PEGASUS REEF

THE Business OF Pleasure

PEGASUS HOTELS OF CEYLON PLC

Annual Report 2014/2015

A Carson Cumberbatch Company

CONTENTS

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http://www.carsoncumberbatch.com/investor_information/annual_reports_2014_2015

THE Business OF Pleasure

Take a break from a busy world of turmoil and stress. Discover the peace and tranquility at Pegasus Reef Hotel - a luxurious tropical getaway overlooking the Indian Ocean. At Pegasus, we have fine-tuned the art of business of pleasure, offering guests a destination experience that combines plush accommodation coupled with fine dining and outdoor activities. We also offer the full range of services for business conferences, weddings and meetings.

Result : A successful business and a pleased clientele.
A win - win for all !

THE Business OF Pleasure

OUR PRIMARY FOCUS IS TO PROVIDE AN UNMATCHABLE GUEST EXPERIENCE.

2 UNIQUE LOCATIONS

180 ROOMS

24 HOUR SERVICE

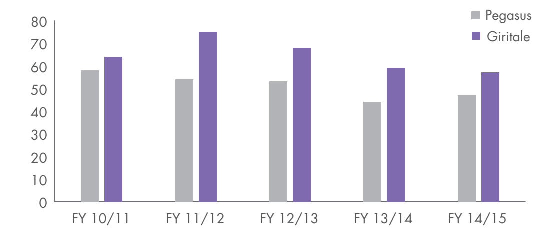
124,639 GUESTS SERVED DURING THE YEAR

An exclusive feature of our hotels is their different value propositions. The Pegasus Reef Hotel, situated between the Katunayaka Airport and Colombo metropolis, is a City Resort which serves both business and leisure travellers alike. In comparison, the Giritale Hotel, located in the tranquil ancient city of Polonnaruwa, overlooking the Minneriya tank is an ideal destination for wild life enthusiasts and ancient culture followers.

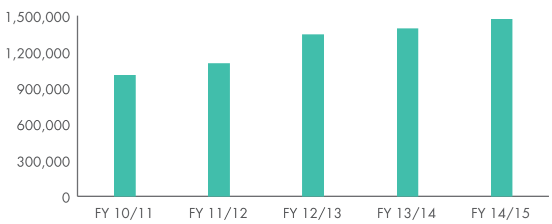
FINANCIAL HIGHLIGHTS

(All figures in Sri Lankan Rupees thousands)	2015	2014
Revenue	510,255	452,205
Gross profit	229,626	194,222
Profit from operations	92,365	67,913
Profit before taxation	110,326	75,332
Profit for the year	95,868	66,556
Earnings per share (Rs.)	3.15	2.19
Dividend per share (Rs.)	0.50	0.50
Total assets	1,589,933	1,530,972
Shareholders' equity	1,472,421	1,392,824
Net assets per share (Rs.)	48.45	45.83
Financial ratios		
Gross profit (%)	45	43
Net profit (%)	19	15
Return on equity (%)	7	5
Current ratio (times)	2.7	1.5
Debt to equity (%)	-	2.6
Market price per share (Rs.)	41	37
Occupancy (%)	49	47

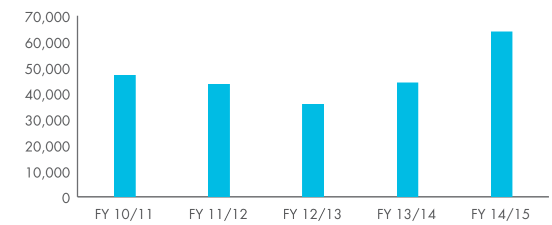
Occupancy



Group Net Assets (Rs. 000')



Overall Number of Banquet Guests Served



Market Cap (Rs.)

1,246 Mn

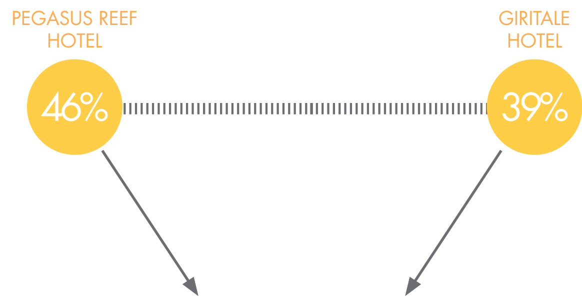
13 times Trailing P/E Multiple based on FY 14/15 EPS

Group Revenue (Rs.)

510 Mn

A 13% increase in Revenue compared to that of Financial Year 13/14

GP Margin



45%

Strong growth in banquet Revenue during the period under review contributed towards higher margins.

2014 WAS YET ANOTHER MILESTONE YEAR FOR SRI LANKA TOURISM, AS TOURIST ARRIVALS SURPASSED THE 1.5 MILLION MARK FOR THE FIRST TIME IN HISTORY...

CHAIRMAN'S STATEMENT

Dear Shareholder,

On behalf of the Board of Directors, I take great pleasure in presenting the Annual Report and Consolidated Audited Financial Statements of Pegasus Hotels of Ceylon PLC for the financial year ended 31st March 2015.

The year 2014 was yet another milestone year for Sri Lanka Tourism, as tourist arrivals surpassed the 1.5 Mn mark for the first time in history, depicting a Year-on-Year increase of 19.8%. Arrivals from China rose significantly during the calendar year concluded, in reflection of the exponential growth the world has seen in Chinese Outbound Tourism since of late.

In line with the increase in arrivals, earnings from Tourism too improved by 28.6% year-on-year, to reach USD 2.2 Bn in 2014, contributing positively towards the country's external sector and the overall economy, which expanded by 7.4% during the year, keeping pace with post war growth.

Along with the positive trends witnessed, the industry's operating environment has also taken a more challenging turn over time. Increased Tourist arrivals has been greeted with an over-supply of accommodation venues belonging to both graded and ungraded categories, which has compelled even deep-rooted star-graded players to rethink and re-strategise their value propositions.

Operating in such an environment, the management of Pegasus Hotels of Ceylon PLC is continually engaged in evaluation and execution of numerous initiatives to uplift the standards of the group hotels.

CHAIRMAN'S STATEMENT

In line with this requirement, the banquet expansion and renovation project completed at the Pegasus Reef Hotel during the year ended 31st March 2014 proved to be a resounding success as reflected in the financial results, where consolidated banquet revenue has increased substantially by 45.7% year-on-year.

The Sea Food restaurant currently under construction at Pegasus Reef Hotel is another such initiative. The restaurant, which is scheduled to be completed during the second quarter of the upcoming financial year has been designed to accommodate 60 pax at a single sitting and also includes a 30 feat long bar. Yet to be named, the restaurant is tastefully designed to portray a chic-appearance yet giving a beach restaurant open-air feel. Once operational, we are confident that it will serve our guests with a unique dining experience whilst contributing positively to overall revenue.

Buoyed by strong F&B (Food & Beverage) income and improved occupancy, Pegasus Reef Hotel, the Company, recorded a healthy 22.4% Year-on-Year increase in Gross Profit, at Rs. 196.2 Mn for the year under review. Average occupancy of the hotel stood at 47% for the twelve months ended 31st March 2015 against 44% reported for the preceding financial year. The Company registered an overall profit of Rs. 98.7 Mn for the 14/15 financial year, an increase of 40.1% compared to the Rs. 70.5 Mn recorded last year.

At group level, Pegasus Hotels of Ceylon PLC concluded the reviewing financial year with consolidated Revenue of Rs. 510.3 Mn and consolidated Operating Profit of Rs. 92.4 Mn, reflecting year-on-year increases of 12.8% and 36.0% respectively.

Having taken into consideration the ongoing and future capital expenditure commitments of the group to be competitive in the industry, the directors recommend a conservative first and final dividend of Rs. 0.50 per share for the year ended 31st March 2015 subject to shareholder approval at the forthcoming annual general meeting of the company.

Considering the encouraging developments which have taken place in the country's leisure sector in recent times,

"Pegasus Hotels of Ceylon PLC, the Company, recorded a healthy 22.4% Year-on-Year increase in Gross Profit, reaching Rs. 196.2 Mn for the year under review."

the journey of Tourism in Sri Lanka going forward appears to be tremendously promising from today's standpoint. Whist we value the efforts taken by the authorities to place our island nation on the global map as a much sought after destination, we believe there is still a substantial level of ground work remaining to be done in order to realize the full potential of what Sri Lanka has on offer. For instance, there is immense scope to develop Tourism infrastructure in the country and generate outlets to harness tourist expenditure which would enable higher earnings from tourism and longer tourist stays (occupancies). As such, with the right strategies and the attitude in place, we believe Sri Lanka has got what it takes to reach greater heights in time to come.

Before I conclude, I would like to extend my sincere gratitude to our former director Mr. Paddy Withana, who bid farewell to us this year in order to shoulder a greater responsibility as Chairman of the Sri Lanka Tourism Development Authority. Mr. Withana is a veteran hotelier, with strong work ethics. We value and appreciate the service he rendered during his tenure with us, which has undoubtedly contributed to the success of our business. We wish him success in all his future endeavours.

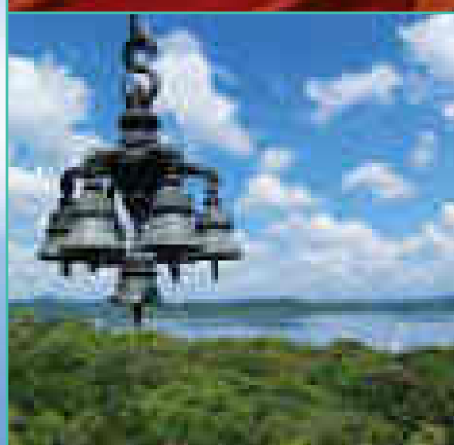
I would also like to take this opportunity to welcome Mr. Mahendra Dayananda and Mr. Asoka Gunasekera as directors to the board of Pegasus Hotels of Ceylon PLC. Last, but not least, I wish to thank our shareholders, my colleagues on the Board, the members of the Audit Committee, Remuneration Committee, Nomination Committee and the respective staff members of the two hotels for ensuring that our business remains profitable in the face of many challenges.

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

12th May 2015

THE FUTURE LOOKS PROMISING COMPETITION INTENSE...

THE Business OF Pleasure



MANAGEMENT DISCUSSION & ANALYSIS

Considering the encouraging trends which have taken shape in recent times, the journey of Tourism in Sri Lanka going forward, appears to be tremendously promising from today's standpoint.

MANAGEMENT DISCUSSION & ANALYSIS

Macro Overview

Despite the slump in Crude Oil prices, the global economy showed little signs of improvement during the year 2014, accentuated by the slowdown in China and sluggish conditions witnessed in Japan and the European Region. Accordingly, global real GDP growth remained at 3.4% for the third consecutive year as revealed by the 'IMF world economic outlook data' published in April 2015.

In spite of meagre global economic performance during the year, the international tourism market remain undeterred demonstrating resilience yet again, marking Tourist Arrivals of 1.1 Bn and receipts from International Tourism grossing USD 1.2 Bn for the year 2014 as per the 'UNWTO World Tourism Barometer' data. This reflect year-on-year increases of 4.7% and 3.7% respectively. Even though China experienced an economic deceleration during the calendar year concluded, it continued to contribute strongly to global tourism via its rapidly expanding outbound tourism market.

Sri Lanka too benefited from this as arrivals from East Asia marked the highest growth in terms of arrivals in 2014, led by China. Accordingly, keeping pace with the post-war tourist arrivals growth the country has experienced, Sri Lanka recorded Tourist arrivals of 1.5 Mn Visitors in 2014, depicting an increase of 19.8% compared to the figure registered in 2013. During the year, Europe maintained its position as our key market although arrivals from Ukraine declined slightly as a result of political uncertainty.

"The planned sea food restaurant at the Pegasus Reef Hotel is expected to commence operations in mid 2015. The restaurant will feature an exclusive array of dishes and an ambiance to match, catering to both foreigners and locals alike who share a palate for sea food"

Operating Profit

92 Mn

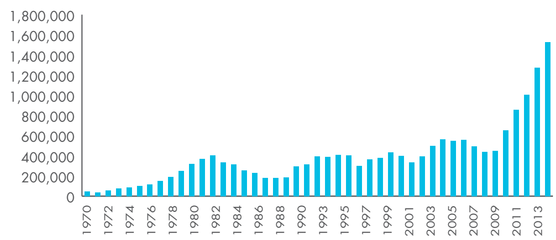
The increase in Operating Profit for the year over that of financial year 13/14 was 36%

Operating Profit Margin

18.1%

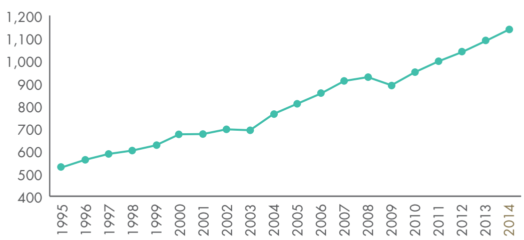
Against an Operating Profit Margin of 15% reported during financial year 13/14

Tourist Arrivals to Sri Lanka



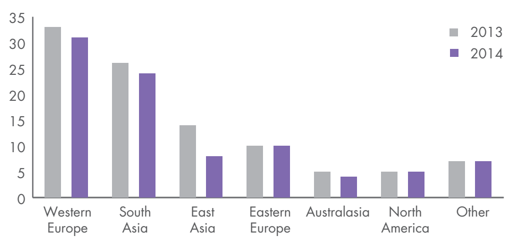
Source: Sri Lanka Tourism Development Authority Statistics

International Tourist Arrivals (Millions)



Source: UNWTO World Tourism Barometer

Composition of Arrivals to Sri Lanka by Region (%)



Source: Central Bank Annual Report 2014

Operational Review

The average occupancy at Pegasus Reef Hotel for the year under review stood at 47%, improving marginally against the 44% recorded in financial year 2013/14. In contrast, average occupancy at Giritale Hotel reflected a 2% year-on-year decline, from 59% reported for the twelve months ended 31st March 2014 to 57% in the reviewing year.

Amidst intense competition stemming from the proliferation of both graded and ungraded accommodation venues, improving occupancy levels has been a challenge faced by both our hotels in the recent past. To address the situation at hand, we have taken several initiatives during the year to improve overall guest experience with the hope of increasing their duration of stay.

One such initiative is the sea food restaurant under construction at the Pegasus Reef hotel, which is expected to open during mid-2015. The restaurant will feature an exclusive array of dishes and will cater to both foreigners and locals alike, who share a palate for sea food. Once operational, we believe the restaurant will contribute towards enhancing the overall dining experience at the hotel, leading to greater F&B Revenue potential. Once the restaurant is in town, no longer would an avid sea-food hunter from the locality be compelled to take the hassle of traveling long distance to satiate their taste buds.

In addition, efforts are also underway to enhance branding and positioning of the two hotels, particularly by strengthening ties with international tour operators. Apart from increasing guest occupancy we are also keen to explore other avenues in potential revenue generating segments such as MICE travel, which is an area which we hope to capitalise on in time to come given the enormous scope the segment has , with the onset of growing economic activities in the country.

MANAGEMENT DISCUSSION & ANALYSIS

In anticipation of this, we have already renovated the banquet reception hall at Pegasus Reef Hotel, which has generated successful returns since becoming operational. This has also enabled us to strengthen our banquet income, mainly via wedding receptions, which is a major cultural event in Sri Lanka.

Financial Review

For the year ended 31st March 2015 the Company reported a Revenue of Rs. 425.5 Mn, which is an increase of 14.8% compared to the financial year 2013/14. The increase was primarily driven by higher F&B Revenue, stemming from growth in banquet income. The increase in banquet income during the year, boosted F&B Revenue of the Company to Rs. 204.7 Mn for the year ended 31st March 2015, from Rs. 151.5 Mn recorded in the comparable period.

In spite of the increase in average occupancy, room revenue reported by Pegasus Reef Hotel, for the year ended 31st March 2015 declined by 1.1% year-on-year, to Rs. 205.8 Mn largely due to the competitive nature of room rates maintained during the period.

The Company concluded the financial year with a Net Profit of Rs. 98.7 Mn, up 40.1% against that of financial year 2013/14, driven by strong revenue growth.

On the back of higher F&B income, resulting from strong banquet revenue as explained above, the group reported year-on-year topline growth of 12.8% for the 2014/15 financial year.

Consolidated operating profit margin for the reviewing period was at 18.1%, on a revenue base of Rs. 510.3 Mn whilst the same for financial year 2013/14 was 15.0% on a revenue base of Rs. 452.2 Mn. Pegasus Hotels of Ceylon PLC registered an overall net profit of Rs. 95.9 Mn for the twelve months concluded against the Rs. 66.6 Mn recorded for the preceding financial year, depicting a year-on-year increase of 44.0%.

Borrowings obtained by the Pegasus Reef Hotel under the "Tsunami Funding Scheme" in March 2008 was settled in full during the year under review leading to zero consolidated loans & borrowings outstanding as at 31st March 2015 against a total sum of borrowings amounting to Rs. 16.4 Mn as at the balance sheet date of financial year 2013/14.

Fuelled by higher operating cash inflow for the period under review, the consolidated cash & cash equivalents balance as at 31st March 2015 was at Rs. 135.0 Mn, which is an increase of 84.8% compared to that of 31st March 2014. Going forward, we hope to reinvest these funds in Capital Expenditure, given the upgrading and

renovations required to be carried out in the two hotels, in order to be in par with the ever evolving industry standards. This would enable the group to maintain balance sheet strength whilst maintaining gearing at reasonable level if required.

Outlook

Considering the recent trends which have taken shape in the tourism industry, the outlook for travel and leisure in Sri Lanka seems to be on an optimistic footing as of present. Thus, we are excited about the enhanced prospects this brings to our business and will be seeking to maximize gains from the opportunities presented. However we envisage room rates and occupancies of the Pegasus Reef Hotel to come under pressure going forward, as a result of rising competition from tourist establishments in the vicinity, mainly in the form of lower room rates. The development of the Colombo - Katunayake highway too will have a considerable impact on the Hotel, as it will facilitate a direct drive to Colombo and beyond, resulting in the diminishing need for a transit venue.

Carsons Management Services (Private) Limited
Managers

12th May 2015

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http://www.carsoncumberbatch.com/investor_information/annual_reports_2014_2015

STRONG LEADERSHIP AND A CLEAR STRATEGY...

THE Business OF Pleasure

THE BOARD OF DIRECTORS

The strength of our leadership has always been a core factor in our record of business success

PROFILES OF DIRECTORS

CHANDIMA GUNAWARDENA

Chandima Gunawardena serves as a Non-Independent, Non-Executive Director of Carson Cumberbatch PLC and in most of the Carsons Group Companies in Sri Lanka and overseas. He is also a Director of Bukit Darah PLC. Since assuming Non-Executive status in the Group, he serves as an advisor to the Group's Strategic Planning and Management forums in Sri Lanka and serves on Board Committees including the Audit Committees of the Group in Sri Lanka and overseas covering all operating sectors of the Group.

Mr. Gunawardena has over four decades of experience in varied fields of business and commercial activities and has held senior positions in Corporate, Mercantile and State Institutions. He was appointed to the Carsons Group Directorate in 1990.

He has served in the Management Committee of The Ceylon Chamber of Commerce for over 10 years and was a Founder Council member of the Sri Lanka Institute of Directors (SLID) and continued to serve in the council for over 10 years.

He is a Fellow of the Chartered Institute of Management Accountants, UK.

HARI SELVANATHAN

Hari Selvanathan is the Chairman of Bukit Darah PLC, Deputy Chairman of Carson Cumberbatch PLC and Goodhope Asia Holdings Ltd. He is the President Commissioner of the palm oil related companies in Indonesia. He holds Directorships in several subsidiary companies within the Carsons Group and is also a Director of Sri Krishna Corporation (Private) Limited and the Chairman of Express Newspapers (Ceylon) Ltd. He is also the Chairman of Carsons Management Services (Private) Limited and Agro Harapan Lestari (Private) Limited, the Group's Management companies. Past President of the National Chamber of Commerce and Past Vice Chairman of the International Chamber of Commerce (Sri Lanka).

He counts over 20 years experience in commodity trading in International Markets.

He holds a Bachelor of Commerce Degree.

MANO SELVANATHAN

Mano Selvanathan holds a Bachelors Degree in Commerce and is the Chairman of Sri Krishna Corporation (Private) Limited, Ceylon Finance & Securities (Private) Ltd. and Selinsing PLC and is a Group Director of most Companies in the Carson Cumberbatch Group in Sri Lanka, Indonesia, Malaysia, Singapore & India and is an active Member of its Executive Management Forums. He is also the Deputy Chairman of Ceybank Asset Management Ltd.

He has served as the Chairman of the Ceylon Chamber of Commerce and The Indo Lanka Chamber of Commerce & Industry and also as the President of the Rotary Club of Colombo North. At present he is the Honorary Consul of the Republic of Chile in Sri Lanka.

Mano Selvanathan was conferred the highest National Honours in Sri Lanka the 'DESAMANYA' title by H.E. The President of Sri Lanka, in recognition of the services rendered to the Nation in November 2005.

In January 2011 he was awarded with the prestigious 'PRAVASI BHARATIYA SAMMAN AWARD' by the President of India.

He also received the Presidential Honour of 'ORDER OF KNIGHT COMMANDER' in October 2013 awarded by the Government of Chile.

SEGA NAGENDRA

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

Senior Director & Financial Consultant of CML - MTD Construction Ltd., Executive Chairman Travelserv Ltd., Travelon Ltd and Travelon Management Services Ltd. He is also Chairman and Director of several public listed and private companies.

Past President of Skal International Colombo (International Association of Travel and Tourism Professionals), Past Secretary of the Skal International, Asian Area Region and Past President of the Pacific Asia Travel Association (Sri Lanka Chapter). Immediate Past President of the Sri Lanka Pakistan Business Council and present Council Member. Also Past President of the Sri Lanka - Benelux Business Council and Past President of the Chartered Management Institute- UK, Sri Lanka Branch. Served as an Executive Committee member of The Ceylon Chamber of Commerce and former Chairman of the Imports Section of The Ceylon Chamber of Commerce.

Former Committee Member on Transport, Highways and Aviation of the Monitoring & Progress Division of the Ministry of Policy Developing and Implementation.

Companion of the Chartered Management Institute - U.K., Master of Business Administration U.K. and Fellow of the Institute of Certified Professional Managers - Sri Lanka."

MAHENDRA DAYANANDA

(Appointed w.e.f. 15th July 2014)

Mahendra Dayananda is an Independent Non-Executive Director of Nestle Lanka PLC and was a former Non – Executive Director of Delmege Ltd. An expert on economic issues, he was until recently the Chairman of the Sri Lanka Business Development Centre.

Former Chairman of the Ceylon Chamber of Commerce, he chaired the Monetary Policy Consultative Committee – Central Bank of Sri Lanka and continues to chair several organisations such as Total Tea Concepts (Private) Limited and Indo Asia Teas (Private) Limited. He is the Resident Representative of Gover Horowitz & Blunt Ltd, United Kingdom and is also the Honorary Consul for the Republic of Benin in Sri Lanka.

ASOKA DE. Z. GUNASEKERA

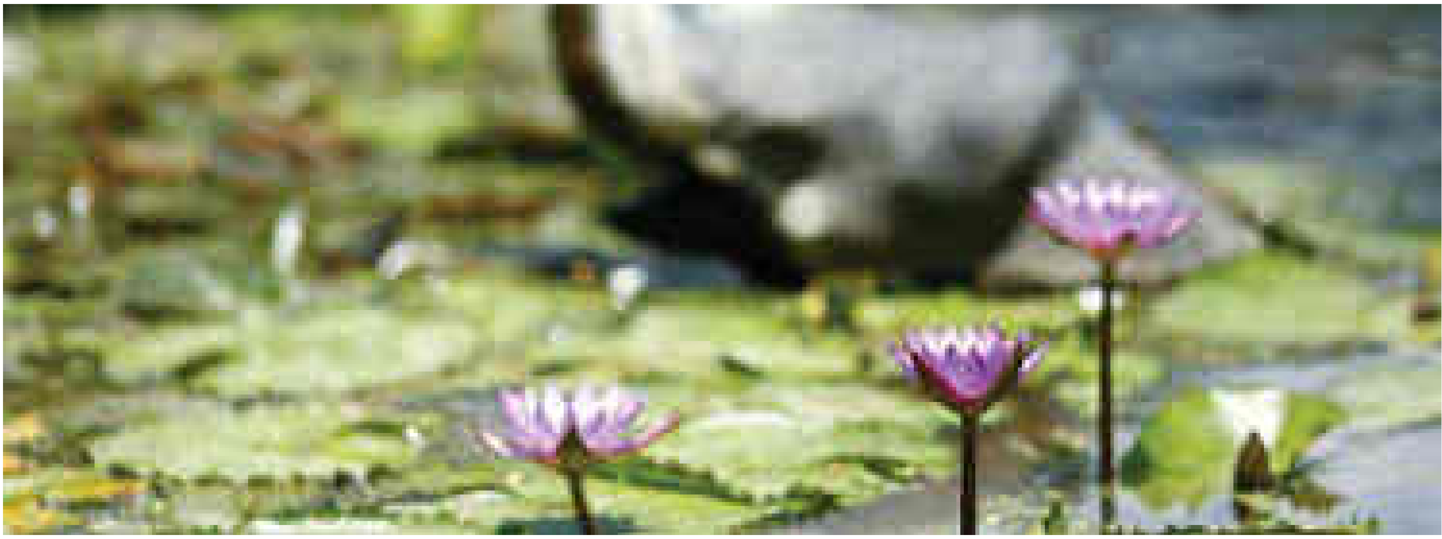
(Appointed w.e.f. 19th November 2014)

Asoka Gunasekera is a Director of Guardian Capital Partners PLC. He also serves as Alternate Director to Mr. I.W Senanayake (Chairman) of IWS Holdings (Pvt) Ltd and in most IWS Holdings Group companies. Past Chairman of the National Chamber of Commerce of Sri Lanka and Past President of the Ceylon National Chamber of Industries.

He is a Past International Director and a Board Appointee of Lions Clubs International and was also a Member of the National Police Commission of Sri Lanka. He served as Legal Advisor and Secretary to the Ministry of Posts and Telecommunications; Co-ordinating Secretary to the Ministry of Power and Energy and Ministry of Highways and was the Acting Secretary to the Ministry of Policy Planning.

He is an Attorney - at - Law & Notary Public.

PROFILES OF DIRECTORS



PUSHPAKUMARA M. WITHANA

(Resigned w.e.f. 31st January 2015)

Pushpakumara Withana was a Director of Equity Hotels Limited.

Chairman of the Sri Lanka Tourism Development Authority. He was a former Director Food & Beverage, Keells Hotels Sri Lanka and Maldives. He was also a former Director/ General Manager of Keells Hotels. A past Chairman of the Hotel & Catering International Management Association U.K. Sri Lanka chapter.

He is also a Fellow and Past President of the Ceylon Hotel School Graduates Association. Mr. Withana is a Past District Governor of the International Association of Lions Clubs, District 306 A1.

NALAKE FERNANDO (ALTERNATE DIRECTOR TO M. SELVANATHAN)

Nalake Fernando is a Director of the Property Management Companies of the Carson Cumberbatch Group - Equity One PLC and Equity Two PLC. He is also a Director of Carsons Management Services (Private) Limited and in some of the Boards of the Malaysian Plantation Companies of the Carsons Group. He was the Country representative for Sri Lanka with Dalekeller & Associates Ltd., Designers and Skidmore Ownings & Merrill Architects. He was also a Director of SKC Management Services Ltd.

He counts over 40 years of work experience and holds a Technician's Certificate of the Institute of Work Study Practitioners of UK.

SUBSIDIARY COMPANY - EQUITY HOTELS LIMITED

CHANDIMA GUNAWARDENA

(Refer under Company profile)

PUSHPAKUMARA M. WITHANA

(Resigned w.e.f. 31st January 2015, Refer under Company profile)

AJITH WEERATUNGE

(Appointed w.e.f. 31st January 2015)

Ajith Weeratunge is a Director of the Carson Cumberbatch Group's Management Company, Carsons Management Services (Private) Limited and holds the position of Head of Finance. He is also a Director of Equity One PLC and Equity Two PLC, as well as the Group's Investment Holding Sector - Ceylon Investment PLC, Rubber Investment Trust Limited and Guardian Fund Management Limited. He accounts for more than 34 years of finance related experience in the mercantile sector and has held positions in Lanka Walltile Ltd., Union Apparels (Pvt) Ltd., John Keells Holdings PLC, Phoenix Industries (Pvt) Ltd and Ceylon Beverage Holdings PLC.

He is a Fellow member of the Chartered Institute of Management Accountants of UK.

VIBATH WIJESINGHE

Vibath Wijesinghe is the Group Financial Controller of Carsons Management Services (Private) Limited the management support service provider to the Carson Cumberbatch Group on Sri Lankan business operations.

Vibath began his career at M/s. KPMG, Sri Lanka and has over 15 years of experience in the fields of finance, corporate finance and auditing and has spearheaded assignments on business restructuring, business acquisition and investment transactions. He joined Carson Cumberbatch Group in 2004.

He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka, Chartered Institute of Management Accountants (UK) and of the Society of Certified Management Accountants of Sri Lanka. He also holds a Masters Degree in Business Administration from Postgraduate Institute of Management - University of Sri Jayewardenepura, Sri Lanka.

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RISK MANAGEMENT

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

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

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

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

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

Board of Directors

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

Audit Committee

- Consider adequacy of risk management and internal control framework
- Receive and review risk management reports/ Dash Board/Risk Register
- Receive and review reports from internal and external auditors

Management Team

- Define and set risk appetite and consider new and emerging risks
- Develop / monitor suitable action plans to mitigate/manage risks
- Consider actions to improve risk management processes
- Provide representation on compliances

Risk owners

- Responsible for day to day monitoring / supervision of risk and risk mitigation actions.
- Required to evaluate status of risk and effectiveness of risk mitigation action plans

RISK MANAGEMENT

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

Risk	Impact	Risk rating	Risk response & strategies
Market risk	Not being able to achieve business objectives.	Low	The Group manages this risk by means of the following actions and procedures. • Maintains and builds relationship with tour operators. • Participation in relevant trade and business promotions, locally and internationally. • Maintaining value and standard of the hotel through regular refurbishments and training and development of employees. • Develops and monitors comprehensive business plans. • Diversification of revenue base.
Liquidity Risk	Inability to raise funds or effect payments when required.	Moderate	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 damage to the Group's reputation. The Group monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group has access to short-term financing facilities extended from the parent company Carson Cumberbatch PLC.

Risk	Impact	Risk rating	Risk response & strategies
Credit Risk	The credit risk of the Group is mainly derived from the dues receivable from its customers. The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure.	Low	The hotel sector implements the following controls to mitigate this risk. • Continuous and regular evaluation of creditworthiness of tour operators and other customers. • Ongoing monitoring and follow up of receivable balances.
Foreign Exchange Risk	Foreign currency risk is the risk that the fair value or future value of a financial instrument will fluctuate due to changes in foreign exchange rates. Across the industry, hotel rates targeting foreign tourists, are quoted in US Dollar terms and contracted in advance with tour operators. This constitutes a significant volume of business to the Group.	Low	The Group monitors fluctuations in exchange rates and takes precautionary measures to revise its fee quotes on a regular basis, in an attempt to mitigate the exposure to currency risk.
Interest Rate Risk	Interest rate risk is the risk arising due to the volatility of the interest rates in the markets affecting the future cash flows.	Low	The long-term bank borrowing of the Company has been obtained at a fixed concessionary interest rate, hence interest rate risk is not applicable. However, other bank borrowings and amounts borrowed from related companies are exposed to interest rate risk. The financial strength of the parent company, Carson Cumberbatch PLC is used via the Group treasury in negotiating the rates with external financiers. (Refer the note 32"Risk Management" in the financial statement for further details.)

RISK MANAGEMENT

Risk	Impact	Risk rating	Risk response & strategies
Systems and process risks	The risk of direct or indirect losses due to inadequate or failed internal processes and systems.	Low	• Maintains detailed procedure manuals and provides training and guidelines for new recruits. • The internal audit function of the Group carry out regular reviews on internal control systems and processes and recommends process improvements, if short comings are noted.
Human Resource Risk	Attracting, developing and retaining talented employees are essential to deliver the Group's objectives. Failure to determine the appropriate mix of skills required to implement Group strategies and failure to retain or develop the right number of appropriately qualified staff could affect the achievement of the Group's objectives.	Low	The following initiatives have been implemented by the Group • Ensure recruitments are carried out to hire employees with required qualification, knowledge and experience. • Availability of detailed job descriptions and role profiles for each job. • HR policies are focused on encouraging continuous training and development and ensuring appropriate compensation as per market rates to retain and develop employees.

Risk	Impact	Risk rating	Risk response & strategies
Legal & Regulatory Compliance Risk	Failure to comply with regulatory and legal framework applicable to the Group.	Low	The management together with the Carsons group legal division protectively identifies and sets up appropriate systems and processes for legal regulatory compliance with respect to the Group's operations. • Arrange training programmes and circulate updates for key employees on new / revised laws and regulations on needs basis. • Provide comments on draft laws to government and regulatory authorities. • Obtain comments and interpretation from external legal consultants on areas that require clarity. • Obtain compliance certificates from management on quarterly basis on compliance with relevant laws and regulations.

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

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

The Board of Directors of Pegasus Hotels of Ceylon PLC have pleasure in presenting to the shareholders their Report together with the Audited Financial Statements for the year ended 31st March 2015.

The details set out herein provide the pertinent information required by the Companies Act No. 7 of 2007, Listing Rules of the Colombo Stock Exchange and are guided by recommended best Accounting Practices.

The Annual Report was approved by the Board of Directors on 12th May 2015.

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 describe in detail the 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 the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Cash Flow Statement, Statement of Changes in Equity and Notes to the Financial Statements of the Company and the Group for the year ended 31st March 2015 are set out on pages 50 to 88. These financial statements do comply with the requirements of the Companies Act, No. 7 of 2007.

4.1 Revenue

The Company and the Group generated revenue of Rs. 425.5mn and Rs. 510.3mn (2014 – Rs. 370.7mn and Rs. 452.2mn). A detailed analysis of the revenue for the period is given in note 11 to the financial statements.

4.2 Financial results and appropriations

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

(In Rupees thousands)	Group		Company	
For the year ended 31st March	2015	2014	2015	2014
Profit for the year	95,868	66,556	98,732	70,468
Other comprehensive expense for the year	(1,075)	(1,175)	(705)	(630)
Total comprehensive income for the year	94,793	65,381	98,027	69,838
Retained earnings as at the beginning of the year	202,379	152,194	169,013	114,371
Retained earnings before appropriations	297,172	217,575	267,040	184,209
Dividend paid	(15,196)	(15,196)	(15,196)	(15,196)
Retained earnings as at the end of the year	281,976	202,379	251,844	169,013

4.3 Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are given on pages 54 to 67.

4.4 Property, Plant and equipment

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

4.4.1 Market value of freehold properties

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

During the financial year ended 31st March 2012, a revaluation gain was recognized on freehold land to the value of Rs. 111.5mn, based on a professional valuation performed by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka), an Independent Professional Valuer.

4.5 Capital Expenditure

The details of capital expenditure of the Company and the Group are as follows.

(In Rupees thousands)	Group		Company	
For the year ended 31st March	2015	2014	2015	2014
Property, Plant & Equipment	26,206	61,475	24,717	60,092

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

4.6 Reserves

As at 31st March 2015, the Group's total reserves stood at Rs. 957.3mn (2014 – Rs. 877.7mn) comprising capital reserves of Rs. 675.1mn (2014 – 675.1mn) and revenue reserves of Rs. 282.2mn (2014 – 202.6mn).

The total reserves of the Company as at 31st March 2015 stood at Rs. 927.1mn (2014 – 844.3mn) comprising Capital Reserves of Rs. 675.1mn (2014 – Rs. 675.1mn) and Revenue Reserves of Rs. 252mn (2014 – Rs. 169.2mn). Details are shown in the Statement of Changes in Equity on page 52.

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 Report of the Auditors.

According to the Companies Act No. 7 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 results for the said period.

The financial statements comprise of inter alia:

- a 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income, 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 Listing Rules of the Colombo Stock Exchange.

The Directors are responsible for ensuring that the Company and the Group maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company in order to ensure that its financial statements meet with the requirements of Companies Act No. 7 of 2007 and the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

They are also responsible for taking reasonable measures to safeguard the assets of the Company and the Group in this regard to give proper consideration to the establishment 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 operations for the foreseeable future from the date of signing these financial statements.

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

6. INDEPENDENT AUDITORS' REPORT

The Independent Auditors' Report on the financial statements is given on page 49 of this Report.

7. INTERESTS REGISTER

The Company maintains the Interests Register conforming to the provisions of the Companies Act No. 7 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. 7 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.

7.1 Remuneration of Directors

Directors' remuneration, for the financial year ended 31st March 2015 is given in note 13 to the financial statements, on page 68.

7.2 Directors' interest in contracts and shares

The Related Party Transactions of the Company as required by the Sri Lanka Accounting Standard LKAS 24 "Related Party Disclosures" are disclosed in note 33 to the financial statements and have been declared at Meetings of the Board of Directors. The Directors have had no direct or indirect interest in any other contracts or proposed contracts in relation to the business of the Company other than those disclosed in note 33.

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

The following Directors of the Company did not have any interests in ordinary shares of the Company as at 1st April 2014 or as at 31st March 2015.

1. Mr. D.C.R. Gunawardena
2. Mr. H. Selvanathan
3. Mr. M. Selvanathan
4. Mr. S. Nagendra
5. Mr. M. Dayananda (Appointed w.e.f. 15th July 2014)
6. Mr. W.A.A. De Z. Gunasekera (Appointed w.e.f. 19th November 2014)
7. Mr. P.M. Withana (Resigned w.e.f. 31st January 2015)

8. 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.

8.1 Appointment of Directors

1. Mr. M. Dayananda was appointed as a Non-Executive/ Independent Director to the Board w.e.f. 15th July 2014.

2. Mr. W.A.A. De Z. Gunasekera was appointed as a Non-Executive/ Independent Director from the conclusion of the Extraordinary General Meeting of 19th November 2014 for a period of one year, where it was resolved that the age limit stipulated in Section 210 of the Companies Act No. 7 of 2007 shall not be applicable to Mr. W.A.A. De Z. Gunasekera.

8.2 Director to retire by rotation

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

8.3 Retirement at the first Annual General Meeting following the appointment as Directors

In terms of Article 68 of the Articles of Association of the Company, Mr. M. Dayananda and Mr. W.A.A. De Z. Gunasekera retire from the Board and being eligible offer themselves for re-election.

8.4 Appointment of Directors who are over 70 years of age

Upon the recommendation of the Nomination Committee of the Company and the Board, it is recommended that Messrs. S. Nagendra and W.A.A. De Z. Gunasekera who are over 70 years of age be re-appointed as Directors of the Company for a further period of one year from the conclusion of the Annual General Meeting and that the age limit stipulated in Section 210 of the Companies Act No. 7 of 2007 shall not be applicable.

8.5 Resignation

Mr. P. M. Withana, Executive Director resigned from the Board w.e.f. 31st January 2015.

9. 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).

9.1 Board of Directors

The following Directors held office as at the reporting date and their brief profiles are given on pages 18 to 21 of the Annual Report.

Directors	Executive/ Non-Executive/ Independent
Mr. D.C.R. Gunawardena (Chairman)	Non-Executive
Mr. H. Selvanathan	Executive
Mr. M. Selvanathan	Executive
Mr. S. Nagendra	Non-Executive/ Independent*
Mr. M. Dayananda – Appointed w.e.f. 15th July 2014	Non-Executive/ Independent
Mr. W.A.A. De Z. Gunasekera – Appointed w.e.f. 19th November 2014	Non-Executive/ Independent
Mr. P. M. Withana – Resigned w.e.f. 31st January 2015	Executive
Mr. K.C.N. Fernando (Alternate Director to Mr. M. Selvanathan)	Executive

Each of the Non-Executive Directors of the Company has 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 12th May 2015, in order to enable the Board of Directors to determine the Independence/ Non-Independence of each of the Non-Executive Directors, in terms of Rule 7.10.3(a) of the Listing Rules of the CSE.

* The Board has determined that Mr. S. Nagendra is an Independent/ Non-Executive Director in spite of being on the Board for more than nine years, since he is not directly involved in the management of the Company.

9.2 Remuneration Committee

As per the Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange, the Remuneration Committee of Carson Cumberbatch PLC (CCPLC), the Parent Company, functions as the Remuneration Committee of the Company and comprises of the following members.

Remuneration Committee Members	Executive / Non-Executive/ Independent
Mr. I. Paulraj (Chairman)	Non-Executive Director of CCPLC
Mr. D.C.R. Gunawardena	Non-Executive Director of CCPLC
Mr. R.Theagarajah	Non-Executive/ Independent Director of CCPLC

CCPLC is in the process of re-formulating the Remuneration Committee to fall in line with the requirements set out in the Listing Rules of the Colombo Stock Exchange.

Scope and Objective

The primary objective of the Remuneration Committee is to lead to establish a formal and transparent procedure for the development of a remuneration policy and the establishment of a remuneration structure.

A remuneration policy has been formulated based on market and industry factors and individual performance for all group Companies.

Functions and Proceedings

The Remuneration Committee recommends to the Board the remuneration to be paid to the Chief Executive Officer, Executive Directors and Non-Executive Directors. Based on the recommendation of the Remuneration Committee, the Board approves remuneration to the respective Directors.

The Chief Executive Officer, Director-in-charge and other members of senior management may be invited to attend meetings to discuss the performance of the Executive Directors and make proposals as necessary. Neither Executive nor Non-Executive Directors are involved in Remuneration Committee meetings when determinations are made in relation to the remuneration of the respective Directors.

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

The Remuneration Committee meets at least twice a year. During the period under review, the Committee had two meetings.

Remuneration Committee	Attended/ Eligible to Attend
Mr. I. Paulraj (Chairman)	2/2
Mr. D.C.R. Gunawardena	2/2
Mr. R.Theagarajah	1/2

Reporting and Responsibilities

The Committee Chairman reports formally 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 Directors of the Company is disclosed in note 13 on page 68 of the Annual Report.

9.3 Audit Committee

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

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

The Audit Committee Report is given on page 44 to 45 of this Annual Report.

9.4 Directors' Meetings Attendance

During the financial year the Board of Directors had four (04) Board Meetings and the attendance of the Directors were as follows;

Board Meetings	Attended/ Eligible to Attend
Mr. D.C.R. Gunawardena (Chairman)	4/4
Mr. H. Selvanathan	4/4
Mr. M. Selvanathan	2/4
Mr. S. Nagendra	4/4
Mr. M. Dayananda *	3/4
Mr. W.A.A. De Z. Gunasekera **	2/4
Mr. P. M. Withana ***	3/4
Mr. K.C.N. Fernando (Alternate Director to Mr. M. Selvanathan)	2/4

* Appointed to the Board w.e.f. 15th July 2014.

** Appointed to the Board w.e.f. 19th November 2014.

*** Resigned from the Board w.e.f. 31st January 2015.

10. NOMINATION COMMITTEE

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

Nomination Committee Members	Executive / Non-Executive/ Independent
Mr. S. Nagendra (Chairman)	Non-Executive/ Independent Director
Mr. D.C.R. Gunawardena	Non-Executive Director

Scope and Objective

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

Functions and Proceedings

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

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

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

The Nomination Committee meets at least twice a year.

During the period under review the Committee had two meetings with all members in attendance.

Nomination Committee	Attended/Eligible to Attend
Mr. S. Nagendra (Chairman)	2/2
Mr. D.C.R. Gunawardena	2/2

During the year, the Committee recommended to the Board that Mr. M. Dayananda and Mr. W.A.A. De. Z. Gunasekera be appointed to the Board as Non-Executive Directors. These recommendations were accepted by the Board.

11. BOARD EVALUATION

As suggested in the Code of Best Practice on Corporate Governance, a 'Board Appraisal Form' was introduced for the year 2014/15 to evaluate the performance of the Board in order to ensure that the responsibilities of Directors towards the Board and the Company are met.

The 'Board Evaluation Form' comprises of the following broad themes;

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

The Nomination Committee of the Company collates all the comments received from the Directors and reports the results and proposed actions to the Board of Directors.

12. RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS OF THE COMPANY

There were no transactions entered into by the Company the value of which exceeded 10% of the Shareholders' equity or 5% of the total assets of the Company as at 31st March 2015.

The details of the related party transactions are given in note 33 on page 86 to 88 of the financial statements.

12.1 Related Party Transactions Review Committee

The Company is in the process of forming a "Related Party Transactions Review Committee" to comply with the Colombo Stock Exchange Listing Rules, Section 9, which would come into effect from 1st January 2016.

13. INDEPENDENT AUDITORS

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

A sum of Rs. 274,000/- and Rs. 469,000/- (2014 - Rs. 245,000/- and Rs. 433,000/-). was paid to them by the Company and the Group respectively, as audit fees for the year ended 31st March 2015. In addition to the above, the auditors were paid Rs. 51,000/- and Rs. 51,000/- (2014 – Rs. 71,000/- and Rs. 91,000/-) as professional fees for audit related services for the Company and the Group respectively. Further, no payments were made by the Company & the Group for non - audit services (2014 – Rs. 75,000/-).

The retiring auditors have expressed their willingness to continue in office.

A resolution to re-appoint them as Independent Auditors of the Company and authorizing the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

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

13.1 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 did not have any interest with the Company and its Subsidiary that would impair their independence.

14. 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 Committees. 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 health 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 page 22.

15. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the year.

16. DIVIDEND

Subject to the approval of the shareholders at the Annual General Meeting, a first and final dividend of Rs. 0.50 per ordinary share is recommended by the Directors for the year ended 31st March 2015 (2014 – Rs. 0.50).

17. SOLVENCY TEST

Taking into account the said distribution, the Directors are satisfied that the Company would meet the solvency test requirement under Section 56 (2) of the Companies Act No. 07 of 2007 immediately after the distribution. The Company's Auditors, KPMG, Chartered Accountants have issued a Certificate of Solvency confirming same.

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

18. ENVIRONMENTAL PROTECTION

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

19. STATED CAPITAL

The stated capital of the Company as at 31st March 2015 was Rs. 515,169,681/- consisting of 30,391,538 ordinary shares.

There was no change in the Stated Capital of the Company during the year.

20. DEEMED CAPITAL CONTRIBUTION

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

Sri Lanka Accounting standards (LKAS 39) – "Finance 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/- has been included in the "Stated Capital", being 'Deemed capital contribution' arising from the said transaction at each of the reporting dates.

21. 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.

22. GOING CONCERN

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

23. DONATIONS

Details of donations granted by the Company and the Group during the year are given in note 13 to the financial statements.

24. 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 it's business priorities and to ensure that its employees are developing the skills and knowledge required for future success of the Company and the Group.

The number of persons employed by the Company and the Group as at 31st March 2015 were 181 and 251 (2014 – 168 and 238) respectively.

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

25. 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 2015.

26. OUTSTANDING LITIGATION

The outstanding litigations related to the Company are shown in note 31 to these financial statements.

27. EQUITABLE TREATMENT TO SHAREHOLDERS

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

28. 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 35 to the financial statements.

29. CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The Contingent liabilities and commitments as at 31st March 2015 are given in note 31 to the financial statements.

30. SHARE INFORMATION

Information relating to share trading are given on pages 91 and 92 of this Report.

31. TWENTY MAJOR SHAREHOLDERS WITH COMPARATIVES

The Parent Company, Carson Cumberbatch PLC holds 93.09% of the total Ordinary Shares in issue of the Company as at 31st March 2015.

Twenty Major Shareholders as at 31st March	2015		2014	
	No. of shares	%	No. of shares	%
Carson Cumberbatch PLC	28,290,958	93.09	28,290,958	93.09
Dee Investments (Private) Limited	180,903	0.60	180,903	0.60
Mrs. N. H. Abdul Husein	125,500	0.41	85,798	0.28
Mr. M.C.C.K. Rodrigo	100,010	0.33	-	-
Mr. D.F.G. Dalpethado	64,855	0.21	1	-
Mrs. I. Gwyn	55,000	0.18	55,000	0.18
Code-Gen International (Private) Limited	50,000	0.16	50,100	0.16
Mr. H.W.M. Woodward	42,679	0.14	42,679	0.14
Mr. D. Weerawardana	40,000	0.13	-	-
Mr. K.A.S.R. Nissanka	35,000	0.12	-	-
Mr. P. Somadasa	33,794	0.11	19,004	0.06
People's Leasing & Finance PLC/ L.P. Hapangama	30,537	0.10	-	-
Acuity Partners (Pvt) Limited/ Mr. N.K. Punchihewa	30,000	0.10	30,000	0.10
Seylan Bank PLC/ Mr. S.N.C.W.M.B.C. Kandegedara	29,999	0.10	-	-
Asha Financial Services Ltd/ Mr. E.M.R. Egodawatte	28,500	0.09	27,000	0.09
Pan Asia Banking Corporation PLC/ Mr. R.E. Rambukwelle	28,000	0.09	25,000	0.08
Mr. H.S.M. Pieris	25,000	0.08	25,000	0.08
Mr. K.C. Jayawardene	23,960	0.08	21,800	0.07
Ms. C. Wijerathne	23,166	0.08	-	-
Dr. M. Ramasubbu	22,695	0.07	22,695	0.07

32. ANNUAL REPORT

The Board of Directors on 12th May 2015 approved the Company's financial statements together with the reviews which forms part of the Annual Report. The appropriate number of copies of the Annual Report would be submitted to the Colombo Stock Exchange, Sri Lanka Accounting and Auditing Standard Monitoring Board and the Registrar of Companies within the given time frames.

33. ANNUAL GENERAL MEETING

The 49th Annual General Meeting of the Company will be held on Wednesday, 17th June 2015 at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala.

The Notice of the Annual General Meeting is on page 93 of the Annual Report.

Signed on behalf of the Board,

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

(Sgd.)
M. Selvanathan
Director

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

12th May 2015

AUDIT COMMITTEE REPORT

The Audit Committee of Carson Cumberbatch PLC (CCPLC) - the Parent Company functions as the Audit Committee of the Company.

The Audit Committee consists of the following Members :

Audit Committee Members	Executive/ Non-Executive/ Independent
Mr.Vijaya Malalasekera (Chairman)	Non-Executive, Independent (CCPLC)
Mr.Chandima Gunawardena	Non-Executive (CCPLC)
Mr.Faiz Mohideen	Non-Executive, Independent (CCPLC)

Mr.Vijaya Malalasekera is a Non-Executive, Independent Director of CCPLC and a former Director of Ceylon Tobacco Company PLC.

Mr.Chandima Gunawardena is a Non-Executive Director of CCPLC and in most of its Group Companies. He is a Fellow of the Chartered Institute of Management Accountants, U.K.

Mr.Faiz Mohideen, a Non-Executive, Independent Director of CCPLC, was the former Deputy Secretary to the Treasury and a former Director of Bank of Ceylon and Securities and Exchange Commission of Sri Lanka.

The purpose of the Audit Committee of CCPLC is as follows :

To assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process and the Company's process for monitoring compliance with laws and regulations, Company policies and procedures and the code of conduct.

To ensure that the internal audit activity is well managed, so that it adds value to the organization by being objective in providing relevant assurance, contributing to the effectiveness and efficiency of governance, risk management and control processes.

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

CCPLC-Audit Committee held 06 Meetings during the financial year to discuss matters relating to the Company and the attendance of the Members of the Audit Committee was as follows:

Meetings attended (out of six)	
Mr.Vijaya Malalasekera (Chairman)	05
Mr.Chandima Gunawardena	06
Mr.Faiz Mohideen	06

The Financial Controller - Carsons Management Services (Private) Limited-Managers, internal auditors and senior management staff members of the Leisure Sector also attended the Audit Committee Meetings by invitation.

The Committee met the External Auditors, Messrs. KPMG, twice during the year to discuss the audit scope and to deliberate the draft Financial Report and Accounts. The Audit Committee also discussed the draft Financial Report and Accounts, with the External Auditors, without the management being present to foster an unbiased, independent dialogue.

The Audit Committee approved the audit plan for the financial year 2014/2015 and the Group Internal Audit (GIA) carried out 03 audits on the Leisure Sector companies based on the plan.

The findings and contents of the Group Internal Audit reports have been discussed with the relevant management staff and subsequently the audit reports were circulated to the Audit Committee and to the senior management.

The objectives of the GIA work was to have an independent review of the system of internal controls as established by the management, its adequacy and integrity vis-à-vis objectives served and to determine the extent of adherence to the controls by staff responsible for the function and to take corrective/preventive action where necessary.

As approved by the Audit Committee, Messrs. KPMG, as part of their regular audit scope has commenced a comprehensive external IT security and process audit covering the entire Carsons Management Services (Private) Limited (Managers to the Company) - IT environment, which extends to the Leisure Sector, as well.

The interim financial statements of Pegasus Hotels of Ceylon PLC have been reviewed by the Audit Committee Members at Audit Committee Meetings, prior to release of same to the Regulatory Authorities and to the shareholders.

The draft financial statements of Pegasus Hotels of Ceylon PLC for the year ended 31st March 2015 were reviewed at a Meeting of the Audit Committee, together with the External Auditors, Messrs. KPMG, prior to release of same to the Regulatory Authorities and to the shareholders. The Audit Committee was provided with confirmations and declarations as required, by the Managers, Carsons Management Services (Private) Limited that the said financial statements were prepared in accordance with the Sri Lanka Accounting Standards and the information required by the Companies Act No. 7 of 2007 therein and presented a true and fair view of the Company's state of affairs as at that date and the Company's activities during the year under review.

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

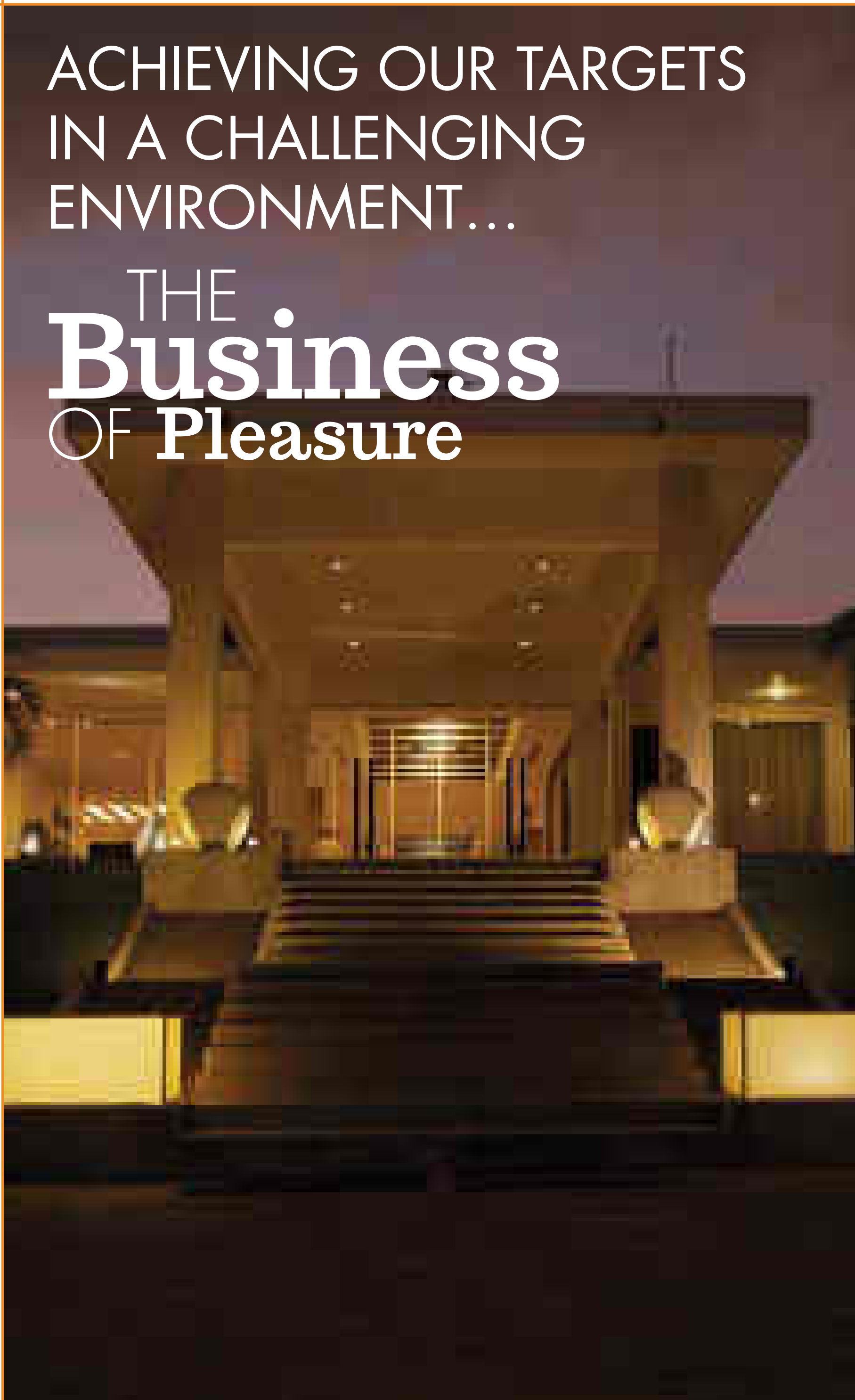
The Audit Committee has concurred to recommend to the Board of Directors the re-appointment of Messrs. KPMG, Chartered Accountants, as Auditors for the financial year ending 31st March 2016, subject to the approval of the shareholders of Pegasus Hotels of Ceylon PLC at the Annual General Meeting.

(Sgd.)
V.P. Malalasekera
Chairman – Audit Committee
Carson Cumberbatch PLC

12th May 2015

ACHIEVING OUR TARGETS IN A CHALLENGING ENVIRONMENT...

THE Business OF Pleasure



FINANCIAL STATEMENTS

Read this report online at http://www.carsoncumberbatch.com/investor_information/annual_reports_2014_2015

FINANCIAL CALENDAR

Quarterly Financial Statements

01st Quarter ended	**30th June 2014**
Issued to Colombo Stock Exchange on	14th August 2014
02nd Quarter ended	**30th September 2014**
Issued to Colombo Stock Exchange on	14th November 2014
03rd Quarter ended	**31st December 2014**
Issued to Colombo Stock Exchange on	13th February 2015
Annual Report for the year ended -	**31st March 2015**
49th Annual General Meeting -	**17th June 2015**

INDEPENDENT AUDITORS' REPORT

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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TO THE SHAREHOLDERS OF PEGASUS HOTELS OF CEYLON PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Pegasus Hotels of Ceylon PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31st March 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 50 to 88.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the -financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st March 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to note 20 to these financial statements. As explained in the said note, the Company has submitted a claim of compensation to the Divisional Secretary for the compulsory acquisition of the land, and a receivable of Rs.122,544,902 has been recognized in the financial statements under non current assets. As at the reporting date, the Company has not received any confirmation regarding the value of the claim from the Divisional Secretary. This situation indicates the existence of uncertainty as at the reporting date, regarding the recovery and ultimate realization of the compensation due from the Government of Sri Lanka.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 7 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) In our opinion

- We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
- The financial statements of the Company give a true and fair view of its financial position as at 31st March 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
- The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 7 of 2007.

Chartered Accountants

12th May 2015
Colombo.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
For the year ended 31st March	**Notes**	**2015**	**2014**	**2015**	**2014**
Revenue	11	510,255	452,205	425,543	370,723
Direct costs		(280,629)	(257,983)	(229,356)	(210,493)
Gross profit		229,626	194,222	196,187	160,230
Other income	12	6,289	7,232	4,048	5,223
Selling and promotional expenses		(15,046)	(15,589)	(12,398)	(12,728)
Administrative expenses		(128,504)	(117,952)	(98,937)	(91,070)
Profit from operations	13	92,365	67,913	88,900	61,655
Finance income	14	19,079	14,982	23,447	23,805
Finance costs	14	(1,118)	(7,563)	(1,118)	(7,321)
Net finance income	14	17,961	7,419	22,329	16,484
Profit before taxation		110,326	75,332	111,229	78,139
Income tax expenses	15	(8,640)	(4,353)	(7,055)	(3,199)
Deferred taxation	15	(5,818)	(4,423)	(5,442)	(4,472)
Profit for the year		95,868	66,556	98,732	70,468
Other comprehensive income					
Actuarial loss from valuation of employee benefits	29.2	(1,075)	(1,175)	(705)	(630)
Other comprehensive expense for the year		(1,075)	(1,175)	(705)	(630)
Total comprehensive income for the year		94,793	65,381	98,027	69,838
Earnings per share (Rs.)	16	3.15	2.19	3.25	2.32

The notes from pages 54 to 88 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	Notes	Group 2015	Group 2014	Company 2015	Company 2014
ASSETS					
Non-current assets					
Property, plant and equipment	17	1,157,858	1,171,770	1,131,813	1,143,162
Intangible assets	18	115,287	115,287	-	-
Investment in subsidiary	19	-	-	110,223	110,223
Compensation receivable	20	122,545	109,906	122,545	109,906
Total non-current assets		1,395,690	1,396,963	1,364,581	1,363,291
Current assets					
Inventories	21	13,061	12,836	9,172	9,258
Trade and other receivables	22	46,165	48,096	39,055	38,573
Cash and cash equivalents	23	135,017	73,077	123,071	66,033
Total current assets		194,243	134,009	171,298	113,864
Total assets		1,589,933	1,530,972	1,535,879	1,477,155
EQUITY AND LIABILITIES					
Equity					
Stated capital	24	515,170	515,170	515,170	515,170
Capital reserves	25	675,099	675,099	675,099	675,099
Revenue reserves	26	282,152	202,555	252,020	169,189
Total equity		1,472,421	1,392,824	1,442,289	1,359,458
Non-current liabilities					
Loans and borrowings	27	-	7,878	-	7,878
Deferred tax liability	28	34,559	28,741	33,014	27,572
Employee benefits	29	12,495	14,063	6,739	9,278
Total non-current liabilities		47,054	50,682	39,753	44,728
Current liabilities					
Loans and borrowings	27	-	8,568	-	8,568
Trade and other payables	30	64,809	75,242	48,627	61,796
Current tax liabilities		5,649	3,656	5,210	2,605
Total current liabilities		70,458	87,466	53,837	72,969
Total liabilities		117,512	138,148	93,590	117,697
Total equity and liabilities		1,589,933	1,530,972	1,535,879	1,477,155
Net assets per share (Rs.)		48.45	45.83	47.46	44.73

The notes from pages 54 to 88 form an integral part of these financial statements.
I certify that these financial statements are in compliance with the requirements of Companies Act No. 7 of 2007.

(Sgd.)
V.R. Wijesinghe
Financial Controller
Carsons Management Services (Private) Limited

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board on 12th May 2015.

Approved and signed on behalf of the Managers,

(Sgd.)
A.P. Weeratunge
Director
Carsons Management Services (Private) Limited
Colombo
12th May 2015

Approved and signed on behalf of the Board,

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

(Sgd.)
M. Selvanathan
Director

STATEMENT OF CHANGES IN EQUITY

(All figures in Sri Lankan Rupees thousands)

Group	Stated capital	Capital reserves		Revenue reserves		Total equity attributable to equity holders of the parent company
		Revaluation reserve	Capital accretion reserve	General reserve	Retained earnings	
Balance as at 1st April 2013	515,170	659,955	15,144	176	152,194	1,342,639
Profit for the year	-	-	-	-	66,556	66,556
Other comprehensive expense for the year	-	-	-	-	(1,175)	(1,175)
Total comprehensive income for the year	-	-	-	-	65,381	65,381
Dividend paid - 2012/13	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2014	515,170	659,955	15,144	176	202,379	1,392,824
Balance as at 1st April 2014	515,170	659,955	15,144	176	202,379	1,392,824
Profit for the year	-	-	-	-	95,868	95,868
Other comprehensive expense for the year	-	-	-	-	(1,075)	(1,075)
Total comprehensive income for the year	-	-	-	-	94,793	94,793
Dividend paid - 2013/14	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2015	515,170	659,955	15,144	176	281,976	1,472,421

Company	Stated capital	Capital reserves		Revenue reserves		Total equity
		Revaluation reserve	Capital accretion reserve	General reserve	Retained earnings	
Balance as at 1st April 2013	515,170	659,955	15,144	176	114,371	1,304,816
Profit for the year	-	-	-	-	70,468	70,468
Other comprehensive expense for the year	-	-	-	-	(630)	(630)
Total comprehensive income for the year	-	-	-	-	69,838	69,838
Dividend paid - 2012/13	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2014	515,170	659,955	15,144	176	169,013	1,359,458
Balance as at 1st April 2014	515,170	659,955	15,144	176	169,013	1,359,458
Profit for the year	-	-	-	-	98,732	98,732
Other comprehensive expense for the year	-	-	-	-	(705)	(705)
Total comprehensive income for the year	-	-	-	-	98,027	98,027
Dividend paid - 2013/14	-	-	-	-	(15,196)	(15,196)
Balance as at 31st March 2015	515,170	659,955	15,144	176	251,844	1,442,289

The notes from pages 54 to 88 form an integral part of these financial statements.

Figures in brackets indicate deductions.

STATEMENT OF CASH FLOW

(All figures in Sri Lankan Rupees thousands)

For the year ended 31st March	Note	Group 2015	Group 2014	Company 2015	Company 2014
Cash flows from operating activities					
Profit before taxation		110,326	75,332	111,229	78,139
Adjustments for:					
Loss on disposal property, plant and equipment		96	-	75	-
Interest income on placements with banks and government securities	14	(6,126)	(3,048)	(5,608)	(3,021)
Dividend income	14	-	-	(4,935)	(8,945)
Unwinding of discount on compensation receivable	14	(12,639)	(11,465)	(12,639)	(11,465)
Interest expenses on bank borrowings	14	449	1,900	449	1,900
Interest expenses on related party borrowings	14	367	5,256	367	5,014
Corporate guarantee charges	14	302	407	302	407
Depreciation on property, plant and equipment	17	39,415	36,582	35,642	32,870
Provision for employee benefits		2,821	2,669	1,865	1,908
Provision/ (reversal of provision) for impairment of trade receivables		(126)	955	-	921
Profit before working capital changes		134,885	108,588	126,747	97,728
(Increase)/ decrease in inventories		(225)	2,145	86	2,360
(Increase)/ decrease in trade and other receivables		1,755	6,550	(784)	1,919
Increase/ (decrease) in trade and other payables		9,400	8,521	6,664	7,577
Cash generated from operations		145,815	125,804	132,713	109,584
Employee benefits paid	29	(5,464)	(246)	(5,109)	(246)
Income tax paid		(6,647)	(5,561)	(4,450)	(4,259)
Net cash generated from operating activities		133,704	119,997	123,154	105,079
Cash flows from investing activities					
Purchase of property, plant and equipment	17	(26,206)	(61,475)	(24,717)	(60,092)
Proceeds from disposal of property, plant and equipment		607	525	349	469
Interest received		6,126	3,048	5,608	3,021
Dividend received		-	-	4,935	8,945
Net cash used in investing activities		(19,473)	(57,902)	(13,825)	(47,657)
Cash flows from financing activities					
Dividend paid		(15,080)	(15,108)	(15,080)	(15,196)
Loans and borrowings repaid during the year		(16,446)	(8,568)	(16,446)	(8,568)
Net amounts settled to related companies including interest		(20,316)	(36,823)	(20,316)	(36,581)
Interest paid on bank borrowings		(449)	(1,900)	(449)	(1,900)
Net cash used in financing activities		(52,291)	(62,399)	(52,291)	(62,245)
Net increase/ (decrease) in cash and cash equivalents		61,940	(304)	57,038	(4,823)
Cash and cash equivalents at the beginning of the year		73,077	73,381	66,033	70,856
Cash and cash equivalents at the end of the year	23	135,017	73,077	123,071	66,033

The notes from pages 54 to 88 form an integral part of these financial statements.

Figures in brackets indicate deductions.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Pegasus Hotels of Ceylon PLC (the 'Company') is a Company domiciled in Sri Lanka. The shares of the Company have a primary listing on the Colombo Stock Exchange.

The address of the Company's registered office is No. 61, Janadhipathi Mawatha, Colombo 1. The Principle place of business of the Company is Santa Maria Mawatha, Hendala, Wattala.

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

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

The Group had 251 (2014 - 238) employees at the end of the financial year. The Company had 181 (2014 - 168) employees as at the reporting date.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of the Company and the Group comprise the statement of financial position, statement of profit or loss, statement of changes in equity and statement of cash flow together with the notes to the financial statements.

The consolidated financial statements have been prepared in accordance with Sri Lanka Accounting Standards (LKAS / SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka and the requirements of Companies Act, No. 7 of 2007.

The consolidated financial statements were authorized for issue by the Board of Directors on 12th May 2015.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the financial statements, except for the following material items in the statement of financial position;

- Land and buildings are measured at revalued amounts.
- Defined benefit obligations are measured at its present value based on an actuarial valuation as explained in note 29.
- Compensation receivable measured at amortised cost as explained in note 20.

These financial statements have been prepared on the basis that the Company and the Group would continue as a going concern for the foreseeable future.

c) Functional and Presentation Currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entities operate ('the functional currency'). The consolidated financial statements are presented in Sri Lankan Rupees, which is the functional and presentation currency of Company and its subsidiary.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with LKAS/SLFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment with the next financial year are included in the following notes;

- **Assessment of Impairment - Key assumptions used in discounted cash flow projections.**

The Company and the Group assesses at each reporting date whether there is objective evidence that an asset or portfolio of assets is impaired. The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell.

In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that reflects the current market assessments of the time value of money and risks specific to the asset. The carrying value of goodwill is reviewed at each reporting date and is written down to the extent that it is no longer supported by probable future benefits. Goodwill is allocated to CGU for the purpose of impairment testing.

- **Deferred taxation - utilization of tax losses**

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the level of future taxable profits together with future tax planning strategies.

- **Defined benefit plans**

The assessment of the liability of defined benefit obligations involves a significant element of assumptions; including discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to uncertainty.

- **Current taxation**

Current tax liabilities arise to the Company and the Group in various jurisdictions. These liabilities are provided for in the financial statements applying the relevant tax statutes and regulations which the management believes reflect the actual liability. There can be instances where the stand taken by the Company and the Group on transactions is contested by revenue authorities. Any additional costs on account of these issues are accounted for as a tax expense at the point the liability is confirmed on any Group entity.

e) Measurement of fair values

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

Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, Group assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

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

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

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

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

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

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

Further information about the assumption made in measuring fair value is included in note 32.

f) Materiality and aggregation

Each material class of similar items is presented in aggregate in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

3. CHANGES TO ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING STANDARDS

The Group has consistently applied the accounting policies as set out in note 4 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1st April 2014.

- **SLFRS 10 "Consolidated financial statements"**

As a result of SLFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. SLFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns The Group reassessed its control conclusions as of 1st January 2014 and there was no change in control conclusion from previous year.

- **SLFRS 12 "Disclosure of Interests in Other Entities"**

As a result of SLFRS 12, the Group has expanded disclosures about its interests in subsidiaries and involvement with unconsolidated structured entities.

- **SLFRS 13, "Fair Value Measurement"**

In accordance with the SLFRS 13, the Group has applied the new definition of fair value, it verifies the definition of fair value as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the group has included new disclosures in the financial statements, which are required under SLFRS 13.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except to the changes explained in note 3, the accounting policies have been applied consistently by Group entities.

a) Basis of consolidation

i. Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group .The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment .Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

ii. Non-controlling interests

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

iii. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Company's subsidiary is Equity Hotels Limited of which Company has 99.9% of shares ownership.

Adjustments required to the accounting policies of subsidiary has been changed where ever necessary to align them with the policies adopted by the Group.

In the Company's financial statements, investments in subsidiary is carried at cost less impairment if any, in net recoverable value.

The consolidated financial statements are prepared to a common financial year end of 31st March.

iv. Loss of control

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the Statement of Comprehensive Income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value as at the date that control is lost. It is then accounted for an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

v. Transactions eliminated on consolidation

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

b) Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates as at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate as at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

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

Foreign currency differences arising on retranslation are generally recognised in profit or loss.

c) Financial instruments

i. Non-derivative financial assets

The Company and the Group initially recognises non-derivative assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. However, as at each reporting date, the Company and the Group holds only the financial assets categorized as 'loan and receivables'.

The Company and the Group initially recognizes such financial assets categorized as loan and receivables on the date they are originated.

The Company and the Group de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company and the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Loans and receivables

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, placements with banking institutions and placement in government securities with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

ii. Non-derivative financial liabilities

Financial liabilities which are held by the Company are recognised initially on the trade date, which is the date that the Company and the Group becomes a party to the contractual provisions of the instrument.

The Company and the Group de-recognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company and the Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Company and the Group's cash management are included as a component of cash and cash equivalents for the statement of cash flows.

iii. Stated capital

Ordinary shares

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

d) Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost/ fair value less accumulated depreciation and any accumulated impairment losses.

If significant part of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

ii. Revaluation of freehold properties

The freehold properties of the Company are carried at revalued amounts. Revaluation of these assets are carried out at least once in three (3) to five (5) years in order to ensure the book value every year reflect the realizable value of such assets, and are depreciated over the remaining useful lives of such assets, wherever applicable.

When an asset is revalued, any increase in the carrying amount is credited to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognized as an expense. In these circumstances the increase is recognized as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to accumulated profits on retirement or disposal of the asset.

iii. Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company and the Group. Ongoing repairs and maintenance are expensed as incurred.

iv. Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

	No of Years
Buildings – freehold	3-75
Plant and machinery	5-27
Motor vehicles	4-5
Office equipment	5-16
Furniture, fittings	5-16
Computer equipments	3-5
Cutlery, crockery and glassware	5

Depreciation of an asset begins when it is available for use whereas depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

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

v. Disposal

The gains or losses arising on disposal or retirement of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment are recognized net within 'Other Income' in the Statement of profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

vi. Capital work-in-progress

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

e) Intangible assets and goodwill

i. Goodwill

Goodwill has arisen on the acquisition of the subsidiary. It is presented along with intangible assets, in the statement of financial position.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

ii. Software

All computer software costs incurred, licensed for use by the Company and the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category intangible assets and carried at cost less accumulated amortization and any accumulated impairment losses. These costs are amortised to the Statement of profit or loss using the straight line method over 3 to 10 years.

iii. Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

iv. Amortisation

Except for goodwill, intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative years are as follows;

	No of years
Software licenses	3-10

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

v. Impairment

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually or more frequently if events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. 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.

f) Inventories

Inventories are recognized at cost and net realizable value whichever is lower after making due allowance for obsolete and slow moving items, except for fresh fruit bunches which are valued at since realized values.

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;

Engineering spares and others	Weighted average basis
Linen Stock	In the year of purchase at cost of purchase and in the second year in use at 25% of the cost of purchase.
Food items	First in first out basis.
Engineering spares and others	Weighted average basis.

g) Impairment

i. Non-derivative financial assets

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

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company and the Group on terms that the Company and the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Financial assets measured at amortised cost

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii. Non-financial assets

The carrying amounts of the Company and the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h) Employee benefits

i. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company and the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

ii. Defined contribution plans – Employees' Providend Fund and Employees' Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Group contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively and is recognised as an expense in profit and loss in the periods during which services are rendered by employees

iii. Defined benefit plans

The Group net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in current and prior periods and discounting that amount.

The Calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. Re-Measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognized immediately in OCI. The Group 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 in to account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

The liability is not externally funded.

iv. Termination benefits

Termination benefits are recognised as an expense when the Company and the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company and the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

i) Provisions

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

j) Contingent liabilities and contingent assets

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

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

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

k) Leases

Operating Lease

Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of profit or loss on a straight-line basis over the period of the lease.

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

Lease payments

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

The land where the Equity hotel is located is on a 30 year operating lease from 01st January 1997 to 31st December 2026, with an option to extend for a further period of 30 years. During the lease period, the Company has the right to use the land to construct and operate a tourist hotel, approved and categorized by the Sri Lanka Tourist Board.

l) Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group, and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and sales taxes.

The following specific criteria are used for the purpose of recognition of revenue;

i. Room revenue

Room revenue is recognized based on the number of rooms occupied.

ii. Food and beverage revenue

Revenue from food and beverage is recognized at the time of the sale.

iii. Other income

Other income, including laundry and games are recognized on an accrual basis.

iv. Gains / (losses) on disposal of property, plant and equipment

Gains and losses of a revenue nature resulting from the disposal of property, plant and equipment are accounted on net basis.

m) Expenditure Recognition

i. Operating Expenses

All expenses incurred in day-to-day operations of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit or loss for the year. Provision has also been made for bad and doubtful debts, all known liabilities and depreciation on property, plant & equipment.

ii. Finance income and finance costs

Finance income comprises interest income on funds invested and unwinding of discount on compensation receivable. Interest income is recognised as it accrues in profit or loss, using the effective interest method gains on the re-measurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognised in profit or loss and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and corporate guarantee charges, deferred consideration, dividends on preference shares classified as liabilities, contingent consideration, losses on hedging instruments that are recognised in profit or loss and reclassifications of net losses previously recognised in other comprehensive income.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

n) Income tax expense

Income Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

i. Current taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

ii. Deferred taxation

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted by the reporting date.

Deferred tax assets including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

iii. Tax exposures

In determining the amount of current and deferred tax, the Company and the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company and the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

o) Cash flow

Interest paid and dividend paid are classified as financing cash flows while interest received and dividend received are classified as investing cash flows, for the purpose of presentation of Cash Flow Statement which has been prepared using the "Indirect Method".

p) 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. EARNINGS PER SHARE

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period of the Company.

6. EVENTS AFTER THE REPORTING PERIOD

All material and important events which occur after the Reporting date have been considered and disclosed in notes to the financial statements.

7. DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Company.

8. PRESENTATION

Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

Where appropriate, the significant accounting policies are disclosed in the succeeding notes.

a) Offsetting income and expenses

Income and expenses are not offset unless required or permitted by accounting standards.

b) Offsetting assets and liabilities

Assets and liabilities are offset and the net amount reported in the statement of financial position only where there is;

- a current enforceable legal right to offset the asset and the liability; and
- an intention to settle the liability simultaneously

9. SEGMENT REPORTING

An operating segment is a component within the Group and Company that engage in business activities for which it may earn distinguish revenue and expenses for such segment.

The operating results arising for hoteling business of the Group and Company as a whole is reviewed regularly by the Company's General Manager to make decisions about resource to be allocated and to assess its performance. Therefore no operating segment within the Group and Company is identified & reported.

10. NEW ACCOUNTING STANDARDS NOT EFFECTIVE AT THE REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka has issued the following standards which become effective for annual periods beginning after the current financial year. Accordingly, these standards have not been applied in preparing these financial statements. The Group will be adopting these standards when they become effective.

SLFRS 9 Financial Instruments

Summary of the requirements
SLFRS 9, published in July 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.
SLFRS 9 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

Possible impact on consolidated financial statements
The Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 9.

SLFRS 15 Revenue from Contracts with Customers

Summary of the requirements
SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.
IFRS 15 is effective for annual reporting periods beginning on or after 1st January 2017, with early adoption permitted.

Possible impact on consolidated financial statements
The Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 15.
However possible impacts are limited.

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	For the year ended 31st March	2015	2014	2015	2014
11	**Revenue**				
	Revenue analysis (net)				
	Room revenue	259,189	262,074	205,839	208,165
	Food and beverage revenue	235,710	178,527	204,657	151,485
	Other revenue	15,356	11,604	15,047	11,073
		510,255	452,205	425,543	370,723
12	**Other income**				
	Rent income	3,990	3,466	2,038	1,889
	Club membership income	1,456	2,299	1,456	2,299
	Sundry income	843	1,467	554	1,035
		6,289	7,232	4,048	5,223
13	**Profit from operations**				
	Profit from operations is stated after charging all expenses including the following:				
	Auditors' remuneration				
	- Audit services	469	433	274	245
	- Audit related services	51	91	51	71
	- Non-audit services	-	75	-	75
	Depreciation (note 13.1)	39,415	36,582	35,642	32,870
	Loss on disposal of property, plant and equipment	96	-	75	-
	Provision/ (reversal of provision) for impairment of trade receivable	(126)	955	-	921
	Donations	1,057	4,853	912	1,685
	Professional service costs (note 13.2)	481	690	374	559
	Nomination committee fees	50	50	50	50
	Personnel costs (note 13.3)	123,756	110,394	88,284	81,037
	Operating lease expenses	12,617	12,617	-	-
	Support service fees	6,399	5,895	5,319	4,871
13.1	**Depreciation**				
	Depreciation included in the statement of profit or loss under the following headings:				
	Direct costs	32,854	31,408	29,929	28,523
	Administrative expenses	6,561	5,174	5,713	4,347
		39,415	36,582	35,642	32,870

For the year ended 31st March	Group 2015	Group 2014	Company 2015	Company 2014
13.2 Professional service cost				
Legal services	439	412	332	298
Valuation services	34	46	34	29
Consultation fees	-	200	-	200
Other services	8	32	8	32
	481	690	374	559
13.3 Personnel costs				
Salaries, wages and other related expenses	111,444	99,104	79,235	72,606
Defined benefit plan cost - Employee benefits	2,821	2,669	1,865	1,908
Defined contribution plan cost - EPF and ETF	9,491	8,621	7,184	6,523
	123,756	110,394	88,284	81,037
The above include:				
Directors' fees	-	-	-	-
Directors' emoluments	14,891	13,146	12,284	10,615
	14,891	13,146	12,284	10,615
14 Net finance income				
14.1 Finance income				
Interest income on placement with banks and government securities	6,126	3,048	5,608	3,021
Dividend income	-	-	4,935	8,945
Unwinding of discounting on compensation receivable	12,639	11,465	12,639	11,465
Gain on foreign exchange transactions	314	469	265	374
	19,079	14,982	23,447	23,805
14.2 Finance cost				
Interest expenses on loans and borrowings				
- On bank borrowings	449	1,900	449	1,900
- On related party borrowings	367	5,256	367	5,014
Corporate guarantee charges	302	407	302	407
	1,118	7,563	1,118	7,321
Net finance income	17,961	7,419	22,329	16,484

14.3 Unwinding of discounting on compensation receivable

Unwinding of discounting on compensation receivable recognized under 'finance income' represents the year on year building-up effect of compensation receivable shown at its amortised cost, based on the assumptions which are morefully described in note 32.1.1.a as required by the LKAS - 39 Financial Instrument - Recognition & Measurement.

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	For the year ended 31st March	2015	2014	2015	2014
15	Income tax expenses				
15.1	**Current taxation**				
	Current tax expenses (note 15.3)	8,081	4,174	7,055	3,395
	Dividend tax	548	994	-	-
	(Over)/under provision for previous years	11	(815)	-	(196)
		8,640	4,353	7,055	3,199
15.2	**Deferred taxation**				
	On origination and reversal of temporary differences (note 28.1)	5,818	4,423	5,442	4,472
		14,458	8,776	12,497	7,671
15.3	**Reconciliation between the accounting profit and the profit for the tax purposes**				
	Accounting profit before taxation	110,326	75,332	111,229	78,139
	Aggregate disallowable expenses	53,229	47,903	40,637	39,279
	Aggregate allowable expenses	(48,152)	(58,331)	(44,688)	(54,103)
	Notional adjustments arising on application of LKAS/SLFRS	(12,337)	(11,057)	(12,337)	(11,057)
	Profits exempt from income tax	(4,935)	(8,945)	(4,935)	(8,945)
	Adjustment due to consolidation of financial statements	4,935	8,400	-	-
	Interest income	(6,126)	(3,048)	(5,608)	(3,021)
	Adjusted profit from operations for tax purposes	96,940	50,254	84,298	40,292
	Interest income	6,663	3,261	6,145	3,234
	Total Statutory Income	103,603	53,515	90,443	43,526
	Utilization of tax losses (notes 15.4)	(36,261)	(18,730)	(31,655)	(15,234)
	Taxable income	67,342	34,785	58,788	28,292
	Taxation thereon (note 15.5 a)	8,081	4,174	7,055	3,395
15.4	**Analysis of tax losses**				
	Tax losses brought forward	246,467	261,539	240,826	255,180
	Adjustment on finalization of tax liability	-	3,658	-	880
	Utilization of tax losses during the year (note 15.5 b)	(36,261)	(18,730)	(31,655)	(15,234)
	Tax losses carried forward	210,206	246,467	209,171	240,826

15.5 Income tax provisions applicable

(a) In terms of the provisions of the Inland Revenue Act, No. 10 of 2006 and amendment thereto, the taxable profit of the Company and its subsidiary are liable to income tax at 12%.

(b) The utilization of tax losses brought forward is restricted to 35% of current year's "Statutory Income". Unabsorbed tax losses can be carried forward indefinitely.

(c) Deferred tax has been computed using a current tax rate of 12% (2014 - 12%) for the Company and the Group .

16 Earnings per share

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

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

	Group		Company	
For the year ended 31st March	**2015**	**2014**	**2015**	**2014**
Amount used as the numerator				
Profit attributable to the ordinary equity holders of the parent company	95,868	66,556	98,732	70,468
Amount used as the denominator				
Weighted average number of ordinary shares outstanding at the beginning of the year (In thousands)	30,392	30,392	30,392	30,392
Earnings per share (Rs.)	3.15	2.19	3.25	2.32

17 Property, plant and equipment

	Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipments	Motor Vehicle	Cutlery crockery and glassware	Capital work-in progress	Total as at 31March 2015	Total as at 31March 2014
17.1 Group											
Cost/Valuation											
Balance as at the beginning of the year	504,332	531,678	111,747	123,022	9,100	32,163	12,044	3,389	-	1,327,475	1,267,564
Additions during the year	-	1,094	573	2,081	1,090	6,527	-	1,374	13,467	26,206	61,475
Disposals during the year	-	-	(260)	-	(1,066)	(671)	-	(903)	-	(2,900)	(1,564)
Balance as at the end of the year	504,332	532,772	112,060	125,103	9,124	38,019	12,044	3,860	13,467	1,350,781	1,327,475
Depreciation											
Balance as at the beginning of the year	-	24,252	62,091	36,850	8,156	19,557	2,717	2,082	-	155,705	120,162
Charge for the year	-	9,409	6,576	15,002	589	4,103	3,011	725	-	39,415	36,582
On disposals during the year	-	-	(56)	-	(1,042)	(507)	-	(592)	-	(2,197)	(1,039)
Balance as at the end of the year	-	33,661	68,611	51,852	7,703	23,153	5,728	2,215	-	192,923	155,705
Net book value as at the end of the year	504,332	499,111	43,449	73,251	1,421	14,866	6,316	1,645	13,467	1,157,858	1,171,770

(All figures in Sri Lankan Rupees thousands)

		Freehold land	Freehold building	Plant and machinery	Furniture and fittings	Computer equipment	Equipments	Motor Vehicle	Cutlery crockery and glassware	Capital work-in progress	Total as at 31March 2015	Total as at 31March 2014
17.2	**Company**											
	Cost/valuation											
	Balance as at the beginning of the year	504,332	506,579	97,820	109,621	8,776	22,487	12,044	2,529	-	1,264,188	1,205,566
	Additions during the year	-	669	-	1,946	1,089	6,258	-	1,288	13,467	24,717	60,092
	Disposals during the year	-	-	-	-	(1,066)	(542)	-	(794)	-	(2,402)	(1,470)
	Balance as at the end of the year	504,332	507,248	97,820	111,567	8,799	28,203	12,044	3,023	13,467	1,286,503	1,264,188
	Depreciation											
	Balance as at the beginning of the year	-	14,936	52,575	28,192	8,156	12,874	2,717	1,576	-	121,026	89,157
	Charge for the year	-	8,127	5,896	14,127	589	3,255	3,011	637	-	35,642	32,870
	Disposals during the year	-	-	-	-	(1,042)	(453)	-	(483)	-	(1,978)	(1,001)
	Balance as at the end of the year	-	23,063	58,471	42,319	7,703	15,676	5,728	1,730	-	154,690	121,026
	Net book value as at the end of the year	504,332	484,185	39,349	69,248	1,096	12,527	6,316	1,293	13,467	1,131,813	1,143,162

17.3 Freehold land and freehold building of the Company were last revalued by Mr. K. Arthur Perera, A.M.I.V (Sri Lanka), an independent professional valuer as at 31st March 2012. The details of carrying values of 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 2015	Carrying value of revalued assets 2014
Pegasus Reef Hotel, Wattala.	Freehold land	Market approach	5,250	504,332	504,332
	Building	Market approach	276,364	484,185	491,643

		Group		Company	
	As at 31st March	**2015**	**2014**	**2015**	**2014**
17.4	**Analysis of Capital work-in-progress**				
	Freehold building	12,957	-	12,957	-
	Equipments	480	-	480	-
	Furniture and fittings	30	-	30	-
		13,467	-	13,467	-

17.5 The land where the Equity Hotels Limited, Polonnaruwa is located, is on a 30 year lease from 01st January 1997 to 31st December 2026. Consequent to a request for an extension by the Company Sri Lanka Tourism Authority has agreed to extent lease for another 30 years effective from April 2008. During the lease period, the Company has the right to use the land to construct and operate a tourist hotel, approved and categorized by the Sri Lanka Tourist Board.

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

	Group		Company	
As at 31st March	2015	2014	2015	2014
Plant and Machinery	25,442	25,335	17,983	17,876
Equipment, furniture & fittings	17,258	17,256	11,131	11,129
Computer equipment	4,917	5,310	4,900	5,393
	47,617	47,901	34,014	34,398

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

No borrowing costs were capitalized during the year for property, plant and equipment (2014 - Nil) for the Company and the Group respectively.

17.8 Restrictions on title of property, plant and equipment

There are no restrictions on title of the property, plant and equipment held by the Company and the Group, except for as disclosed in note 17.10.

17.9 Property, plant and equipment pledged as security for liabilities

There are no items of property, plant and equipment pledged as security for liabilities as at the repotting date, for the Company and the Group.

17.10 Acquisition of land by the government of Sri Lanka

During the financial year 2008/09, the government acquired approximately 1,605 perches of the land owned by the Company, out of which 353.89 perches of land was subject to Supreme Court order as explained below. The market value of the said net land extent (1,251 perches) as at the date of acquisition amounting to Rs. 187,800,000/- has been removed from the value of the freehold land classified under the property, plant, and equipment in the Statement of Financial Position of the Company. The removal of the said land has been accounted for as a disposal of an asset in the financial statements of 2008/09.

The Company filed a fundamental rights application in the Supreme Court regarding the acquisition of approximately 353.89 perches of land (described as mangrove) included in the above said acquisition. As per the Supreme Court ruling dated 20th November 2008, the said land is to be returned to the Company on the completion of the construction work of the fisheries harbour project.

On 15th March 2011, the Sri Lanka Navy has approached the Fisheries Harbour Corporation through which they have requested for a portion of 80 perches from and out of the said 353.89 perches in order to establish a coast guard unit. The Company is expected to regain title to the balance 273.89 perches and make an additional claim for compensation for the said 80 perches, after referring the said request to the Supreme Court. Until determination of the aforesaid legal steps, the entire land extent in question (353.89 perches) will continue to be accounted in the Statement of Financial Position of the Company under property, plant and equipment at the market value.

Accordingly the carrying value of the said land, (353.89 perches) amounting to Rs. 52,950,000/- (2014 - Rs. 52,950,000/-) as at the reporting date has not been removed from the property, plant and equipment.

(All figures in Sri Lankan Rupees thousands)

	As at 31st March	Group 2015	Group 2014	Company 2015	Company 2014
18	Intangible assets				
18.1	Goodwill on consolidation				
	Balance as at the beginning of the year	115,287	115,287	-	-
	Acquisition during the year	-	-	-	-
	Impairment	-	-	-	-
	Balance as at the end of the year	115,287	115,287	-	-

18.2 Goodwill is allocated to cash generating units (CGU) operative within the Group. When testing for impairment on goodwill, the recoverable amount of a cash generating unit is determined on the basis of fair value less cost to sell and value-in-use, whichever is higher.

The fair value less cost to sell is computed based on earnings multiples of comparable companies (listed), adjusted to reflect the liquidity. Value-in-use calculations are cash flow projections based on financial budgets, which are approved by the management, typically covering a five year period. The cash flows were discounted at an appropriate discount rate. Accordingly there is no indication of an impairment on goodwill on acquisition of Equity Hotels Limited.

18.3 Accounting software included under intangible assets is fully amortized as at 31st March 2015 (2014 - Nil).

	As at 31st March	Group 2015	Group 2014	Company 2015	Company 2014
19	Investment in subsidiary				
	Investment in subsidiary (note 19.1)	-	-	110,223	110,223
		-	-	110,223	110,223

	Details of investment in subsidiary	No. of shares	Cost as at 31st March 2015	No. of shares	Cost as at 31st March 2014
19.1	Equity Hotels Limited	685,469	110,223	685,469	110,223
	Total investment in subsidiary		110,223		110,223

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

	As at 31st March	Group 2015	Group 2014	Company 2015	Company 2014
20	Compensation receivable				
	Balance as at the beginning of the year	109,906	98,441	109,906	98,441
	Unwinding of discount on compensation receivable	12,639	11,465	12,639	11,465
	Balance as at the end of the year	122,545	109,906	122,545	109,906

20.1 The government of Sri Lanka acquired approximately 1,251 perches of land owned by the Company under section 38 provision (a) of the Land Acquisition Act, No. 28 of 1964 by gazette notification dated 14th May 2008 for the public purpose of a fisheries harbour project. The Divisional Secretary called for claim of compensation in response to which Company submitted a claim of compensation for the compulsory acquisition of the said land on 16th July 2008. The final claim stands at Rs. 563mn taking into account the market value of the property, potential economic value lost for hotel expansion and the nuisance value that will be created for hotel operation by the said project. However, as a matter of prudence the Company has accounted for the compensation receivable of Rs. 189.5mn in the financial statements based only on the market value and related costs supported by a professional valuation dated 4th April 2009 conducted Mr. K Arthur Perera, A.M.I.V.(Sri Lanka), Valuer and Consultant.

A valuation was carried out by Mr. K. Arthur Perera as at 31st March 2012 and according to the valuation, the said acquired property is valued at Rs. 250.4mn.

No adjustment has been made to the compensation receivable on a prudent basis, however, this will further justify the Company's compensation claim on the property. As at the reporting date, Company has not received any confirmation from the Divisional Secretary on the value determination of the said claim, due to the court case described in note 31.3.

The amounts recognised in the financial statements represents the amortised cost of the said receivable as at the respective reporting dates, based on the assumptions which are more fully described in note 32.1.1.a. An amount of Rs. 12.6mn (2014 - Rs. 11.5mn) has been recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on account of unwinding of discount on compensation receivable.

		Group		Company	
	As at 31st March	**2015**	**2014**	**2015**	**2014**
21	**Inventories**				
	Food	3,098	3,129	2,294	2,171
	Beverage	1,726	1,455	1,051	744
	Engineering spares	1,572	1,648	1,320	1,235
	Linen	3,940	4,102	2,106	3,179
	Others	2,725	2,502	2,401	1,929
		13,061	12,836	9,172	9,258
22	**Trade and other receivables**				
	Financial				
	Trade receivables (note 22.1)	41,401	41,951	35,200	34,287
	Other receivables	1,806	2,634	1,484	1,062
	Loans given to company officers (note 22.2)	156	512	141	497
		43,363	45,097	36,825	35,846
	Non-financial				
	Advances and prepaid expenses	2,802	2,697	2,230	2,425
	Fair valuation of corporate guarantees	-	302	-	302
		2,802	2,999	2,230	2,727
		46,165	48,096	39,055	38,573

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	As at 31st March	**2015**	**2014**	**2015**	**2014**
22.1	**Trade receivables**				
	Trade debtors	42,322	42,998	36,121	35,208
	Less: Provision for impairment of trade receivables	(921)	(1,047)	(921)	(921)
		41,401	41,951	35,200	34,287
22.2	**Loans given to company officers**				
	Balance as at the beginning of the year	512	243	497	188
	Loans granted during the year	1,222	1,624	694	1,149
	Amount recovered during the year	(1,578)	(1,355)	(1,050)	(840)
	Balance as at the end of the year	156	512	141	497
23	**Cash and cash equivalents**				
	Cash at bank and in hand	31,092	28,714	29,533	26,697
	Placements with banking institutions	10,387	5,027	-	-
	Placements in government securities	93,538	39,336	93,538	39,336
		135,017	73,077	123,071	66,033
24	**Stated capital**				
	Issued and fully paid				
	At the beginning of the year (30,391,538 shares)	515,170	515,170	515,170	515,170
	At the end of the year (30,391,538 shares)	515,170	515,170	515,170	515,170
25	**Capital reserve**				
	Revaluation reserve	659,955	659,955	659,955	659,955
	Capital accretion reserve	15,144	15,144	15,144	15,144
		675,099	675,099	675,099	675,099

25.1 Revaluation reserve

The revaluation reserve represents the surplus arising from the revaluation of freehold land and building of the Company and the Group. A subsequent decline in the carrying amount of the asset will be offset against a previous increase for the same asset which was credited to the revaluation surplus. A further decline is recognized as an expense in the Statement of Profit or Loss and Other Comprehensive Income. An increase on revaluation relating to a previous decrease in carrying amount recognized as an expense, is credited to income, to the extent it offsets the previously recorded expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

25.2 Capital accretion reserve

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

As at 31st March	Group 2015	Group 2014	Company 2015	Company 2014
26 Revenue reserves				
General reserve	176	176	176	176
Retained earnings	281,976	202,379	251,844	169,013
	282,152	202,555	252,020	169,189

26.1 General reserves

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

As at 31st March	Group 2015	Group 2014	Company 2015	Company 2014
27 Loans and borrowings				
27.1 Non-current liabilities				
Secured bank loans	-	7,878	-	7,878
	-	7,878	-	7,878
27.2 Current liabilities				
Current portion of secured bank loans	-	8,568	-	8,568
	-	8,568	-	8,568
	-	16,446	-	16,446

As at 31st March	Currency	Nominal interest rate	Year of maturity	2015 Face value	2015 Carrying amount	2014 Face value	2014 Carrying amount
27.3 Details of long-term borrowings - Group							
Pegasus Hotels of Ceylon PLC							
Commercial Bank	LKR	9%	2014	-	-	16,446	16,446
				-	-	16,446	16,446

27.3.1 The long-term borrowings of the Company have been obtained from Commercial Bank of Ceylon PLC at concessionary rates of interest, under a scheme of funding provided to "Tsunami" affected hotels.

27.3.2 Carson Cumberbatch PLC, the parent company, has provided a corporate guarantee to Commercial Bank of Ceylon PLC, in securing the borrowing facility as disclosed in note 27.3.

(All figures in Sri Lankan Rupees thousands)

		Group		Company	
	As at 31st March	**2015**	**2014**	**2015**	**2014**
28	**Deferred tax (Asset) / Liability**				
	Balance as at the beginning of the year	28,741	24,318	27,572	23,100
	Charge for the year (note 28.1)	5,818	4,423	5,442	4,472
	Balance as at the end of year	34,559	28,741	33,014	27,572
28.1	**Charge for the year**				
	Arising from;				
	Property, plant and equipment	1,278	3,035	1,339	3,024
	Employee benefits	189	(432)	304	(275)
	Provisions	-	11	-	-
	Tax losses	4,351	1,809	3,799	1,723
		5,818	4,423	5,442	4,472
28.2	**Deferred tax assets**				
	Tax effect on employee benefits	1,499	1,688	809	1,113
	Tax effect on tax losses	25,225	29,576	25,100	28,899
	Total deferred tax assets	26,724	31,264	25,909	30,012
28.3	**Deferred tax liability**				
	Tax effect on property, plant and equipment	61,283	60,005	58,923	57,584
	Total deferred tax liabilities	61,283	60,005	58,923	57,584
	Net deferred tax liability	34,559	28,741	33,014	27,572
29	**Employee benefits**				
29.1	The movement in the liabilities recognized in the statement of financial position is as follows				
	Balance as at the beginning of the year	14,063	10,465	9,278	6,986
	Provision for the year (note 29.2)	3,896	3,844	2,570	2,538
	Payments made during the year	(5,464)	(246)	(5,109)	(246)
	Balance as at the end of the year	12,495	14,063	6,739	9,278
29.2	**Provision for the year**				
	The amounts recognized in the Consolidated Statement of Profit or Loss is as follows				
	Current service cost	1,415	1,622	937	1,209
	Interest cost	1,406	1,047	928	699
		2,821	2,669	1,865	1,908
	The amount recognized in the statement of other comprehensive income are as follows				
	Actuarial losses	1,075	1,175	705	630
		1,075	1,175	705	630
	Provision for the year	3,896	3,844	2,570	2,538

The Employee benefits as at 31st March 2015 amounting to Rs. 6,739,100/- and Rs. 12,495,402/- (2014 – Rs. 9,278,019/- and Rs. 14,063,146/-) for the Company and the Group respectively are estimated based on an actuarial valuation carried out by Mr. M. Poopalanathan of Messrs Actuarial and Management Consultants (Pvt) Ltd. As recommended by the Sri Lanka Accounting Standards (LKAS 19) - "Employee benefits", the "Projected Unit Credit " (PUC) method has been used in this valuation.

The principal assumptions used are:

- Rate of discount	10% p.a.
- Rate of pay increase	10% -12% p.a.
- Retirement age	55 years
- Mortality	A 67/70 mortality table, issued by the Institute of Actuaries, London was used.
- Withdrawal rate	5% for age up to 49 and zero thereafter.
- The Company is a going concern.	

29.3 Sensitivity analysis

A change of 1% in discount rate & future salary growth 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, remain constant.

	Group		Company	
	Profit / (loss)		Profit / (loss)	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(11,106)	12,891	(6,249)	7,295
Future salary growth rates	(12,934)	11,054	(7,317)	6,222

29.4 The employee benefit obligation has not been externally funded.

	Group		Company	
As at 31st March	**2015**	**2014**	**2015**	**2014**
30 Trade and other payables				
Financial				
Trade payables	18,243	14,276	14,034	10,572
Other payables	17,421	15,540	10,399	10,182
Amounts due to related companies (note 33.5)	-	19,949	-	19,949
	35,664	49,765	24,433	40,703
Non financial				
Deposits and advances	9,257	10,088	7,793	8,568
Provisions and accrued expenses	19,888	15,389	16,401	12,525
	29,145	25,477	24,194	21,093
	64,809	75,242	48,627	61,796

(All figures in Sri Lankan Rupees thousands)

As at 31st March	Group 2015	Group 2014	Company 2015	Company 2014
31 Commitment and contingencies				
31.1 Capital commitments				
Approved and contracted for	31,406	-	31,406	-

31.2 Financial commitments

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

31.3 Contingent liabilities

A case has been filed against the Company by an individual in the District Court of Negombo seeking a declaratory title from court stating that he is co-owner of 127.5 perches of the land that belonged to Pegasus Hotels of Ceylon PLC. The outcome of the matter is still pending. However, the Company is confident that it can establish title to the said land. In any case, the claimed land extent falls within the 1,251 perches of land acquired by the government for the fisheries harbour project and detailed under note 17.10.

There were no contingent liabilities other than those disclosed above as at the reporting date.

32 Financial instruments

Financial risk management - overview

The Group has exposure to the following risks arising from financial instruments:

- **Credit risk**
- **Market risk**
- **Liquidity risk**

This note presents information about the Group's exposure to each of the above risks, the Group's supervision, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has appointed Carsons Management Services (Private) Limited, the management company, to develop and monitor the Group's risk management policies and reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to 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 policies and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee of Carson Cumberbatch PLC, the parent company, oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its supervision role by Internal Audit. The Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

32.1 Credit risk

Credit risk is the risk of financial loss to the Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, placements in deposits with banking institutions and in government securities.

32.1.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows.

	Group	
As at 31st March	**2015**	**2014**
Compensation receivable (note 20)	122,545	109,906
Trade and other receivables (note 22)	43,363	45,097
Cash and cash equivalents (note 23)	135,017	73,077
	300,925	228,080

a) Compensation receivable

As disclosed in detailed in note 20.1, the Company has accounted for a value of Rs.189.5mn as compensation receivable from the Government of Sri Lanka, on account of the land acquisition referred to therein, which is based on the market value of the property, potential economic value lost for hotel expansion and the nuisance value that will be created for hotel operation by the said project as at the date of acquisition, based on a professional valuation dated 4th April 2009 conducted Mr. K Arthur Perera, A.M.I.V.(Sri Lanka), Valuer and Consultant.

A certain individual has filed a land action case in District Court of Negombo (as disclosed in note 31.3) in 2006 which is still under hearing. Even if a ruling is made at District Court, a further two appeal options are available for both parties at Provincial High Courts and to the Supreme Court.

Under these circumstances, even if a valuation is determined by the government, such value will not be disclosed till the Court case has come to a finality.

Based on possible outcomes of the said determination, connected developments that may arise thereafter and considering the pattern in which similar proceedings / events were resolved, the Company is of the view that it will take up to 8-10 years to bring this matter to a conclusion.

Accordingly, the Company has recognized the said compensation receivable at its amortised cost; the underlying assumptions used in such assessment is detailed below.

Expected timing of cash flows	Year 2018
Discount rate used	The weighted average deposit rate (WADR) at the date of acquisition (11.5%)

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

(All figures in Sri Lankan Rupees thousands)

b) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry in which customers operate, as these factors may have an influence on credit risk.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Credit limits are established for each customer, which represents the maximum open amount without requiring specific approval; these limits are reviewed annually.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a corporate customer or tour operator, and evaluate to identify 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 a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables being a specific loss component that relates to individually significant exposures.

The maximum exposure to credit risk for trade receivables at the end of the reporting period by type of segment was as follows.

	Group	
As at 31st March	**2015**	**2014**
Corporate customers	6,428	3,613
Tour operators	33,863	37,108
Others	1,110	1,230
	41,401	41,951

Impairment of receivables

The aging of trade receivables at the end of the reporting period that were not impaired was as follows

	Group	
As at 31st March	**2015**	**2014**
Neither past due nor impaired		
1–30 days	23,950	19,941
31–90 days	15,332	17,402
91–120 days	1,387	1,525
121 above	732	3,083
	41,401	41,951

An allowance for impairment of Rs. 0.92mn (2014 - Rs. 1.05mn) has been made in respect of trade and other receivables, as at the year end.

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

c) **Cash and cash equivalents**

The Group held cash and cash equivalents of Rs. 135mn at 31st March 2015 (2014: Rs.73.1mn), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AAA(lka) to AA–(lka), based on Fitch Ratings.

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

32.2 Liquidity risk

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

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

	Contractual cash flows						
As at 31st March 2015	**Carrying amount**	**Total**	**2 months or less**	**2-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial liabilities							
Trade payables	18,243	18,243	18,243	-	-	-	-
Other payables	17,421	17,421	17,421	-	-	-	-
	35,664	35,664	35,664	-	-	-	-

	Contractual cash flows						
As at 31st March 2014	**Carrying amount**	**Total**	**2 months or less**	**2-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial liabilities							
Loans and borrowings	16,446	16,446	1,428	7,140	7,878	-	-
Trade payables	14,276	14,276	14,276	-	-	-	-
Other payables	15,540	15,540	15,540	-	-	-	-
Amount due to related parties (note 33.5)	19,949	19,949	19,949	-	-	-	-
	66,211	66,211	51,193	7,140	7,878	-	-

The gross inflows/(outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to non-derivative financial liabilities and which are usually not closed out before contractual maturity.

(All figures in Sri Lankan Rupees thousands)

32.2.2 Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group maintains a portion of its assets in highly liquid form; placements with Banking institutions and in government securities in order to meet its contractual obligations during the normal course of its operations. As at the reporting date, the Group maintains 'Cash and cash equivalents' amounting to Rs.135mn (2014 - Rs. 73.1mn)

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

The Group has approved and unused overdraft facility amounting to Rs. 2.5mn as at 31st March 2015.

In addition, the Group have access to short-term financing facilities extended from the parent company, Carson Cumberbatch PLC, if required.

32.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

32.3.1 Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate, due to changes in foreign exchange rates. The Group, as at the reporting date, do not hold 'Financial instruments' denominated in currencies other than its functional / reporting currency, hence do not get exposed to currency risk arising from translation of such balances in to the functional / reporting currency, which is Sri Lankan Rupees.

However, the Group engages in transactions associated with foreign currencies in its ordinary course of operations, hence exposed to 'Currency risk'.

Across the industry, the hotel rates targeting the foreign tourists are quoted in US Dollar terms and contracted in advance with the tour operators - which constitute a significant volume of business to the Group (note 32.1.1). 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 Company monitors fluctuations in foreign exchange rates and takes precautionary measures to revise its rates / quotes on a regular basis, in an attempt to mitigate the exposure to currency risk arising from its transactions with tour operator segment.

32.3.2 Interest rate risk

The Groups interest bearing financial assets / liabilities are factored on variable rates of interest, hence the Group's exposure to interest rate risk is material.

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	
	2015	2014
Variable rate instruments		
Financial assets	103,925	44,363
Financial liabilities	-	(19,949)
	103,925	24,414
Fixed rate instruments		
Financial liabilities	-	(16,446)
	103,925	7,968

Cash flow sensitivity analysis for variable rate instruments.

A change of 1% in interest rates at the end of the reporting period would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Group	Profit / (loss)	
	1% Increase	1% Decrease
31st March 2015		
Variable rate instruments	1,039	(1,039)
31st March 2014		
Variable rate instruments	244	(244)

32.4 Accounting classifications and fair values

Financial instruments are measured subsequently either at fair value or amortised cost. The "summary of significant accounting policies" describes how the classes of financial instruments are measured, and how 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 Group does not designate any of its financial assets / liabilities at fair value, hence a classification between fair value hierarchy do not apply.

32.5 Fair value vs carrying amounts

31st March 2015	Trading	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	-	122,545	-	-	122,545	122,545
Trade and other receivables	-	-	43,363	-	-	43,363	43,363
Cash and cash equivalents	-	-	135,017	-	-	135,017	135,017
	-	-	300,925	-	-	300,925	300,925
Loans and borrowings	-	-	-	-	-	-	-
Trade and other payables	-	-	-	-	35,664	35,664	35,664
	-	-	-	-	35,664	35,664	35,664

(All figures in Sri Lankan Rupees thousands)

31st March 2014	Trading	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Compensation receivable	-	-	109,906	-	-	109,906	109,906
Trade and other receivables	-	-	45,097	-	-	45,097	45,097
Cash and cash equivalents	-	-	73,077	-	-	73,077	73,077
	-	-	228,080	-	-	228,080	228,080
Loans and borrowings	-	-	-	-	16,446	16,446	16,446
Trade and other payables	-	-	-	-	49,765	49,765	49,765
	-	-	-	-	66,211	66,211	66,211

Financial assets and liabilities with shorter maturities (less than one year) is assumed to have a fair value similar to its carrying value.

Compensation receivable is carried at amortized cost as describes in note 32.1.1.(a).

33 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.

33.1 Parent and ultimate controlling party

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

33.2 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. Accordingly, the Directors of the Company and its parent Company (including executive and non-executive directors) and their immediate family members have been classified as Key Management Personnel of the Company.

	Group		Company	
As at 31st March	2015	2014	2015	2014
33.2.1 Key management personnel compensation				
Short-term employee benefits	11,588	12,821	8,981	10,362
Post-employment benefits	-	325	-	253
Termination benefits	3,262	-	3,262	-
Non-cash benefits	41	-	41	-
Other long-term benefits	-	-	-	-
	14,891	13,146	12,284	10,615

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

33.3 Group entities

Name of the subsidiary	% equity interest 2015	2014
Equity Hotels Limited	99.9%	99.9%

33.4 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 2015	Group 2014	Company 2015	Company 2014
Parent company						
Carson Cumberbatch PLC	H. Selvanathan M. Selvanathan D.C.R. Gunawardena	Interest on short-term advances obtained	367	5,256	367	5,014
		Settlements made on short-term advances provided	19,949	31,567	19,949	31,567
Subsidiary						
Equity Hotels Limited	D.C.R. Gunawardena P.M. Withana (Resigned w.e.f. 31st January 2015)	Reimbursement of expenses received	-	-	5,510	3,227
		Disposal of property, plant and equipment	-	-	-	82
		Dividend received	-		4,935	8,945
Fellow subsidiaries						
Carsons Management Services (Private) Limited (CMSL)	H. Selvanathan M. Selvanathan K.C.N. Fernando (Alternate for M. Selvanathan)	Reimbursement of expenses paid.	22,721	16,803	22,721	13,846
		Computer charges	150	150	150	150
		Secretarial fees	450	360	360	300
		Support Service Fee Expenses	6,399	5,895	5,319	4,871
		Internal audit services	1,866	1,770	1,866	1,770

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

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

(All figures in Sri Lankan Rupees thousands)

Further to the above, Carson Cumberbatch PLC has provided corporate guarantees to the Company and its subsidiary, as detailed below.

Company	Purpose	Outstanding balance	
		2015	2014
Pegasus Hotels of Ceylon PLC	Term loan facility from Commercial Bank of Ceylon PLC	-	16,446
Equity Hotels Limited	Overdraft facility from Commercial Bank of Ceylon PLC	-	-

		Group		Company	
	As at 31st March	2015	2014	2015	2014
33.5	**Amounts due to related companies**				
	Carson Cumberbatch PLC	-	19,949	-	19,949
		-	19,949	-	19,949
34	**Dividend per share**				
	Dividend paid			15,196	15,196
	Dividend proposed *			15,196	15,196
	Dividend per share			0.50	0.50

*The proposed dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and according to the Sri Lanka Accounting Standard (LKAS 11) - "Events after the reporting period", the liability has not been provided for in the financial statements.

35 Events after the reporting date.

After satisfying the solvency test in accordance with section 57 of the Company's Act, No. 7 of 2007, the Directors have recommended a payment of first and final dividend of Rs. 0.50/- per ordinary share for the year ended 31st March 2015 amounting to Rs. 15,195,769 /- (2014 - 15,195,769 /-) which is to be approved at the forthcoming Annual General Meeting. In accordance with Sri Lanka Accounting Standard (LKAS 10) - "Events after the reporting period" this proposed first and final dividend has not been recognized as a liability as at 31st March 2015.

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

36 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.

37 Other matters

The interim budget proposal presented by the Minister of Finance on 29th January 2015 and the pursuant bill presented to the Parliament on 30th March 2015, impose a one off tax of 25% on taxable profits for the year of assessment 2013/14 on any company or each company in a group of companies, if the Company's / Group's profit before income tax exceeds Rs. 2,000mn.

The consolidated profit before tax of Carson Cumberbatch PLC, the parent Company of Pegasus Hotels of Ceylon PLC, exceeds the said threshold of Rs. 2,000mn. Accordingly, as per the provisions of the bill presented to parliament the Company's liability is estimated at approximately Rs. 6.7mn.

The liability will be recognized in the financial statements when the bill is enacted and the required entries will be passed in the financial statements.

FIVE YEAR SUMMARY

(All figures in Sri Lankan Rupees thousands)

For the year ended / As at 31st March	SLFRS/LKAS 2015 Group	2014 Group	2013 Group	2012 Group	SLAS 2011 Group
Trading Results					
Revenue	510,255	452,205	493,184	425,975	289,104
Profit from operations	92,365	67,913	151,487	131,205	69,475
Net finance income / (cost)	17,961	7,419	6,687	4,759	(10,359)
Profit from operations after finance cost	110,326	75,332	158,174	135,964	59,116
Income taxation	(14,458)	(8,776)	(16,211)	(15,231)	(10,266)
Profit for the year	95,868	66,556	141,963	120,733	48,850
Shareholders' Funds					
Stated capital	515,170	515,170	515,170	404,241	398,889
Reserves	957,251	877,654	827,469	700,702	607,552
Shareholders' funds	1,472,421	1,392,824	1,342,639	1,104,943	1,006,441
Assets Employed					
Property, plant and equipment	1,157,858	1,171,770	1,147,402	1,079,292	907,467
Intangible assets	115,287	115,287	115,287	115,287	115,287
Deferred tax assets	-	-	-	-	2,304
Compensation receivable	122,545	109,906	98,441	88,264	189,463
Non current assets	1,395,690	1,396,963	1,361,130	1,282,843	1,214,521
Current assets	194,243	134,009	144,370	150,141	101,711
Current liabilities	(70,458)	(87,466)	(111,632)	(277,066)	(269,699)
Working capital	123,785	46,543	32,738	(126,925)	(167,988)
Assets employed	1,519,475	1,443,506	1,393,868	1,155,918	1,046,533
Non-current liabilities					
Loans and borrowings	-	(7,878)	(16,446)	(25,014)	(34,182)
Employee benefits	(12,495)	(14,063)	(10,465)	(8,280)	(5,910)
Deferred tax liability	(34,559)	(28,741)	(24,318)	(17,681)	-
Total non-current liabilities	(47,054)	(50,682)	(51,229)	(50,975)	(40,092)
Net assets	1,472,421	1,392,824	1,342,639	1,104,943	1,006,441
Profitability Ratios					
Net profit margin (%)	19%	15%	29%	28%	17%
Return on shareholders' funds (%)*	7%	5%	11%	11%	5%
Liquidity Ratios					
Current ratio (times)	2.76	1.53	1.29	(1.85)	(2.66)
Debt equity (%)	-	2.61	5.70	19.86	25.77
Investor Ratios					
Earnings per share (Rs.)**	3.15	2.19	4.68	4.39	1.78
Dividend per share (Rs.)	0.50	0.50	0.50	0.50	0.30
Net assets per share (Rs.)	48.45	45.83	44.18	40.40	36.80
Market price per share (Rs.)	41.00	37.00	36.90	38.00	71.00
Dividend payout (%)	15.87	22.83	10.68	11.39	16.85
Dividend yield (%)	1.22	1.35	1.36	1.32	0.42
Hotel Operations					
Occupancy (%)	49	47	58	59	59

Notes

* Profit attributable to shareholders of the Company divided by shareholders' funds (total of stated capital and reserves).
**Profit attributable to shareholders of the Company divided by the weighted average number of ordinary shares outstanding.

Financial information for the periods 2011 was not adjusted to reflect the transition to new/revised Sri Lanka Accounting Standards (LKAS/SLFRS) applicable for financial periods beginning on or after 1st January 2012.

STATEMENT OF VALUE ADDED

(All figures in Sri Lankan Rupees thousands)

As at 31st March	2015		2014	
Revenue	510,255		452,205	
Other income including interest income	25,368		22,214	
Cost of materials and services bought from outside	(248,357)		(233,021)	
	287,266		241,398	
Distributed as follows:		%		%
To employees				
as remuneration	123,756	43	110,394	46
To government				
as taxation*	8,640	3	4,353	2
To providers of capital				
as dividend	15,196	5	15,196	6
as interest and other charges	1,118	-	7,563	3
Retained in the business				
as deferred taxation	5,818	2	4,423	2
as notional adjustments on LKAS / SLFRS	12,651	4	11,527	5
as depreciation	39,415	14	36,582	15
as profit for the year	80,672	28	51,360	21
	287,266	100	241,398	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 Main Board of the Colombo Stock Exchange of Sri Lanka.

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

2 Ordinary Shareholders

2.1 Number of Shareholders

As at 31st March	2015	2014
Number of Shareholders	2,336	2,308

2.2 Distribution and Composition of Shareholders

The number of shares held by Non - Residents as at 31st March 2015 was 128,966 (2014 - 132,187) which amounts to 0.42% (2014 - 0.43%) of the total number of Ordinary Shares.

	Residents			Non - Residents			Total		
Distribution of Shares	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1,000	2,091	301,419	1.00	17	5,083	0.02	2,108	306,502	1.02
1001 - 10,000	188	559,454	1.84	2	8,704	0.02	190	568,158	1.86
10,001 - 100,000	31	704,328	2.31	3	115,179	0.38	34	819,507	2.69
100,001 - 1,000,000	3	406,413	1.34	-	-	-	3	406,413	1.34
Above 1,000,000	1	28,290,958	93.09	-	-	-	1	28,290,958	93.09
Total	2,314	30,262,572	99.58	22	128,966	0.42	2,336	30,391,538	100.00

	As at 31st March 2015		
Categories of Shareholders	No. of Shareholders	No. of Shares	%
Individuals	2,268	1,559,032	5.13
Institutions	68	28,832,506	94.87
Total	2,336	30,391,538	100.00

(All figures in Sri Lankan Rupees thousands)

3 Market performance - Ordinary shares

For the year ended 31st March	2015	2014
As at 31st March (Rs.)	41.00	37.00
Highest (Rs.)	49.00	43.00
Lowest (Rs.)	35.30	33.00
Value of shares traded (Rs.)	60,363,858	21,304,933
No. of shares traded	1,383,256	555,038
Volume of transactions (Nos.)	2,130	1,430

4 Market capitalisation

Market capitalisation of the Company which is the number of ordinary shares in issue multiplied by the market value of an ordinary share was Rs. 1,246,053,058/- as at 31st March 2015 (2014 - Rs. 1,124,486,906/-).

5 Public Holding

The percentage of Ordinary Shares held by public as at 31st March 2015 was 6.90% (2014 - 6.90%) and the number of Public Shareholders were 2,333.

6 Dividend

The Directors have recommended a first & final dividend of Rs. 0.50 per Ordinary Share for the year ended 31st March 2015 (2014 - Rs. 0.50 per share).

7 Value of property - Land and building

Location	2015 Extent (in hectares)	2015 Number of Buildings	Market Value 2015 Rs.'000	Date of professional valuation
Pegasus Reef Hotel, Wattala	5.45	1	988,517	31st March 2012
Equity Hotels Limited, Polonnaruwa (Lease hold land)	6.03	1	15.059	31st March 2012

8 Number of employees

The number of employees at the end of the year was 181 and 251 (2014 - 168 and 238) for the Company and the Group respectively.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the FORTY NINTH Annual General Meeting of PEGASUS HOTELS OF CEYLON PLC will be held on Wednesday, 17th day of June 2015 at 3.30 p.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala, for the following purposes :

1. To receive and adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2015, together with the Report of the Auditors thereon.

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

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

4. To re-elect Mr. M. Dayananda as a Director in terms of Article 68 of the Articles of Association of the Company.

5. To re-elect Mr. W.A.A. De. Z. Gunasekera as a Director in terms of Article 68 of the Articles of Association of the Company and to re-appoint him as a Director of the Company since he is over Seventy years of age and to consider and if deemed fit to pass the following resolution :

   "IT IS HEREBY RESOLVED to re-elect Mr. W.A.A. De. Z. Gunasekera in accordance with Article 68 of the Articles of Association of the Company and as per Section 210 of the Companies Act No. 7 of 2007, the age limit stipulated therein shall not be applicable to Mr. W.A.A. De. Z. Gunasekera who is 74 years of age and that he be re-appointed a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year."

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

   "IT IS HEREBY RESOLVED that the age limit stipulated in Section 210 of the Companies Act No. 7of 2007 shall not be applicable to Mr. S. Nagendra who is 75 years of age and that he be re-appointed a Director of the Company from the conclusion of the Annual General Meeting for a further period of one year."

7. To re-appoint M/s KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act No. 7 of 2007 and to authorise the Directors to determine their remuneration.

By Order of the Board

(Sgd.)
K.D. De Silva (Mrs.)
Director
CARSONS MANAGEMENT SERVICES (PRIVATE) LIMITED
Secretaries
Colombo, 12th May 2015

Notes

1. A member is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. A Form of Proxy accompanies this notice.

2. The completed Form of Proxy must be deposited at the Registered Office, No.61, Janadhipathi Mawatha, Colombo 1, not later than 3.30 p.m. on 15th day of June 2015.

3. A person representing a Corporation is required to carry a certified copy of the resolution authorising him/her to act as the representative of the Corporation. A representative need not be a member.

4. The transfer books of the Company will remain open.

5. Registration will be from 2.00 p.m to 3.30 p.m.

6. Security Check

We shall be obliged if the shareholders/proxies attending the Annual General Meeting, produce their National Identity Card to the security personnel stationed at the entrance lobby.

NOTES

FORM OF PROXY

* I/We ....

of ....

being *a Member/Members of PEGASUS HOTELS OF CEYLON PLC

hereby appoint ....

of ....

bearing NIC No./Passport No.…………………………… or failing him/her.

Don Chandima Rajakaruna Gunawardena	or failing him,
Manoharan Selvanathan	or failing him,
Hariharan Selvanathan	or failing him,
Sega Nagendra	or failing him,
Mahendra Dayananda	or failing him,
Wijemuni Asoka Anandalal De Zoysa Gunasekera	

As *my/our proxy to attend at the 49th Annual General Meeting of the Company to be held on Wednesday the 17th day of June 2015 at 3.30 p.m. at Pegasus Reef Hotel, Santha Maria Mawatha, Hendala, Wattala and any adjournment thereof and at every poll which may be taken in consequence thereof.

		For	Against
1.	To adopt the Annual Report of the Board of Directors and the Financial Statements for the year ended 31st March 2015, together with the Report of the Auditors thereon		
2.	To declare a dividend of 50 cents per share as a first and final dividend for the financial year ended 31st March 2015, as recommended by the Directors		
3.	To re-elect Mr. D.C.R. Gunawardena who retires by rotation in terms of Articles 72, 73 and 74 of the Articles of Association of the Company.		
4.	To re-elect Mr. M. Dayananda as a Director in terms of Article 68 of the Articles of Association of the Company.		
5.	To re-elect Mr. W.A.A. De Z. Gunasekera as a Director in terms of Article 68 of the Articles of Association of the Company and to re-appoint him as a Director of the Company who is over seventy years of age.		
6.	To re-appoint Mr. S. Nagendra who is over Seventy years of age as a Director of the Company		
7.	To re-appoint M/s KPMG, Chartered Accountants as Auditors of the Company as set out in Section 154 (1) of the Companies Act No. 7 of 2007 and to authorize the Directors to determine their remuneration		

Signed this ……… day of ………………………………Two Thousand and Fifteen.

Signature/s ………………………………………

Notes

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

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION

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

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

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

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

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

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

   and

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

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

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

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

5. To be valid the completed form of proxy should be deposited at the Registered Office of the Company situated at No. 61, Janadhipathi Mawatha, Colombo 1 not later than 3.30 p.m. on 15th June 2015.

Please fill in the following details

Name	:	....
Address	:	....
		....
Jointly with	:	....
Share folio no.	:	....

CORPORATE INFORMATION

Name of the Company
Pegasus Hotels of Ceylon PLC
(A Carson Cumberbatch Company)

Company Registration No
PQ 40

Legal Form
A Public Quoted Company with Limited Liability
Incorporated in Sri Lanka in 1966

Parent Company
In the opinion of the Directors, Carson Cumberbatch PLC is the Parent Company of Pegasus Hotels of Ceylon PLC and Bukit Darah PLC is the Ultimate Parent and Controlling entity of Pegasus Hotels of Ceylon PLC.

Directors
Chandima Gunawardena (Chairman)
Mano Selvanathan
Hari Selvanathan
Sega Nagendra
Mahendra Dayananda (Appointed w.e.f 15th July 2014)
P.M. Withana (Resigned w.e.f. 31st January 2015)
Asoka De Z. Gunasekera (Appointed w.e.f 19th November 2014)

Alternate Director
K.C.N. Fernando (for M. Selvanathan)

Place of Business
Santha Maria Mawatha, Wattala.

Bankers
Commercial Bank of Ceylon PLC
Standard Chartered Bank
Sampath Bank PLC
Deutsche Bank A.G.

Auditors
Messrs. KPMG
Chartered Accountants
No 32A, Sir Mohamed Macan Marker Mawatha,
Colombo 03,
Sri Lanka.

Managers & Secretaries
Carsons Management Services (Private) Limited
No. 61, Janadhipathi Mawatha,
Colombo 01.
Telephone No: +94-11- 2039200
Fax No: +94-11- 2039300

Registered Office
No. 61, Janadhipathi Mawatha,
Colombo 01,
Sri Lanka.
Telephone No: +94-11-2039200
Fax No: +94-11-2039300

Committee of Management
Pegasus Hotels of Ceylon PLC
P. Withana - Resigned w.e.f 31st January 2015
H. Jayasinghe
K. Gunathilaka
M. Munasinghe
R. Jayawickrama
D. Fernando
S. Kariyawasam
K. Thomas
K. Jayathilake

Equity Hotels Limited
P. Withana - Resigned w.e.f 31st January 2015
T. Ganeshan
S. Ekanayake
H. Nandasena
M. Tennekoon

Hotel Website
www.pegasusreefhotel.com

Corporate Website
www.carsoncumberbatch.com

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