105,546)	(57,312)	(26,503)
Lease liability	(9,505)	(9,204)	(4,077)	-	-
Deferred tax liability	(267,246)	(221,666)	(200,515)	(206,644)	(196,774)
Employee benefits	(15,729)	(28,784)	(22,287)	(19,950)	(17,250)
Total non-current liabilities	(469,462)	(416,839)	(332,425)	(283,906)	(240,527)
Net assets	2,196,121	1,981,758	1,884,422	1,925,318	2,034,167

FIVE YEAR SUMMARY

(All figures in Sri Lankan Rupees thousands)

For the year ended / As at 31st March	Group				
	2022	2021	2020	2019	2018
Cash Flow Statement					
Net cash inflows / (outflows) from;					
Operating activities	(48,375)	(115,327)	58,646	116,273	146,800
Investing activities	81,065	(14,693)	(41,441)	(181,870)	(161,205)
Financing activities	42,086	37,753	90,787	36,027	(8,060)
Net increase / (decrease) in cash and cash equivalents	74,776	(92,267)	107,992	(29,570)	(22,465)
Capital expenditure	25,363	1,185	80,766	188,999	49,300
Profitability Ratios					
Net profit / (loss) margin (%)	(50)	(116)	(7)	(14)	12
Return on shareholders' funds (%)*	(9)	(12)	(2)	(5)	4
Liquidity Ratios					
Current ratio (times)	0.76	1.00	1.32	1.22	1.76
Debt equity (%)	13.95	12.90	10.57	4.63	1.55
Investor Ratios					
Earnings / (loss) per share (Rs.)	(6.37)	(7.56)	(1.36)	(3.04)	2.77
Dividend per share (Rs.)	-	-	-	0.55	0.55
Net assets per share (Rs.)	72.26	65.21	62.00	63.35	66.93
Market price per share (Rs.)	34.00	29.20	19.10	24.00	28.00
Dividend yield (%)	-	-	-	2.29	1.96
Dividend payout (%)	-	-	-	N/A	20.67
Hotel Operations					
Occupancy (%) (Calculated based on the rooms available to sell)	32	13	44	65	62

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	2022	%	2021	%
Revenue	386,075		197,547	
Other income including finance income	16,887		17,427	
Cost of materials and services bought from outside	(295,320)		(205,061)	
	107,642		9,913	
Distributed as follows:				
To employees				
as remuneration	147,402	137	121,459	1,225
To government				
as taxation*	-	-	3,714	37
To providers of capital				
as interest and other charges	19,517	18	13,454	136
Retained in the business				
as deferred taxation	(20,823)	(19)	(32,079)	(324)
as depreciation	89,661	83	83,417	842
as impairment of goodwill	65,515	61	49,772	502
as profit for the year	(193,630)	(180)	(229,824)	(2,318)
	107,642	100	9,913	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	2022	2021
Number of Shareholders	2,747	2,857

3 FREQUENCY DISTRIBUTION OF SHAREHOLDINGS AS AT 31ST MARCH 2022

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	2,519	268,440	0.88	19	4,210	0.01	2,538	272,650	0.90
1001-10,000	163	502,448	1.65	3	12,517	0.04	166	514,965	1.70
10,001-100,000	36	1,040,933	3.43	1	55,000	0.18	37	1,095,933	3.60
100,001-1,000,000	5	1,160,505	3.82	-	-	-	5	1,160,505	3.82
Above 1,000,000	1	27,347,485	89.98	-	-	-	1	27,347,485	89.98
Grand Total	2,724	30,319,811	99.76	23	71,727	0.24	2,747	30,391,538	100.00

4 CATEGORIES OF SHAREHOLDERS AS AT 31ST MARCH 2022

	No. of Shareholders	No. of Shares	%
Individual	2,684	2,304,769	7.58
Institutions	63	28,086,769	92.42
Total	2,747	30,391,538	100.00

5 The number of shares held by non-residents as at 31st March 2022 was 71,727 (2021 - 108,696) which amounts to 0.24% (2021 - 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 7.14.1 (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 2022

Market Capitalization of the Public Holding	Rs.103.43 Million
Percentage of ordinary shares held by the public	10.01%
Number of Public Shareholders	2,744

7 DIVIDENDS

There were no distributions made during the financial year.

8 MARKET PERFORMANCE - ORDINARY SHARES

For the year ended 31st March	2022	2021
As at 31st March (Rs.)	34.00	29.20
Highest (Rs.)	49.90	40.00
Lowest (Rs.)	22.10	18.00
Value of shares traded (Rs.)	33,382,515	14,082,130
No. of shares traded	962,842	501,805
Volume of transactions (Nos.)	2,429	1,474

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. 1,033,312,292/00 as at 31st March 2022 (2021 - Rs. 887,432,909/60).

10 VALUE OF THE PROPERTIES - LAND AND BUILDING

Location	2022 Land extent (in hectares)	2022 Number of Buildings	Market value 2022 Rs. '000	Date of professional valuation
Pegasus Reef Hotel, Wattala	5.87	1	2,274,502	31st March 2022
Equity Hotels Limited, Polonnaruwa (Building)	6.03	1	314,094	31st March 2022

11 NUMBER OF EMPLOYEES

The number of employees at the end of the year was 178 and 225 (2021 - 168 and 213) for the Company and the Group respectively.

NOTES

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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 56th Annual General Meeting of Pegasus Hotels of Ceylon PLC will be held on **Friday, 22nd July 2022 at 9.30 a.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 2022, together with the report of the Auditors thereon.
2. To re-elect Mr. S. R. Mather 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 76 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 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. D. C. R. Gunawardena who is 71 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.
6. To consider and if thought fit to pass the following Special Resolution.

SPECIAL RESOLUTION - RIGHTS ISSUE

"IT IS HEREBY RESOLVED THAT

- a) the Company do raise a sum up to **Rupees Seventy Five Million Nine Hundred and Seventy Eight Thousand Eight Hundred and Fifty Five only (Rs.75,978,855/-)** through the issue of **Three Million Three Hundred and Seventy Six Thousand Eight Hundred and Thirty Eight (3,376,838) Ordinary Voting Shares** of the Company at an issue price of **Rupees Twenty Two and Cents Fifty (Rs.22/50) per Ordinary Voting Share** by way of a **Rights Issue of shares** for the purpose of raising funds to subscribe to the Rights Issue of

Equity Hotels Limited, a subsidiary of Pegasus Hotels of Ceylon PLC and that the said shares be listed on the Colombo Stock Exchange (CSE); and

- b) the said **Three Million Three Hundred and Seventy Six Thousand Eight Hundred and Thirty Eight (3,376,838) Ordinary Voting Shares** be offered by way of a Rights Issue of Shares at a consideration of **Rupees Twenty Two and Cents Fifty (Rs.22/50) per Ordinary Voting Share**, which in the opinion of the Board is fair and reasonable to the Company and to all existing Ordinary Shareholders of the Company as at the end of trading on the third (3rd) Market Day from and excluding the date of the Annual General Meeting of the Company, i.e. 27th July 2022 (the "Record Date"), in the proportion of **One (01) new Ordinary Voting Share for every Nine (09) existing Ordinary Voting Shares** held as at that date and that such Offer be made by way of a Provisional Letter of Allotment to the respective Shareholders entitled to subscribe for such Shares with provisions for such Shareholders to request for additional shares, and for renunciation of their Rights entitlement as set forth in the Listing Rules of the Colombo Stock Exchange; and
 - c) any Shares that are not subscribed for as at the Last Date for Acceptance thereof (as set out in the Provisional Letter of Allotment), as well as any such shares for which payment has not been duly and validly received by the Company and/or where the Letter of Acceptance & Registration is rejected by the Company as invalid and any whole shares resulting from the aggregation of fractional entitlements (i.e. fractions arising after applying the following formula), be deemed to constitute additional Shares and that all such additional Shares be aggregated and be allotted at the same price mentioned above to the Ordinary Shareholders who had applied for additional Shares, on a basis to be decided at the discretion of the Board of Directors of the Company;
- | | |
|--|-----|
| Number of shares held by the Shareholders as at end
of trading on the Record Date | X 1 |
| 9 | |
- d) the said 3,376,838 Ordinary Voting Shares shall upon duly subscribed and final allotments being made, rank equal and *pari passu* in all respects with the existing issued and fully paid Ordinary Shares of the Company."

By Order of the Board

(Sgd.)

K. D. De Silva (Mrs.)

Director

Carsons Management Services (Private) Limited
Secretaries

Colombo

27th June 2022

NOTICE OF MEETING

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 22nd July 2022'**, which is enclosed with the Annual Report.
2. As permitted by Article 43(b) of the Articles of Association of the Company, the Board of Directors decided on **27th June 2022** to convene the AGM of the Company through an "audio-visual" technology in view of protecting public health and safety.
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_2021_2022/pegasus-hotel-annual-report-2021-2022.pdf**
4. 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 22nd July 2022"** enclosed with the Annual Report.
5. 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.
6. 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 20th July 2022,**
 - via email to PEGAGM2022@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.
7. 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.
8. The transfer books of the Company will remain open.

FORM OF PROXY

I/Weofbeing *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 56th Annual General Meeting of the Company to be held on **Friday, 22nd July 2022 at 9.30 a.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. S. R. Mather who retires by rotation in terms of Articles 72, 73 & 74 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-appoint Mr. M. Dayananda who is over seventy years of age as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint Mr. D. C. R. Gunawardena who is over seventy years of age as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
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.	<input type="checkbox"/>	<input type="checkbox"/>
5. Special Resolution - Rights Issue To consider and if thought fit to pass the Special Resolution in relation to the Rights Issue.	<input type="checkbox"/>	<input type="checkbox"/>

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

.....
 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 appointer 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 20th July 2022.**
 - via email to PEGAGM2022@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 20th July 2022**, 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 22nd July 2022**', 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

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
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
Hatton National Bank PLC
People's Bank
DFCC 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. Bernard Silva - General Manager
Mr. Kapila Gunathilake - Head of Finance
Mr. Shamindra Balachandran - Head of Sales & Marketing
Mr. Sunimal Perera - Executive Housekeeper
Mr. Nilanka Dissanayake - Food & Beverage Manager
Ms. Premila Samarakoon - Front Office Manager
Mr. Niranjan Dinesh Samarakkody - Executive Chef
Mr. Kolitha Perera - Chief Engineer

COMMITTEE OF MANAGEMENT

EQUITY HOTELS LIMITED

Mr. Thiagarajah Ganeshan - General Manager /Director
Mr. Prasad Aruna Jayakody - Accountant
Mr. Chammika Bandara Dissanayake - Executive Sous Chef
Mr. Mahinda Tennekoon - Executive Housekeeper

HOTEL WEBSITE

www.pegasusreefhotel.com

CORPORATE WEBSITE

www.carsoncumberbatch.com

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