

PEGASUS HOTELS OF CEYLON PLC

INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2017

PEGASUS HOTELS OF CEYLON PLC

Review of performance for the Six months ended 30th September 2017

Pursuant to a comprehensive room refurbishment, Pegasus Reef Hotel concluded a successful six months recording an occupancy of 59% for period ended 30th September 2017. Accordingly, Room revenue marked an increase of 93% over the comparative six months of last year. This contrast is due to the closure of 81 rooms for refurbishment during major part of the comparative period. Overall MICE and Banquet business remained lucrative contributing positively to the hotel's performance. The revenue from The Sea food restaurant "The Fishery" too recorded an increase in revenue due to the occupancy boost of the hotel in the current period in comparison to the previous period.

Subsidiary, Giritale Hotel also noted improvement in terms of occupancy during the period under consideration, where the occupancy for the first six months averaged out to 61%, in comparison to 58% observed in the previous period.

Due to the aforesaid reasons, group revenue for the six months concluded 30th September 2017, recorded an increase of 43% to reach Rs. 323.9 Mn relative to the corresponding six months' reported revenue of Rs. 225.7 Mn.

Nevertheless, competitive rivalry has intensified from the overcrowding effect from low cost hotels and new hotels coming up in and around Colombo. This exerts pressure on our rates and continue to challenge the profitability of our hotels. In addition to the pressure on room rates, competition has also resulted in dearth of skilled labour and we need to regularly upgrade and renovate the hotels to remain competitive against the new and modern hotels adding to the inventory each year.

Selling and Promotional expenditure for the period under review indicated a marginal increase of 5% YoY, primarily due to the increased promotional activities targeting "The Fishery". Administration Expenses inflated by 11% over the previous period to reach Rs. 86 Mn, driven up by the increased staff-related expenditure and training programs directed towards staff development.

The current six months under consideration reported an operating profit of Rs. 36.9 Mn relative to the loss from operating activities of Rs. 13.3 Mn reported during the previous period, predominantly reflecting the impact of refurbishment closure during the previous period.

Finance Income for the period declined by 21%, relative to the prior period, owing to the utilization of surplus funds for the said room refurbishment project.

Net profit of the group for the six months under consideration stood at Rs. 43.6 Mn, in contrast to a net loss of Rs. 3.8 Mn published in the corresponding six months.

Notwithstanding this performance, we foresee difficult conditions in the remaining six months and in the years ahead, stemming from the ever increasing tough competitive environment. Firstly, as discussed earlier, the excessive graded room supply and the growth in the homestays could exert further pressure on our existing rates and the occupancy levels. Secondly, the lack of adequate skilled staff has resulted in an increase in staff related costs as well as the training cost over the recent past. Thus, the dual impact of the competition factor and the rising staff costs could squeeze the profitability going forward. Therefore, in our efforts to retain our competitiveness, both our hotels are expected to undergo several upgrades in the upcoming years, where these will be carried out in a phased-out manner, with minimal impact on the cash flows.

**Carsons Management Services (Private) Limited
Managers**

06th November 2017
Colombo

PEGASUS HOTELS OF CEYLON PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - GROUP

(All figures are in Sri Lankan Rupees Thousands)

	Three months ended			Six months ended			31.03.2017 (Audited)
	30th September			30th September			
	2017	2016	Change %	2017	2016	Change %	
Revenue	183,040	108,815	68	323,882	225,740	43	543,200
Direct costs	(105,227)	(73,975)	42	(197,186)	(156,367)	26	(334,442)
Gross profit	77,813	34,840	123	126,696	69,373	83	208,758
Other income	3,818	1,969	94	5,864	3,875	51	8,633
Selling and promotional expenses	(5,504)	(4,455)	24	(9,603)	(9,129)	5	(23,912)
Administrative expenses	(43,863)	(40,219)	9	(86,038)	(77,405)	11	(157,496)
Other operating expenses	-	-	-	-	-	-	(19,261)
Profit / (loss) from operations	32,264	(7,865)	(510)	36,919	(13,286)	(378)	16,722
Finance income	6,855	7,476	(8)	12,584	15,867	(21)	27,315
Finance costs	(201)	-	-	(387)	-	-	(39)
Net finance income	6,654	7,476	(11)	12,197	15,867	(23)	27,276
Profit / (loss) before taxation	38,918	(389)	(10,105)	49,116	2,581	1,803	43,998
Income tax expenses	(2,633)	(343)	668	(3,455)	(641)	439	(1,112)
Deferred taxation	(5,274)	1,326	(498)	(2,104)	1,829	(215)	(1,343)
Profit for the period	31,011	594	5,121	43,557	3,769	1,056	41,543
Other comprehensive income							
Actuarial gain from valuation of employee benefits	-	-	-	-	-	-	1,420
Revaluation of property, plant and equipment	-	-	-	-	-	-	630,324
Related tax	-	-	-	-	-	-	(26,122)
Other comprehensive income for the period	-	-	-	-	-	-	605,622
Total comprehensive income for the period	31,011	594	5,121	43,557	3,769	1,056	647,165
Earnings per share (Rs.)	1.02	0.02		1.43	0.12		1.37
Dividend per share (Rs.)	-	-		-	-		0.50

Change % represent the percentage change in current period's results compared to the comparative period of previous year.

Figures in brackets indicate deductions.

PEGASUS HOTELS OF CEYLON PLC
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - COMPANY

(All figures are in Sri Lankan Rupees Thousands)

	Three months ended			Six months ended			31.03.2017 (Audited)
	30th September			30th September			
	2017	2016	Change %	2017	2016	Change %	
Revenue	152,806	78,390	95	275,340	175,477	57	442,612
Direct costs	(87,888)	(57,223)	54	(166,605)	(125,643)	33	(274,171)
Gross profit	64,918	21,167	207	108,735	49,834	118	168,441
Other income	2,994	1,284	133	4,342	2,554	70	5,593
Selling and promotional expenses	(4,341)	(3,495)	24	(7,744)	(7,789)	(1)	(20,364)
Administrative expenses	(36,537)	(32,838)	11	(71,227)	(63,354)	12	(127,915)
Other operating expenses	-	-	-	-	-	-	(19,261)
Profit / (loss) from operations	27,034	(13,882)	(295)	34,106	(18,755)	(282)	6,494
Finance income	5,956	7,142	(17)	11,810	15,582	(24)	25,792
Finance costs	-	-	-	-	-	-	(39)
Net finance income	5,956	7,142	(17)	11,810	15,582	(24)	25,753
Profit / (loss) before taxation	32,990	(6,740)	(589)	45,916	(3,173)	(1,547)	32,247
Income tax expenses	(2,047)	(164)	1,148	(2,655)	(253)	949	328
Deferred taxation	(5,244)	1,273	(512)	(2,214)	1,723	(228)	(1,428)
Profit / (loss) for the period	25,699	(5,631)	(556)	41,047	(1,703)	(2,510)	31,147
Other comprehensive income							
Actuarial gain from valuation of employee benefits	-	-	-	-	-	-	386
Revaluation of property, plant and equipment	-	-	-	-	-	-	530,836
Related tax	-	-	-	-	-	-	(14,060)
Other comprehensive income for the period	-	-	-	-	-	-	517,162
Total comprehensive income for the period	25,699	(5,631)	(556)	41,047	(1,703)	(2,510)	548,309
Earnings per share (Rs.)	0.85	(0.19)		1.35	(0.06)		1.02
Dividend per share (Rs.)	-	-		-	-		0.50

Change % represent the percentage change in current period's results compared to the comparative period of previous year.

Figures in brackets indicate deductions.

PEGASUS HOTELS OF CEYLON PLC
STATEMENT OF FINANCIAL POSITION
(All figures are in Sri Lankan Rupees Thousands)

As at 30th September	Group			Company		
	2017	2016	31.03.2017 (Audited)	2017	2016	31.03.2017 (Audited)
ASSETS						
Non-current assets						
Property, plant and equipment	1,999,123	1,290,584	2,010,067	1,869,086	1,258,958	1,880,024
Intangible assets	115,287	115,287	115,287	-	-	-
Investment in subsidiary	-	-	-	110,223	110,223	110,223
Compensation receivable	160,945	144,345	152,396	160,945	144,345	152,396
Total non-current assets	2,275,355	1,550,216	2,277,750	2,140,254	1,513,526	2,142,643
Current assets						
Inventories	21,062	16,177	22,007	16,688	12,167	18,440
Fair value through profit or loss financial assets	20,768	71,729	-	20,768	71,729	-
Trade and other receivables	62,499	38,676	84,957	47,784	31,159	76,352
Short term deposits	67,691	-	-	35,793	-	-
Cash and cash equivalents	9,574	23,868	41,509	8,518	5,764	5,224
Total current assets	181,594	150,450	148,473	129,551	120,819	100,016
Total assets	2,456,949	1,700,666	2,426,223	2,269,805	1,634,345	2,242,659
EQUITY AND LIABILITIES						
Equity						
Stated capital	515,170	515,170	515,170	515,170	515,170	515,170
Capital reserves	1,279,471	675,099	1,279,471	1,191,921	675,099	1,191,921
Revenue reserves	433,942	366,557	405,581	381,582	322,541	355,731
Total equity	2,228,583	1,556,826	2,200,222	2,088,673	1,512,810	2,062,822
Non-current liabilities						
Deferred tax liability	69,083	37,685	66,979	55,740	36,315	53,526
Employee benefits	17,240	17,701	16,021	11,583	10,417	10,483
Loans and borrowings	6,550	-	6,550	-	-	-
Total non-current liabilities	92,873	55,386	89,550	67,323	46,732	64,009
Current liabilities						
Trade and other payables	128,745	86,571	135,110	111,353	73,978	115,622
Current tax liabilities	3,455	1,883	1,286	2,456	825	151
Bank overdraft	3,293	-	55	-	-	55
Total current liabilities	135,493	88,454	136,451	113,809	74,803	115,828
Total liabilities	228,366	143,840	226,001	181,132	121,535	179,837
Total equity and liabilities	2,456,949	1,700,666	2,426,223	2,269,805	1,634,345	2,242,659

Net assets per share (Rs.) 73.33 51.23 72.40 68.73 49.78 67.88

The Statement of Financial Position as at 30th September 2017 and the related Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flow for the period then ended as disclosed in pages 2 to 7 have been drawn up from unaudited 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

Head of Finance

Carsons Management Services (Private) Limited

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed on behalf of the Managers,

Approved and signed on behalf of the Board,

(Sgd).

A.P. Weeratunge

Director

Carsons Management Services (Private) Limited

(Sgd).

D.C.R. Gunawardena

Chairman

(Sgd).

K. Selvanathan

Director

06th November 2017
Colombo

PEGASUS HOTELS OF CEYLON PLC
STATEMENT OF CHANGES IN EQUITY
(All figures are in Sri Lankan Rupees Thousands)

Group	Stated capital	Capital reserves	Revenue reserves	Total equity
Balance as at 01st April 2016	515,170	675,099	377,984	1,568,253
Profit for the year	-	-	41,543	41,543
Other comprehensive income for the year	-	604,372	1,250	605,622
Total comprehensive income for the year	-	604,372	42,793	647,165
Dividends 2015/16	-	-	(15,196)	(15,196)
Balance as at 31st March 2017	515,170	1,279,471	405,581	2,200,222
Balance as at 01st April 2017	515,170	1,279,471	405,581	2,200,222
Profit for the period	-	-	43,557	43,557
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	43,557	43,557
Dividends 2016/17	-	-	(15,196)	(15,196)
Balance as at 30th September 2017 (Unaudited)	515,170	1,279,471	433,942	2,228,583
Balance as at 01st April 2016	515,170	675,099	377,984	1,568,253
Profit for the period	-	-	3,769	3,769
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	3,769	3,769
Dividends 2015/16	-	-	(15,196)	(15,196)
Balance as at 30th September 2016 (Unaudited)	515,170	675,099	366,557	1,556,826
Company	Stated capital	Capital reserves	Revenue reserves	Total equity
Balance as at 01st April 2016	515,170	675,099	339,440	1,529,709
Profit for the year	-	-	31,147	31,147
Other comprehensive income for the year	-	516,822	340	517,162
Total comprehensive income for the year	-	516,822	31,487	548,309
Dividends 2015/16	-	-	(15,196)	(15,196)
Balance as at 31st March 2017	515,170	1,191,921	355,731	2,062,822
Balance as at 01st April 2017	515,170	1,191,921	355,731	2,062,822
Profit for the period	-	-	41,047	41,047
Other comprehensive income for the period	-	-	-	-
Total comprehensive expense for the period	-	-	41,047	41,047
Dividends 2016/17	-	-	(15,196)	(15,196)
Balance as at 30th September 2017 (Unaudited)	515,170	1,191,921	381,582	2,088,673
Balance as at 01st April 2016	515,170	675,099	339,440	1,529,709
Profit for the period	-	-	(1,703)	(1,703)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	(1,703)	(1,703)
Dividends 2015/16	-	-	(15,196)	(15,196)
Balance as at 30th September 2016 (Unaudited)	515,170	675,099	322,541	1,512,810

Figures in brackets indicate deductions.

PEGASUS HOTELS OF CEYLON PLC
STATEMENT OF CASH FLOW
(All figures are in Sri Lankan Rupees Thousands)

As at 30th September	Group			Company		
	2017	2016	31.03.2017 (Audited)	2017	2016	31.03.2017 (Audited)
Cash flows from operating activities						
Profit /(loss) before taxation	49,116	2,581	43,998	45,916	(3,173)	32,247
Adjustments for:						
Interest income on placements with banks and government securities	(3,267)	(1,617)	(3,673)	(1,722)	(962)	(1,830)
Net change in fair value of fair value through profit or loss financial assets	(768)	(6,583)	(7,662)	(768)	(6,583)	(7,662)
Dividend income	-	-	-	(771)	(370)	(370)
Unwinding of discount on compensation receivable	(8,549)	(7,667)	(15,718)	(8,549)	(7,667)	(15,718)
Interest expenses on bank borrowings	387	-	39	-	-	39
Depreciation on property, plant and equipment	31,053	21,170	45,318	28,824	19,074	41,233
(Profit)/ Loss on disposal of property, plant and equipment	(768)	189	19,261	(768)	189	19,261
Provision for employee benefits	2,138	2,645	3,758	1,439	1,893	2,616
Provision made for impairment of trade receivables	-	-	923	-	-	594
Profit before working capital changes	69,342	10,718	86,244	63,601	2,401	70,410
(Increase) / decrease in inventories	945	(18)	(5,848)	1,752	553	(5,720)
(Increase) / decrease in trade and other receivables	22,458	16,309	(30,895)	28,568	15,675	(30,112)
Increase / (decrease) in trade and other payables	(6,498)	(7,535)	41,130	(4,402)	(4,068)	37,702
Cash generated from operations	86,247	19,474	90,631	89,519	14,561	72,280
Employee benefits paid	(918)	(1,394)	(2,767)	(339)	(1,086)	(1,357)
Income tax paid	(1,287)	(3,021)	(4,088)	(350)	(2,005)	(2,097)
Net cash generated from operating activities	84,042	15,059	83,776	88,830	11,470	68,826
Cash flows from investing activities						
Purchase of property, plant and equipment	(20,645)	(125,809)	(261,024)	(18,422)	(123,792)	(258,017)
Proceeds from disposal of property, plant and equipment	1,304	-	2,835	1,304	-	2,763
(Investment in) /disposal of fair value through profit or loss financial assets	(20,000)	115,000	187,808	(20,000)	115,000	187,808
Investment in short term deposit	(67,691)	-	-	(35,793)	-	-
Interest received	3,267	1,617	3,673	1,722	962	1,830
Dividend received	-	-	-	771	370	370
Net cash used in investing activities	(103,765)	(9,192)	(66,708)	(70,418)	(7,460)	(65,246)
Cash flows from financing activities						
Dividend paid	(15,063)	(14,975)	(15,101)	(15,063)	(14,975)	(15,101)
Loans and borrowings obtained during the year	-	-	6,550	-	-	-
Interest paid on bank borrowings	(387)	-	(39)	-	-	(39)
Net cash used in financing activities	(15,450)	(14,975)	(8,590)	(15,063)	(14,975)	(15,140)
Net increase / (decrease) in cash and cash equivalents	(35,173)	(9,108)	8,478	3,349	(10,965)	(11,560)
Cash and cash equivalents at the beginning of the period	41,454	32,976	32,976	5,169	16,729	16,729
Cash and cash equivalents at the end of the Period	6,281	23,868	41,454	8,518	5,764	5,169
Statement of cash and cash equivalents						
Cash at bank and in hand	9,574	23,868	41,509	8,518	5,764	5,224
Bank overdraft	(3,293)	-	(55)	-	-	(55)
Cash equivalents for the purpose of statement of cash flows	6,281	23,868	41,454	8,518	5,764	5,169

Figures in brackets indicate deductions.

PEGASUS HOTELS OF CEYLON PLC
NOTES TO THE INTERIM FINANCIAL STATEMENTS

(All figures are in Sri Lankan Rupees Thousands)

1. Basis of preparation of interim financial statements

The Interim Financial Statements of the Company and the Group have been prepared on the basis of the same accounting policies and methods applied for the year ended 31st March 2017 and are in compliance with Sri Lanka Accounting Standard LKAS 34 - "Interim Financial Reporting". The provisions of the Companies Act No. 7 of 2007 have been considered in preparing these Interim Financial Statements.

2. Events after the reporting period

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

3. Contingent liabilities and capital commitments

There were no other significant financial commitments for the Company and the Group as at the reporting date.

4. Liabilities for expenditure

There were no liabilities for management fees or any similar expenditure not provided for in the interim financial statements.

5. Comparative figures

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

6. Stated capital

The stated capital of the Company as at 30th September 2017 was Rs. 515.17 mn consists of 30,391,538 fully paid Ordinary Shares.

07. Related party transactions

For the Six months ended 30th September	Group		Company	
	2017	2016	2017	2016
Transactions with subsidiaries				
Dividends received	-	-	771	370
Transactions with affiliate companies				
Receiving of services	6,609	10,534	5,464	6,602

PEGASUS HOTELS OF CEYLON PLC
NOTES TO THE INTERIM FINANCIAL STATEMENTS
(All figures are in Sri Lankan Rupees Thousands)

08. Twenty major shareholders as at 30th September 2017

Name of Shareholders	Number of Shares	%
1 Carson Cumberbatch PLC A/C No.2	27,347,485	89.98
2 Mr. M.C.C.K. Rodrigo	229,828	0.76
3 Dee Investments (Pvt) Ltd	178,893	0.59
4 Mr. K.C. Vignarajah	176,222	0.58
5 Mrs. V.R. Jayasinghe	128,003	0.42
6 Mr. D.F.G. Dalpethado	108,997	0.36
7 Mr. H.A. Van Starrex	100,000	0.33
8 Mrs. N.A. Ediriweera	93,500	0.31
9 Mr. H.A. Pieris	70,000	0.23
10 Mr. A.M. Weerasinghe	57,500	0.19
11 People's Leasing & Finance PLC / L.P.Hapangama	57,157	0.19
12 Mrs. I. Gwyn	55,000	0.18
13 Mr. H.A.S. Madanayake	50,000	0.16
14 Code-Gen International Pvt Ltd	50,000	0.16
15 Mrs. G.T. Daryanani	44,687	0.15
16 Mr. P. Somadasa	43,707	0.14
17 Mr. H.W.M. Woodward(Deceased)	42,679	0.14
18 Mr. H. Tirathdas	41,222	0.14
19 Mr. K.C. Jayawardene	40,492	0.13
20 Acuity Partners (Pvt) Limited / Mr.N.K.Punchihewa	30,000	0.10

9. Public holding

Ordinary shares of the company held by the public as at 30th September 2017 were as follows;

Number of public shareholders	2,807
Percentage of public holding	10.01%

10. Directors shareholding as at 30th September 2017

	No. of Shares as at 30.09.17
Mr. D.C.R. Gunawardena	-
Mr. S. Nagendra	-
Mr. M. Dayananda	-
Mr. K. Selvanathan	-
Mr. S. Mather	-
Mr. V. R. Wijesinghe (Appointed w.e.f. 1st September 2017)	-
Mr. H. Selvanathan (Resigned w.e.f. 1st September 2017)	-

INVESTOR INFORMATION

11. Share valuation

For the Three months ended 30th September 2017	
Market value per share (Rs.)	28.10
Highest price per share for the period (Rs.)	31.70
Lowest price per share for the period (Rs.)	27.00

CORPORATE INFORMATION

Name of the Company	Pegasus Hotels of Ceylon PLC (A Carson Cumberbatch Company)
Company Registration Number	PQ 40
Legal Form	A Public Quoted Company with limited liability (Incorporated in Sri Lanka in 1966)
Parent 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.
Directors	Chandima Gunawardena (Chairman) Sega Nagendra Mahendra Dayananda Krishna Selvanathan Sujendra Mather Vibath Wijesinghe (Appointed w.e.f. 1st September 2017) Hari Selvanathan (Resigned w.e.f. 1st September 2017)
Bankers	Commercial Bank of Ceylon PLC Standard Chartered Bank Sampath Bank PLC Deutsche Bank AG Hatton National Bank
Auditors	Messrs. KPMG Chartered Accountants 32A, Sir Mohamed Macan Marker Mawatha Colombo 03 Sri Lanka
Managers & Secretaries	Carsons Management Services (Private) Limited 61, Janadhipathi Mawatha Colombo 01 Sri Lanka Tel: 0112039200 Fax: 0112039300
Registered Office	61, Janadhipathi Mawatha Colombo 01 Sri Lanka
Place of Business	Santha Maria Mawatha Wattala Sri Lanka
Corporate Website	www.carsoncumberbatch.com